Dunelm
The **Home** of Homes

Moving forward together

DUNELM GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2021

Moving forward

We are the UK's leading homewares retailer – ambitious about our brand, about being a good company and about profitable growth. In our changing world, it's never been more important to help make our customers feel truly at home – and we want Dunelm to be their first choice.

That's why you'll see us developing our business for the long-term benefit of our stakeholders – investing in supply chains, stores and technology to improve our customer proposition as we move forward with confidence.

2021 performance summary

ACTIVE CUSTOMER GROWTH[1]

+8.5%

2020
+1.3%

TOTAL SALES

+26.3%

2020
-3.9%

PROFIT BEFORE TAX

£157.8m

2020
£109.1m

FREE CASH FLOW[2]

£108.5m

2020
£174.7m

FY21 highlights

- **Very strong sales growth of 26%** (21% vs FY19), despite stores being closed to customers for more than a third of the financial year, reflecting the strength of our total retail system
- **Significant market share gain**, with FY21 UK homewares market share up 1.6%pts to 9.1%[3]
- **Active customer growth of 8.5%**, driven by strong growth across digital channels
- **Digital sales grew by 115%**, with successful scaling of technology and operations to respond to the increase in demand, including significant expansion of our Click & Collect offer
- **Gross margin +130bps**, benefiting from a smaller Winter Sale due to store closures, sourcing gains and the delayed timing of our Summer Sale (into FY22)
- **PBT of £157.8m, +45% (FY20: £109.1m, FY19 £125.9m)** reflecting ongoing focus on operational grip, despite the impact of store closures
- **Free cash flow of £108.5m**, including working capital outflow of £35.0m (FY20 working capital inflow £80.1m), with net cash at period end of £128.8m (FY20: £45.4m)
- **Commitment to a Net Zero Pathway**, targeting a 50% reduction in greenhouse gas emissions by 2030
- **Final dividend of 23.0p**, taking the full year ordinary dividend to 35.0p, reflecting our strong performance and confidence in future growth
- In addition, and noting that no dividends were paid to shareholders in respect of FY20, **the Board has declared a special dividend of 65.0p** in line with our published capital policy, maintaining a prudent approach to leverage given the uncertain macroeconomic outlook.

1. Unique active customers who have shopped in the 12 months to June 2021, based on management estimates using Barclays data.
2. Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid, interest on lease liabilities and repayment of lease liabilities.
3. GlobalData UK homewares market, July 2020 to June 2021.

Contents

Our renewed purpose

Moving forward with renewed purpose

We are ambitious about:
> Our brand
> Being a good company
> Profitable growth

THE POWER OF PURPOSE

We came through the Covid-19 pandemic stronger together, realising that we could contribute in many different and new ways to our customers and communities. To help us understand the full potential of our purpose we undertook a major and highly collaborative piece of work, from which came about our renewed purpose – 'To help create the joy of truly feeling at home. Now and for the generations to come.'

Our purpose explains why we do what we do across the business. It will drive and shape all decisions and priorities – from product, store, service and colleague development to capital allocation. In essence, it entrenches our commitment to generating long-term value for the economy, our society and the environment, and will help our stakeholders and shareholders better understand and, ideally, choose Dunelm in whatever capacity they deal with us.

MEANINGFUL ENGAGEMENT

Our Board were engaged in shaping our new purpose at the outset, and our Executive Board at every step of the process. We interviewed key stakeholders, engaged over 1,000 colleagues, debated proposals with our National Colleague Voice (our colleague representatives), and tested key themes with store community champions and customers. Our purpose is an integral part of our 'plan on a page' (see page 11) which we use to encourage all colleagues and partners to be involved in developing our business.

MOVING FORWARD

We are ready for the next, exciting phase of Dunelm's growth. By having a better, more authentic understanding of why we do what we do – alongside knowing what makes us proud and what we need to do differently – we are in a stronger position to move forward, creating value for the generations to come.

Nick Wilkinson
Chief Executive Officer

Our purpose

Our purpose is meaningful, authentic and differentiated. It guides all business activities and decisions, and helps us understand why people want to shop with us, work for us, supply us and stay invested in us. By knowing why we do what we do, we are in a better position to make a long-term positive contribution to our economy, environment and society.

We want to bring more joy to people's homes

Create an environment that encourages everyone to engage and join in

To help create the joy of truly feeling at home.

Now and for the generations to come.

We want our customers to love their new purchases and for the things they buy from us to become a part of the furniture in the best way possible

DELIVERING FOR OUR KEY STAKEHOLDERS

Customers

Colleagues

Suppliers

Store communities

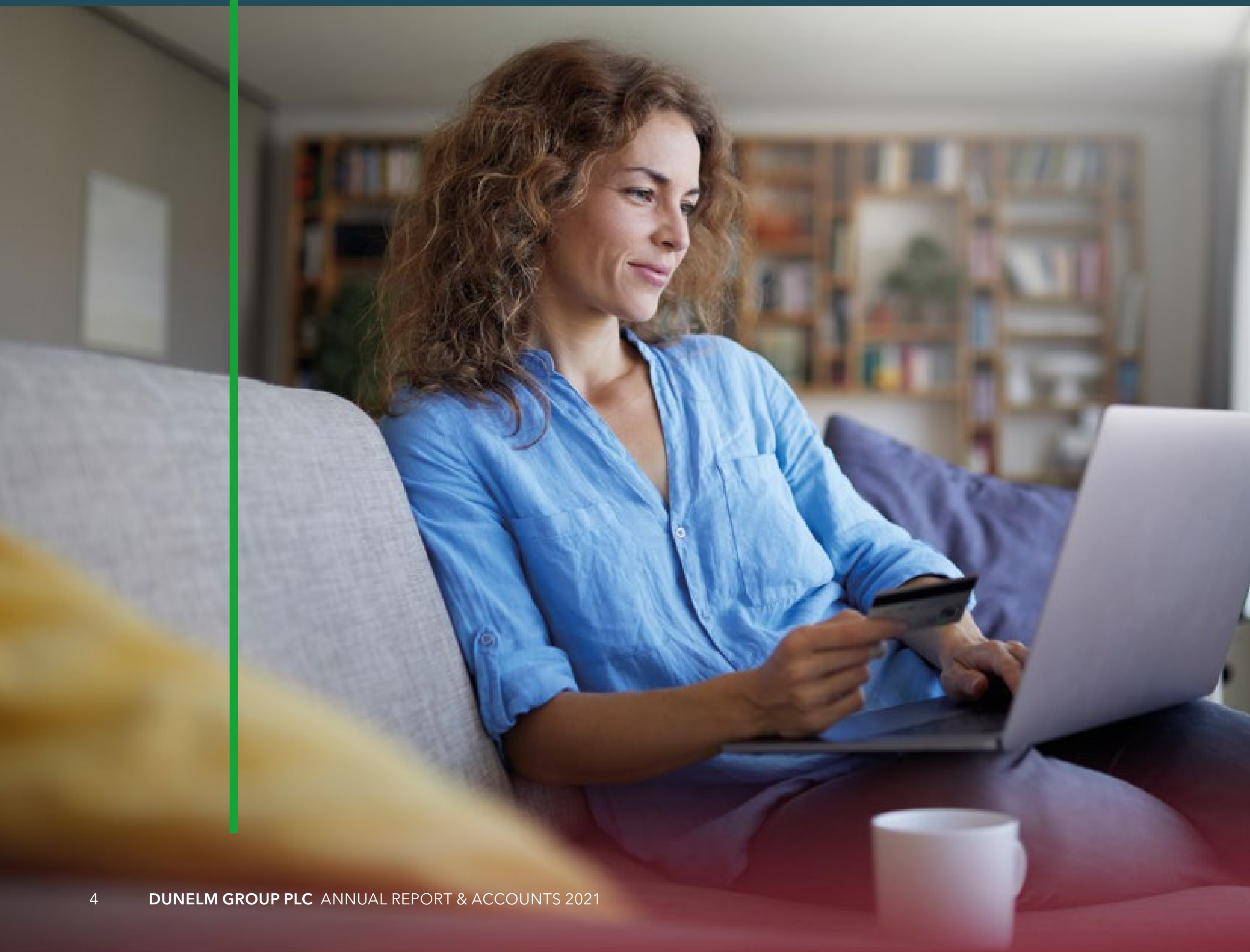
Shareholders

MORE INFORMATION PAGES 14 TO 17

Moving forward

Ambitious about our brand

Grow as the #1 destination for home, loved by more customers shopping more frequently for homewares, furniture and more.



Friendly and helpful

The health and wellbeing of our customers and colleagues remained our top priority as more people came back into our stores to shop with us. Our 'meeters and greeters' help our customers feel more comfortable about safety procedures and we trained over 7,500 store colleagues in FY21 to make our customers' in-store experience more informative and enjoyable.

DELIVERING FOR OUR KEY STAKEHOLDERS

- Customers
- Colleagues
- Suppliers
- Store communities
- Shareholders

FOCUS ON Customers

We want to be loved by more customers, who then choose to shop with us more frequently. We aim to improve our overall customer experience by focusing on key parts of the customer journey.

We measure our success by monitoring growth in customer numbers, our customer satisfaction scores, how fast and friendly we are and our perfect order rate.

GROUP KPI GROUP KPIs PAGES 32 AND 33

NEVER JUDGEMENTAL, ALWAYS INNOVATING

We make the Dunelm brand appealing to a wide range of customers by offering products that are great value, with choice, style and quality. We are also focusing increasingly on products and services that support our customers who choose to live more sustainably. With the majority of our products sold under the Dunelm brand, or exclusive brands (Fogarty and Dorma), we are in charge of our ambitious growth plans.

YOU'RE WELCOME

However you shop with us, we are here to help and we have invested in tools and technology to make experiences that are seamless, helpful and friendly. From increasing our Click & Collect range and shortening our home delivery lead times, to refreshing our Pausa cafe menu and simplifying our Made to Measure curtain pricing, we are making it easier to shop with us as we grow our customer base.

OUTGROWING THE MARKET

We are homeware specialists – leaders in our space but never complacent. We have a challenger brand mentality and a passion to outperform in our large, addressable markets. Recent investment in our customer data insight means we can get to know our shoppers better, respond to their needs more quickly and offer inspiration to help them create homes that bring them joy.

#1
in the UK homewares market[1]

+160bps
Homewares market share gain in FY21

+4.2%pts
Increase in customer net promoter score

1. GlobalData UK homewares market, July 2020 to June 2021. Market share for this period was 9.1%.

Moving forward

Ambitious about being a good company

A great place to work, making a positive social impact and operating sustainably in all of our communities.

VALUED COLLEAGUES

Our colleagues are our best ambassadors and an important source of on-the-pulse customer information. We nurture an open and inclusive working environment, take on board colleague comments and suggestions, and provide relevant training and development. We are determined to build on our mutual trust and improved communications that we experienced during the Covid-19 pandemic.

SUSTAINABILITY FOR ALL

We help our customers choose more sustainable lifestyles, giving them even more reasons to shop and engage with us. We are focusing on our programmes to help curb waste and reduce environmental impacts across our operations and supply chains. We are working with our trusted suppliers to expand our sustainable range of products helping customers to reduce, reuse, recycle, repair and return.

CARING ABOUT OUR STORE COMMUNITIES

We recognise more and more the importance of our communities and our role within them especially as we grow. Through our store colleagues and social media channels we communicate about safe shopping, new products, charity initiatives and recycling tips and have given our local store colleagues more leeway to get involved and take the lead in the communities that they know best.

Committed
to Net Zero Pathway

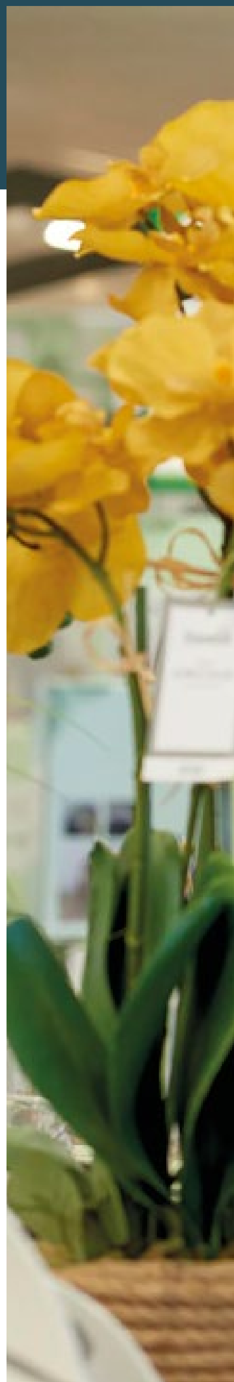
Targets set for absolute reduction of Scopes 1, 2 and 3 by 2030, and supporters of BRC's Climate Action Roadmap

Four

New colleague inclusion and diversity networking groups launched

>700k

Social media followers across our local Facebook community groups



Thoughtful

'The Edited Life' range introduces a new era of thoughtfulness in the home, with an understated collection of long-lasting and modular pieces chosen for their simple beauty, quality craftsmanship, sustainability credentials and innate usefulness.

DELIVERING FOR OUR KEY STAKEHOLDERS

Customers
Colleagues
Suppliers
Store communities
Shareholders

FOCUS ON Colleagues

We believe that a great place to work is a great place to shop. We can only deliver brilliant products, services and customer experiences if we have committed, engaged and talented colleagues.

Store communities

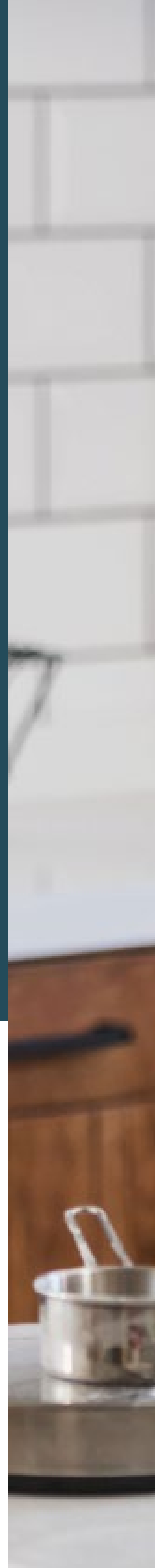
We are building stronger emotional ties and a more meaningful awareness of the Dunelm brand across our store communities.

SUSTAINABILITY SECTION PAGES 62 TO 75

Moving forward

Ambitious about profitable growth

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



GROWTH POTENTIAL

We are highly confident about our growth prospects. Our ambitions are unchanged and have been strengthened through our learnings over the year. We have navigated uncertainty, embraced challenges, proven the resilience of our business model and outperformed the market leaving us motivated to do more.

Highly cash-generative, we have the resource and agility to invest in opportunities for growth and the discipline to maximise long-term returns. Our confidence in the medium-term outlook has led to reinstated dividend payments, including a proposed special dividend, and a return to our published capital and dividend policies.

SHARED VALUES

Our shared values kept us strong during the Covid-19 crisis and will help keep our feet on the ground as we move forward together during our next growth phase. They encourage us to think about longer-term commitments to our stakeholders, remind us of our entrepreneurial roots and promote engagement through listening and learning.

100 pence

Total dividend including a declared special dividend of 65 pence (FY20: nil)

+44.6%

Increase in profit before tax FY21: £157.8m (FY20: £109.1m)

+26.3%

Increase in total sales FY21: £1,336m (FY20: £1,058m)

DELIVERING FOR OUR KEY STAKEHOLDERS

- Customers
- Colleagues
- Suppliers
- Store communities
- Shareholders

FOCUS ON
Shareholders
We will continue to focus on profitable growth and strong cash generation, investing to drive organic growth and maintaining operational grip.

MORE INFORMATION
PAGES 103 TO 113

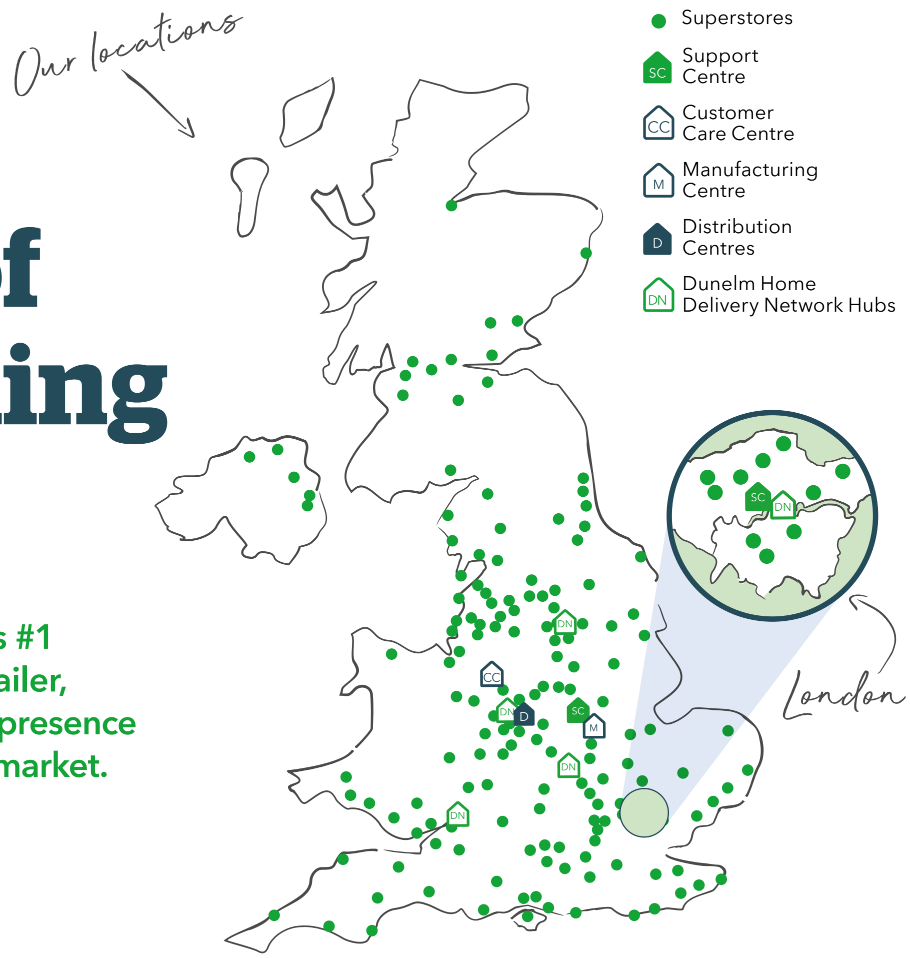
STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS
OTHER INFORMATION

Resourceful

We are raising awareness of the 'circular economy' by offering and promoting customer services to extend product lives. With online upcycling tips, new paint and 'make and mend' ranges and take-back schemes for quilts, pillows and electrical goods, we are committed to finding ways to keep products in the loop.

UPCYCLING TIPS ON DUNELM.COM

The joy of truly feeling at home



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

Dedicated Customer Care Centre

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

Stores

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

Colleagues

10,000+

Products

50,000+

Online transactions per year

12m+

Giving high-quality customer support

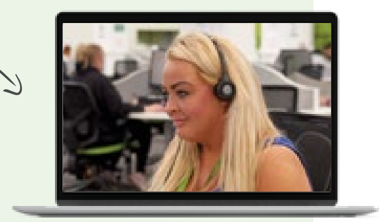
ENHANCED CUSTOMER PROPOSITION

Our total retail system combines the convenience of digital with our friendly in-store services and local experiences.

UPGRADED CLICK & COLLECT
with larger ranges and shorter lead times.

KEEPING CUSTOMERS ENGAGED
through dedicated Facebook groups in our store communities.

IMPROVED HOME DELIVERY SERVICES
through faster deliveries and flexible, named day options.



DUNELM.COM

Our renewed purpose heads our 'plan on a page' which we use internally and externally to communicate our long-term ambitions and the foundations of our business.

OUR PURPOSE

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

OUR AMBITIONS

AMBITIOUS ABOUT
Our brand

growing as the #1 destination for home, with more customers shopping more frequently for homewares, furniture & more

AMBITIOUS ABOUT
Being a good company

a great place to work – making a positive social impact and operating sustainably in all of our communities

AMBITIOUS ABOUT
Profitable growth

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

OUR PROPOSITION

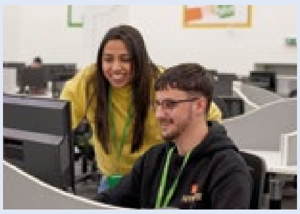
PRODUCTS
that are great value, with choice, style, quality and sustainability

SERVICES
that help from inspiration to delivery, fitting and take-back

EXPERIENCES
that are seamless, physical and digital, helpful and friendly

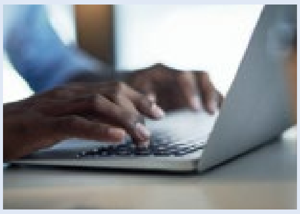
OUR FOUNDATIONS

CONTINUOUSLY IMPROVING


Talented colleagues


Committed suppliers

Brilliant stores


Agile and flexible technology


Expert supply chain

BUILDING


Sustainable in everything we do


Data capability

OUR SHARED VALUES

Act like owners

Keep listening and learning

Long-term thinking

Stronger together

Moving forward as a stronger business

This financial year was dominated by the Covid pandemic, which provided an enormous multi-dimensional challenge for our business, our colleagues and our partners. Our deeply rooted Dunelm shared values have continued to guide our actions and I am very proud of how the business has met these challenges, delivering to the very best of our abilities for all our stakeholders.

Andy Harrison
Chairman

Personally, and on behalf of the Board, I would like to thank all our Dunelm colleagues, leaders and our supplier partners for their hard work, dedication and agility.

Dunelm is emerging from the pandemic as a stronger business, with a clear and engaging purpose, ambitious to deliver for all our stakeholders and an even more exciting future ahead. As the pandemic began we were developing our digital platform and have emerged as a proven multichannel retailer. Our enhanced customer proposition means we are fully equipped to continue to win market share.

The investments we had made to develop our digital capabilities enabled us to respond quickly to the increased demand online, including through our successful Click & Collect proposition, which continued to offer customers safe, local, convenient and friendly service throughout most of the restricted trading periods.

Overall, Dunelm delivered a remarkably strong performance during FY21, with good progress across all our financial and non-financial performance indicators, despite the extended periods of store closures.

DELIVERING FOR ALL OUR STAKEHOLDERS

Living and working through the pandemic has reaffirmed our belief that being a purpose-led business that delivers for all our stakeholders is critical for our continued success.

The Board has been particularly mindful that our decisions and actions must always balance the needs of our customers, colleagues, communities, suppliers and shareholders, as well as wider society and the environment.

Through the year our customer experience was significantly enhanced, whilst maintaining the health and safety of colleagues and customers as the number one priority. We have provided job security, training and development for over 10,000 colleagues and created over 700 new roles as we enact our ambitious plans for the future. We paid a second special 'thank you' bonus to colleagues in August 2021, reflecting the significant role they played in driving exceptional performance against this challenging backdrop. We worked closely with our committed and long-term suppliers to enable significant growth, supporting our ambitions as the 1st choice retailer for homewares in the UK.

We deepened our relationships with local communities mainly through our store community Facebook groups, but also through our charitable partnerships with Macmillan at a national level and many other local organisations.

We have continued to pay all our suppliers and landlords in full, throughout the Covid crisis. We also took the decision to repay the monies we received in FY20 under the Job Retention Scheme and did not make any claims under that scheme during this financial year, operating a company-funded furlough scheme for colleagues to whom we could not provide work when our stores were closed. We have also committed to repay the local Covid relief grants that we received. In making decisions around government Covid support, the Board has carefully considered both the respective interests of all of our stakeholders and a range of other factors, including the strong recovery of the business, the fact that our stores were closed to customers for a third of the financial year and the competitive imbalances arising from the boundaries between essential and non-essential retail.

Our plans and ambitions for sustainability have taken a big leap forward. Our Net Zero Pathway commitment is now integrated into our wider thinking and is developing at pace. Our Chief Executive Officer talks in more detail in his review about the targets we have set ourselves. There is much to do. As a Board, we are united and determined to ensure we play our part in reducing carbon emissions and making our environment a better and more sustainable place.

DIVIDENDS

Reflecting our strong performance in the year and our confidence in future growth, the Board has proposed a final dividend of 23 pence per share. This takes the full year ordinary dividend to 35 pence per share. We did not pay any dividends in respect of FY20.

Additionally, reflecting our stated intention to return to our published capital policies, the Board has announced a special dividend of 65 pence per share.

We remain committed to our published policies. This total dividend of 100 pence in respect of FY21 returns us to the bottom of our published target leverage range, reflecting a prudent approach given the current macro-outlook.

BOARD

Paula Vennells stepped down from the Board in April 2021 and we thank her for her contributions. During the year, we welcomed Arja Taaveniku as a new Non-Executive Director and were pleased to announce that Vijay Talwar will join the Board as Non-Executive Director on 1st October 2021. Arja and Vijay's experiences in international and digital retail businesses make them great additions to our Board.

FORWARD TOGETHER

Dunelm has a long history of profitable growth and market share gains, based on great products, great service and excellent value for money. We are continuing to invest in our existing strengths and the new capabilities needed to be a digital first retailer. We look to the future with ambition, a commitment to learning and developing new capabilities, and are determined to deliver ever higher standards of performance for our customers, our colleagues, our communities, the environment, and of course for our shareholders.

Andy Harrison
Chairman
8 September 2021

Customer 1st

Truly feeling at home is one of the greatest joys in life. Our plan is to become our customers' 1st choice for home – however, wherever and whenever they choose to shop with us.

The joy of truly feeling at home

Looking ahead

Planning for growth

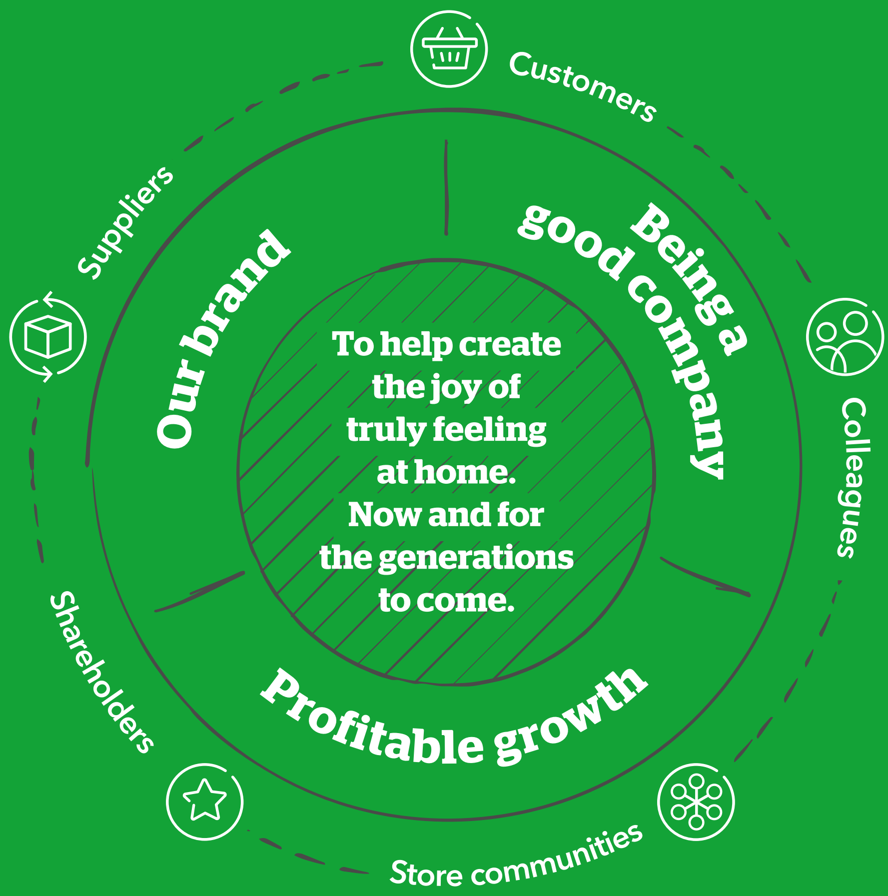
Future confidence

Reflecting our strong performance in the year and our confidence in future growth, the Board has proposed a final dividend payment of 23 pence (interim 12 pence) and has announced a special dividend of 65 pence per share.

100 pence total dividend

Moving forward
with our stakeholders

The Board considers these stakeholders to be key – we have direct contact and two-way interaction with them across the Dunelm Group.



AND UNDERSTANDING WHAT THEY CARE ABOUT

Products, services and experiences that are: better for the planet, better for the home and better for people – with communicated governance, policies, measures and shared values to back up what we say and do.

SUSTAINABILITY SECTION FROM PAGE 40

GOVERNANCE FROM PAGE 92

SECTION 172 INFORMATION

Information on pages 14 to 17 inclusive forms part of our s172 disclosure in compliance with the Companies Act 2006. Further information can be found in our Corporate Governance Report from pages 103 to 113, and our s172 Statement is on page 91.

Customers

Large and growing customer base

with 8.5% active customer growth in FY21.

WHAT THEY CARE ABOUT

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

WHY AND HOW WE ENGAGE

Our plan is to become our customers' 1st choice for home by delivering the best products, services and experiences for them. Engagement improves our customer insight and influences our focus areas and capital allocation. We engage with our customers at point of sale, through our dunelm.com site and social media channels, post-sales 'How did we do?' feedback, Customer Care Centre and regular focus groups. Recent investment in customer data and insight means we can respond more quickly and accurately to develop relevant product ranges and services, drive brand awareness and grow our customer base.

BOARD ENGAGEMENT AND OVERSIGHT

- Formal and ad hoc store visits (impacted by Covid-19).
- CEO/Deputy Chairman respond personally to customers.
- Measures routinely reviewed by the Board: **Unique active customers growth*, total revenue*, net promoter score*, perfect order scores, safety score,** CO_2 emissions***, number of reportable accidents under RIDDOR, customer quality and value perception, number of reportable data breaches**, regulatory breaches/reputational issues.

Store communities

175

communities within the local catchment area of Dunelm stores.

WHAT THEY CARE ABOUT

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

WHY AND HOW WE ENGAGE

By understanding local community needs and concerns we build awareness and trust, help evolve our customer offer, strengthen our reputation, and provide another reason to shop with us. While our stores were closed due to Covid-19, we learned the importance of having a 'voice' in our communities and how much our customers and colleagues benefited from being involved in meaningful local initiatives, by having a direct line of communication to their stores. Each store community now has a Dunelm Facebook group which we use as an active communication channel, run by appointed Community champions.

BOARD ENGAGEMENT AND OVERSIGHT

- Board regularly reviews community initiatives.
- Group charity attends annual colleague conference (attended by Board members).
- Measures routinely reviewed by the Board: CO_2 emissions*, community KPIs (including charitable and community activities), diversity data.

Measures in bold are reviewed at every Board meeting; others at least once a year.

* Denotes GROUP KPI

Stakeholder overview

Colleagues

10,000+

colleagues working in stores, distribution and manufacturing sites and in our online and support operations.

WHAT THEY CARE ABOUT

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

WHY AND HOW WE ENGAGE

Being a great place to work and to shop go hand in hand. We engage with our colleagues to understand how best to retain, motivate and reward them, how to look after their wellbeing, and how to make better decisions for our customers, store communities and long-term growth. We run an engagement survey twice a year and relaunched our independent whistleblowing hotline. All colleagues are represented through our National Colleague Voice (NCV) (see pages 111 and 112) and can engage with management through weekly CEO communications and our two-way 'always on' 'Home Comforts' intranet. Regular colleague huddles take place in every store and by each department head.

BOARD ENGAGEMENT AND OVERSIGHT

- Regular and ad hoc store and site visits (impacted by Covid-19 in FY21); annual conference for store managers and senior support colleagues (attended by Chairman, CEO, CFO and Company Secretary).
- Regular NED/CEO attendance at NCV meetings.
- Update on colleague matters is presented at every Board meeting.
- Measures routinely monitored by the Board: **Colleague net promoter score*** (formally updated twice a year), CO_2 emissions*, **number of reportable accidents under RIDDOR**, Bribery Act training compliance, gender pay gap disclosure, internal promotions (% home-grown talent), colleague turnover, **reportable data breaches**, colleague engagement survey results, colleague dashboard results, NCV meeting feedback, hotline issues and whistleblowing reports.

Suppliers

200+

stock suppliers including 16 committed suppliers, with further engagement along our supply chain.

WHAT THEY CARE ABOUT

- Fair trading and prompt payment terms.
- Mutual operational improvements.
- High ethical standards (to combat bribery, corruption and modern day slavery).
- Working in partnership to improve environmental and sustainable sourcing.
- A business that treats them fairly.
- A business they are proud to supply.

WHY AND HOW WE ENGAGE

We do not manufacture the vast majority of products that we sell. Therefore we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards. We are a demanding yet fair customer who aims to meet agreed terms and conditions. We work closely with our committed suppliers to develop long-standing relationships and business growth opportunities through regular engagement. We interact with these suppliers through several teams, including our Design and Quality and Sourcing departments, and further down key supply chains through our supplier auditing processes.

BOARD ENGAGEMENT AND OVERSIGHT

- Annual supplier conference (attended by Chairman and Executive management); some suppliers invited to annual conference for store managers and senior support colleagues (also attended by Chairman, CEO, CFO and Company Secretary).
- CEO and Deputy Chairman meet regularly with suppliers; supplier interests championed by Deputy Chairman.
- Measures routinely reviewed by the Board: **supply chain whistleblower issues**, ethical trading/modern slavery and supplier payment terms updates, % Tier 1 factory base auditing/low-medium risk audit performance, % responsibly sourced products containing cotton, timber, animal-derived products and palm oil, new plastics policy/measures, CO_2 emissions*.

Measures in bold are reviewed at every Board meeting; others at least once a year.

* Denotes GROUP KPI

Shareholders

1,000+

shareholders, including Adderley family members, key financial institutions and private investors, including Dunelm colleagues.

WHAT THEY CARE ABOUT

- Long-term value creation and growth opportunities.
- High-functioning Board and senior executive team.
- Financial stability and disciplined management.
- Culture and shared values conducive to good governance and long-term growth.
- Transparency and acting fairly between shareholders.
- Reputation for high standards of business conduct.
- Increasing focus on ethics and sustainability.
- Climate change and biodiversity risks and opportunities.

WHY AND HOW WE ENGAGE

Continued access to capital is important if we are to achieve our long-term aspirations. We work to ensure that our shareholders and their representatives have a good understanding of our strategy, business model, investment opportunities and culture, and we aim to be transparent and comply with shareholder governance requirements. Shareholder engagement is a Board affair.

BOARD ENGAGEMENT AND OVERSIGHT

- Results announcements/presentations (CEO, CFO and NEDs); investor/analyst meetings (CEO and CFO); governance presentation (Deputy Chairman, NEDs and Company Secretary).
- Whole Board at the AGM.
- Measures routinely reviewed by the Board: **analysis of share price and share register movements**; dividend and total shareholder return, diluted earnings per share*, **free cash flow***, **profit before tax***, twice-yearly feedback from results presentations and investor meetings, AGM feedback and voting from shareholders and proxy agencies, bank covenant compliance, CO_2 emissions*, customer/supplier sustainability measures.

Measures in bold are reviewed at every Board meeting; others at least once a year.

* Denotes GROUP KPI

Other stakeholders

In addition to the Group's key stakeholders we have others with whom our Board and/or senior management interact regularly. We have a trusted team of professional advisers (for example, brokers, financial PR, accountancy firms and recruitment, environment and sustainability advisers); the majority of our stores are leasehold premises, and so we have relationships with many landlords; we have a number of supplier partners who provide services to us in logistics, technology and construction/store development.

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

STAKEHOLDER FEEDBACK?

All key stakeholders can provide direct feedback via several channels and any major concerns arising from these would be escalated to the Board. Examples include our Facebook pages and 'How did we do?' feedback for customers; a confidential and independently-run whistleblowing hotline for suppliers and colleagues, and shareholder feedback through our brokers and financial PR consultants. Colleagues can post unfiltered messages/questions on our 'Home Comforts' intranet and can discuss issues directly with Board and Executive Board members through our National Colleague Voice.

GOVERNANCE PAGE 105

Moving forward to be sustainable in all we do

A snapshot of our progress in building sustainability into all we do.

SUSTAINABILITY SECTION FROM PAGE 40

COMMUNITY

Better for people

We are improving processes and introducing initiatives that benefit our colleagues, customers, and communities.

- Increased colleague engagement score in November 2020 survey and again in May 2021.
- Launched 'This is Me', our Group-wide tailored diversity and inclusion programme.
- Maintained robust ethical trading, anti-slavery, and anti-bribery policies and audits during Covid, including the introduction of unannounced visits; increased focus on our timber and cotton supply chains.
- Announced new charity partnership with Mind, having raised £1.3 million for Macmillan Cancer Support since February 2019.

7,500+

store colleagues each given 25 hours of 'friendly and helpful' training

Taking positive action

CARBON REDUCTION

Better for the planet

We have made a step-change in our approach and commitments this year, reflecting increased internal focus.

Pathway to zero

Committed to net zero with science-based targets aligned to 1.5°C pathway

- Announced 10-year greenhouse gas reduction targets, Paris-aligned, to a 1.5°C pathway, with the support of Carbon Trust.
- CFO takes on oversight of carbon reduction.
- New Head of Climate Change appointed.
- First Task Force on Climate-related Financial Disclosures (TCFD) progress report published.

Joined Textiles 2030, a voluntary agreement, designed to limit the impact textiles have on climate change

GOVERNANCE

Better for our business

We continue to seek to comply with best practice governance standards and continually improve our Board effectiveness.

- New purpose adopted by Board following Group-wide engagement.
- Board confirmed William Reeve as Senior Independent Director.
- Welcomed Arja Taaveniku as new Non-Executive Director (NED).
- Announced appointment of Vijay Talwar as NED to join us in October 2021.
- Continued to enhance our consideration of stakeholder interests and engagement with colleagues.

ESG rating

In 2021, we again received a rating of AA in the MSCI ESG Ratings assessment

FTSE4Good inclusion reconfirmed

MSCI ESG RATINGS AA

CCC | B | BB | BBB | A | AA | AAA

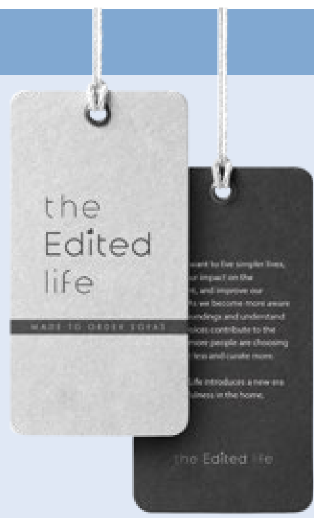
CIRCULAR ECONOMY

Better for your home

We are designing products for the longer term, seeking out materials that have less impact on the environment and reducing waste by offering more recycling options.

- Partnered with like-minded organisations to make it easier for customers to recycle old and unwanted items.
- Revised responsible sourcing policies and targets for high-volume supply chains – cotton and timber.
- Established a new packaging policy and set clear targets in this area.

POLICY



Extended 'The Edited Life' range to include sustainable options across all key categories

Made from 27 recycled plastic bottles per chair

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Committed to growth that is sustainable

FY21 was a year that tested the strength of our business model and the resilience and adaptability of our colleagues. I am pleased that Dunelm responded exceptionally well to the most challenging of times. We have emerged from the pandemic as a far stronger business, with clear digital capabilities to complement our existing retail strengths.

Nick Wilkinson
Chief Executive Officer

Our learnings during the pandemic have reaffirmed our purpose, our strategy and our ambitions. We are clear on the opportunities to accelerate our growth and have the right plans in place to achieve our goals.

I would personally like to thank my amazing colleagues and supplier partners who have worked together to deliver an enhanced customer experience, an excellent financial performance and a stronger business for the future. We have lived our shared value of being 'stronger together' and I am hugely grateful for their commitment to the business and each other.

FY21 REVIEW

Strong trading performance

We delivered excellent sales growth of 26.3% compared to FY20 despite facing major trading restrictions during extended periods. Our trading performance in the year was impacted by two significant periods of enforced closures, when Dunelm's 'non-essential' retailer status meant that we were not allowed to let customers into our stores. Our online business continued to thrive, with digital sales penetration of 46% (FY20: 27%).

The flexibility of our digital platform and supply chain allowed us to respond to high levels of customer demand, leading to growth in digital sales of 115% in the year, which included significant growth in Click & Collect. When fully open, our stores proved equally popular, with high levels of demand for our products and good growth being sustained during both initial re-opening periods and subsequently.

The appeal of our proposition enabled us to grow our active customer base by 8.5% year over year, with growth of 106% in digital and multichannel customers, partially offset by a decline in the store-only customer base as a result of periods of store closure. Market insight from GlobalData shows that we increased our share of the UK homewares market to 9.1%, up 160bps year over year.

Gross margin improved by 130bps, mainly due to a reduced Winter Sale and the postponement of the usual Summer Sale into FY22. Additionally, we continued to focus on driving sourcing gains to offset emerging cost price pressures from raw materials and freight. We maintained our focus on operational grip across our cost base and delivered record profit before tax of £157.8m, up 45% compared to FY20, despite the very challenging conditions.

"The flexibility of our digital platform and supply chain allowed us to respond to high levels of customer demand."

Performance driven by digital investments

Investments made in our digital proposition, including the new platform which launched in October 2019, meant that we have been able to scale in response to the increased digital demand, expanding our online experience, home delivery services and our contactless, local and friendly Click & Collect service. Our focus in FY21 was also to further improve the quality of our customers' experience, with customer satisfaction scores increasing across all digital fulfilment channels.

We continued to develop our proposition rapidly throughout the year. We extended the range available for Click & Collect through fulfilment from our central warehouse and improved the speed of order fulfilment. As we scaled to meet the increased demand for home delivery, we significantly shortened lead times, as well as enhanced our post-sales communications to improve the customer end to end journey and remove friction. We made it easier for customers to shop our Made to Measure ranges by introducing a significant proportion of the product range online and offering customers a choice of virtual or physical consultations with experienced colleagues.

Improvements to our dunelm.com site drove an increase in organic search traffic and we also optimised our paid search marketing by implementing profitability-based bidding. When stores re-opened in April, we were able to offer an enhanced in-store tablet selling experience, allowing customers to shop the full Dunelm range.

Delivering for all our stakeholders

As well as enhancing the experience of our customers, we have ensured that our decisions and actions this year have delivered for all our stakeholders.

During the year, we created over 700 new roles across the business, reflecting the confidence in our growth plans. Colleagues received a second special 'thank you' bonus in recognition of their dedication in delivering exceptional performance against a challenging backdrop.

+115%
Digital sales growth

+160bps
Market share growth

In progressing our inclusion & diversity strategy, we signed up to the British Retail Consortium's Charter and committed to its six pledges. We also developed our own inclusion & diversity strategy, called 'this is me', with the aspiration that all our colleagues are able to be their true self at work without fear of discrimination. We provided specialist training to all senior leaders across the business and have recently established a series of colleague network groups designed to support and acknowledge diverse communities throughout our business. We also provided mental health training for all our store colleagues during the year, to support them in looking after themselves and each other.

Having successfully transitioned all our previously office-based support centre colleagues, including the Customer Care Centre, to working from home at the start of the pandemic, we have been thoughtful about how we respond to the relaxing of restrictions. We have listened closely to our colleagues throughout the crisis and have adopted a goal of 'feeling at home wherever you work' for those colleagues who do not need to be in a store or in a distribution centre to fulfil their role. We have redesigned our central office locations to provide more collaboration space and are encouraging teams to adopt the appropriate hybrid arrangements that work for them. We will continue to listen and learn and remain flexible to ensure we continue to be a great place to work and an employer of choice.

We have found new ways to continue to offer support to charities and our communities during the year, despite the challenges presented by Covid-19. Macmillan has been our main charity partner since February 2019. During this partnership our colleagues have taken part in a range of fundraising activities and we are proud that we have raised a total of £1.3m.

When choosing our new national charity partner for the next two years, we consulted with our colleagues and they overwhelmingly chose Mind, reflecting the increasing importance of mental health. Our ambition through this new partnership is to create a positive impact that is broader than just fundraising.

As mentioned above, we are deepening our connection with the communities around our stores. We ran campaigns through the year to support our local communities, including our 'delivering joy' campaign which resulted in over 18,000 Christmas gifts being donated through our stores and support sites.

Committed to Net Zero Pathway

Sustainability is becoming integrated into our thinking at all levels and in all parts of the business, and we have moved forward substantially with our plans in this area. Our ambition to 'Be a Good Company' means that our commitment to net zero emissions is integrated into our company purpose, metrics and management incentives.

We have established science-based targets for Scopes 1, 2 and now Scope 3 carbon emissions. Over 97% of our emissions fall into Scope 3, which represents emissions outside of our direct control. We have committed to reduce Scope 1 emissions by 50% in absolute terms by 2030; under Scope 2 we will continue to purchase only renewable electricity; and for scope 3 we are announcing our intention to reduce emissions by 50% in absolute terms by 2030[1].

Recognising the need for collaboration to ensure we achieve global emission reduction targets, we are supporting the BRC's Climate Action Roadmap which aims to achieve net zero by 2040. Additionally, we are members of Textiles 2030[2], which is designed to limit the impact clothes and home textiles have on climate change and includes targets for water and carbon reduction.

To help us achieve our ambitious targets we are building capabilities and partnerships to accelerate both circular sourcing and customer engagement. We are also making progress on practical improvements, with the introduction of more sustainable product ranges and trialling of services to support our customers to live more sustainably. We are offering more choices in our product ranges to help customers care for (and repair) products, and we are developing a number of customer take-back trials. We have set ourselves targets to reduce the amount of packaging that we use and ensure that our packaging is more sustainable. As an example, the packaging which we use for the mailing bags of our courier-delivered home delivery items is moving to over 95% (from 30%) recycled content, as well as being 100% recyclable.

1. Scopes 1 and 2 cover emissions from owned sources as well as emissions associated with purchased electricity. Scope 3 includes all other emissions. The baseline year chosen for comparison is FY19.
2. Textiles 2030 is a voluntary agreement, backed by government. Signatories will collaborate on carbon, water and circular textile targets.

STRATEGIC UPDATE – BECOMING THE 1ST CHOICE FOR HOME

Well positioned with a clear runway for growth

As we look forwards, we are confident and also mindful of the work required to grow our business sustainably. Having been a successful physical retailer for many years, we are now both a capable digital player and the operator of great stores, run by colleagues with better links to their local communities. We intend to use this enhanced market leading position to become the 1st choice for home for more customers and to increase shopping frequency.

We have a distinctive and specialist product portfolio – offering quality, value and style – that is largely own brand and sourced from long-term committed suppliers. Our total retail system combines the advantages of integrated digital and local shopping experiences to best serve UK homewares shoppers. Dunelm remains a highly cash generative business, which provides the agility to invest in opportunities for growth, and is built on solid foundations with deep-rooted shared values, strong relationships and a commitment to doing the right thing for the long term, for all our stakeholders.

The digital transition we have been on influences how we now think about growth, and the runway ahead of us for attracting more customers and increasing their frequency. Our brand will increasingly reach new customers through digital content and performance marketing. Similarly, digital capabilities allow us to offer more choice, more reach, more convenient services, and more effective marketing, all of which will enable us to grow frequency.

Moving forward with renewed purpose

Our experiences during the pandemic caused us to reflect on the broader role that we play in the lives of our customers, communities and other stakeholders. In the first lockdown, when our stores were closed, we began to get to know our local communities better and listened hard to better understand what customers wanted from their homes. This led to a highly collaborative journey with our customers, colleagues and communities to renew and clarify our company purpose.

Our renewed purpose is founded on the insight that truly feeling at home is one of the greatest joys in life. 'To help create the joy of truly feeling at home. Now and for the generations to come.' This is a purpose that goes beyond offering our customers the means to make their homes comfortable, beautiful, organised and secure: touching on how inclusive and respectful we are in operating our business, and how well we respond to the challenges of sustainable living. This renewed purpose is creating energy and focus and deepening the engagement of our colleagues and customers.

Significant headroom in a large market

The UK homewares and furniture markets are large (estimated to be over £25bn combined[3]) and fragmented. GlobalData publishes the most comprehensive assessment of the homewares and furniture markets and estimates that both markets declined (vs. the prior year) in FY20 and recovered back to FY19 levels in FY21. There is a potential inflationary tailwind likely in the short to medium term. The market is predicted to grow in low single digits over the coming years.

The pandemic has created a renewed focus on the home both practically, as it serves many new purposes, and emotionally, as it provides safety, security and sanctuary. In addition, new needs are emerging which are fuelling demand for innovative products and services, with consumers returning to 'wholesome' home making activities and focussing on wellbeing and more sustainable living. Our customer segmentation[4] shows that 'Home Lovers', classified as those who are highly engaged with improving, styling and shopping for their homes, make up over 50% of UK households.

As the homewares market leader, but with only 9.1% market share, and with only 1.3% share of the furniture market, we have significant headroom to grow market share. We expect that share gains will be driven equally from acquiring new customers and increasing their purchase frequency.

3. GlobalData homewares and furniture markets. Market size is quoted including VAT.
4. Internal analysis based on Dunelm market segmentation research, February 2019 and August 2020.

Growing customer base and increased engagement

In addition to growth in our overall active customer base of 8.5% and in digital and multichannel customers of 106%, the levels of customer engagement with digital content also increased. We grew our engaged contactable email base by 30%[5] year on year and each of our stores now has a local community Facebook group. Membership of these groups has grown to over 700,000 followers, with 78% of them believing that Dunelm makes a positive contribution to their local community[6]. We also experienced substantially higher levels of engagement through social media channels throughout the year, with our own and customer or influencer posts showcasing products and 'how to' content regularly receiving over 5,000 likes.

The frequency opportunity

We classify 12% of our customer base as 'high value' and these customers contribute 40% of our sales and are likely to shop across more product categories, and across both our digital and physical channels. In addition, these customers have a deeper emotional connection with Dunelm, and are more likely to say they 'love' the brand[7]. We know that a customer shopping multi-category and multichannel with us shops almost five times more frequently in a year than a single-category, single-channel customer and that their average spend with us over 12 months is approximately six times as much[8].

We are focusing on growing the number of high value customers by improving the consistency of execution in order to reduce customer friction and churn, for example through growing our rate of 'perfect orders', focusing on a 'fast & friendly' store experience and improving issue resolution. We are developing our insights and capabilities to understand more about our customers. We are also expanding our proposition in a way that will encourage frequency as well as building further emotional connection and engagement with our brand.

Customer proposition development drives growth

To become the '1st choice for home' we are focused on developing our proposition in terms of products, services and experiences.

1) Products proposition

We have a comprehensive product offer in homewares and furniture, with over 50,000 SKUs across more than 30 sub-categories, which are largely own brand, including specialist exclusive to Dunelm brands such as Dorma and Fogarty. Our range is curated for choice across price tiers and styles, with strong (and growing) value and quality credentials understood by our customers[9]. Our close relationships with our suppliers enable us to offer customers excellent product innovation and availability. We offer Made to Measure curtains, roman blinds and cushions made in our own UK factory.

Going forward, we will develop our product proposition further by raising the bar on range development. We are adapting our mix of good/better/best price points and the size of our promotional buys. We are now using online customer insight to increase choice and fill in gaps in those categories that we know are more frequently shopped. We will continue to extend our range in new and developing categories, such as Decorate, Outdoor Lighting and Sofas & Chairs. Additionally, we will introduce new collections and sub-brands created by our in-house designers, for example the expansion of Churchgate, a timeless brand which draws on Dunelm's heritage.

We are committed to introducing more sustainable products and are building capability to accelerate the introduction of new materials and circular sourcing into the design and manufacturing process. We will also be broadening our sustainable 'The Edited Life' range to more categories, following the launch of our made to order sofa range (made from recycled materials, and designed for longevity with a 25-year guarantee).

These product proposition developments are supported by investments we are making into our commercial systems to better leverage product data, accelerate the product onboarding process and add capacity for range expansion.

5. Active email customers who have opted-in to marketing in last 30 days and customers who have opened an email in the last 90 days.
6. Source: Community Insight question in NPS survey, May-June 2021.
7. Dunelm customer survey, March 2021, 68% of 'high value' customers love or like Dunelm vs. 54% of other customers.
8. Source: Internal analysis based on Barclays Analytics, FY21 data.
9. BrandVue Retail, 3 months rolling to June 2021: 26% of customers chose Dunelm as 'Good value' (up 1.3%pts vs. FY20) and 36.6% of customers chose Dunelm as 'Quality' (up 2.4%pts vs. FY20).

2) Services proposition

We service our customers through our integrated digital and physical shopping channels. Our Click & Collect service, which offers a three-hour promise for local store stock, has proven very popular since its launch in Autumn 2019. We offer a national home delivery service, with the majority of our 'heavy and bulky' items delivered by our own home delivery network offering high quality 'room of choice' options. In addition, we offer a full Made to Measure curtains and blinds service, including in-person or virtual consultation and fitting.

Going forwards, we will develop our services proposition further by increasing the breadth and availability of products for Click & Collect, thereby encouraging cross-channel shopping. We will increase home delivery capacity and improve systems to reduce home delivery lead times, provide more consistent service and grow the 'perfect order' rate. This will be supported by our new dedicated e-commerce facility.

We will also improve the range of furniture available for quick delivery and grow the geographic coverage of our own home delivery network. This will be enabled by our new furniture warehouse (in Northamptonshire) as well as investments into supporting supply chain and transport systems. We will also be extending customer support hours and offering shorter response times.

We have begun offering customers opportunities to recycle products and will continue to pilot and test these schemes. In FY21 we introduced an electricals take-back scheme in our stores and we are currently developing a take-back scheme for textiles, quilts and pillows. In addition, we have started introducing local take-back schemes, organised by store colleagues and advertised via our local community Facebook groups.

3) Experiences proposition

We offer our customers convenient shopping online and in stores, through dunelm.com and our store estate of 175 mainly out-of-town superstores. Our colleagues in stores offer personal 'friendly and helpful' advice[10] and provide access to the total product range via in-store tablets. Our displays in store inspire customers and enable them to touch and feel our products and we have growing engaged local communities supporting local causes and national charity partners. In addition, our Pausa cafes in 152 stores enhance the shopping experience for customers and offer our own range of food and drinks in a friendly environment.

Going forwards, we will develop our experiences proposition further by expanding our digital and data capabilities to deliver insight-driven proposition enhancements. We are building a single view of our customers across channels, both to maximise our acquisition of 'high value' customers and to improve marketing communications in order to grow frequency and retention.

We will continue our new store roll-out to our remaining target catchments, including testing smaller formats. Following reduced store refit activity over the last 18 months, we will be accelerating our store refit and refresh programme, improving store layout and optimising the shopping experience.

SUMMARY AND OUTLOOK

We delivered an excellent performance in FY21, despite our stores being closed for more than a third of the year, demonstrating the strength and resilience of our business model and the adaptability and commitment of our colleagues and suppliers.

The digital investments we had made enabled us to rapidly adapt to the changing environment and deliver strong growth and an improved customer experience. We are emerging from the pandemic as a stronger and better business, having transitioned from being a physical retailer with digital aspirations to being a proven, digital first, multichannel retailer.

10. For Q4 FY21, following re-opening of stores, customers assessed their experience on average in store as 9.4/10 for 'Friendly' service.

We have renewed purpose, bold ambitions and an increased opportunity to attract more customers and grow their frequency. We aim to be our customers' 1st choice for home, helping everyone to create the joy of truly feeling at home, now and for generations to come. Our business plans will deliver for all our stakeholders, and include our commitment to a Net Zero Pathway, with an absolute reduction in emissions of 50% by 2030.

Whilst the macro-outlook remains uncertain and fast changing, with ongoing risks relating to Covid-19, supply chain disruption and inflationary pressures from raw materials, freight costs and driver shortages, we feel we are well-placed relatively to manage these challenges. We continue to focus on what we can control – namely maintaining good stock levels and mitigating cost pressures, working closely with our long-term committed suppliers and partners.

Current trading

Sales growth in the first ten weeks of the new financial year has been encouraging, including a positive response from customers to our Summer Sale in July and continued outperformance versus the homewares market.[11] This strong start to the year, showing further growth against a tough comparative period, has been better than anticipated. In the absence of any further trading restrictions, the Board now expects that FY22 PBT will be modestly ahead of the top of the range of latest analysts' expectations.[12]

Nick Wilkinson
Chief Executive Officer
8 September 2021

CUSTOMER INSIGHT AND MARKET TRENDS

We are developing our data and insight capabilities to understand our customers even better and using this information to deliver analysis-driven decisions to improve our overall proposition – products, services and experiences. Consumer trends are summarised below, and key market drivers and our market focus opposite.

- **Increasing focus on the home, from functional needs to 'wholesome' home-making**
- **Digital channels embraced by existing and new customers**
- **Increasing preference for out-of-town shopping**
- **Increasing engagement with friendly digital content**
- **Growth of community connections and support for local action**
- **Increasing desire for more sustainable living**

11. Homewares market (excluding Dunelm) calculated using GfK data and management estimates. Dunelm growth for comparable categories.
12. Management understands the range of analysts' estimates (which have been updated since the Q4 trading statement on 14 July 2021) for FY22 Profit Before Tax is £153-£175m.

A large addressable market with a clear runway for growth

A LARGE, FRAGMENTED MARKET

>£25bn[1]

Market size of UK homewares and furniture combined. Significant headroom to grow, with 9.1% share of homewares market and only 1.3% share of furniture market

Market recovery

In FY21, our markets returned to FY19 levels and are predicted to grow in low single digits over the coming years.[1]

Focus on the home

Post-pandemic, there is a renewed focus on the home with interest in home-making, wellbeing and sustainability continuing to rise.

SIGNIFICANT HEADROOM

'Home Lovers'

50%+

Over 50% of UK households are 'Home Lovers'[2] (highly engaged shoppers who look to improve, style and shop for their homes)

'High value' customers

12%

Our 'high value' customers make up 12% of customers and c.40% of sales

These customers:

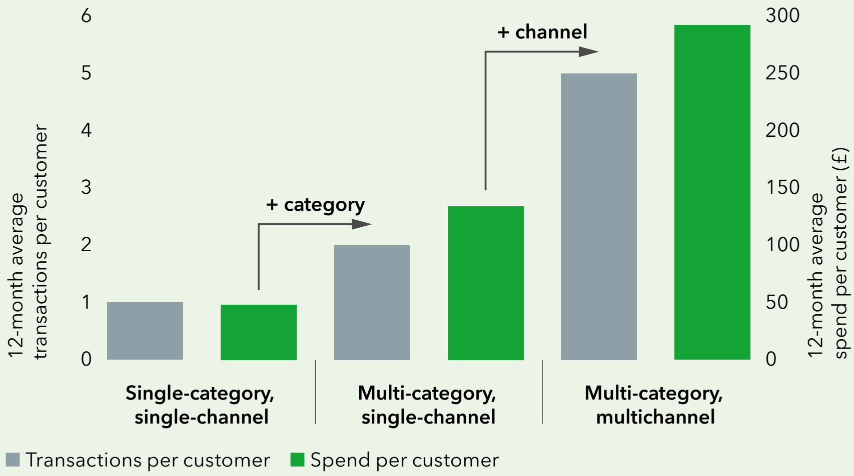
- Shop more than one product category.
- Shop across both digital and physical channels.
- Have a deeper emotional connection to Dunelm.[3]

OUR RUNWAY FOR GROWTH

Growing customer base and frequency

- In FY21, we grew our total number of customers[4] by 8.5%.
- In FY21, the number of digital and multichannel customers[5] grew by 106%.
- Moving forward, share gains will be driven equally from acquiring new customers and increasing their purchase frequency.

Customers who shop across categories and channels shop around 5 times more often and spend around 6 times more



Source: Internal analysis based on Barclays Analytics.
Represents FY21 data – transaction and spend (inc. VAT) per customer over 12 months.

1. Source: GlobalData, market data quoted includes VAT – 12 months to June 2021 and forecasts as at July 2021.
2. Internal analysis based on Dunelm household segmentation research, February 2019 and August 2020.
3. Dunelm customer survey, March 2021, 68% of 'high value' customers love or like Dunelm vs. 54% of other customers.
4. Unique active customers who have shopped in the 12 months to June 2021, based on management estimates using Barclays data.
5. Unique active customers (as defined above) who have shopped either online only or online and in a store.

United by our purpose, focused on value creation

Our foundations

These are key resources and relationships that underpin our value creation. We continuously improve and build them to maintain competitive advantage and gain market share.

CONTINUOUSLY IMPROVING

Talented colleagues
Strengthening our inclusive, diverse and supportive working environment to allow our colleagues to perform to the best of their ability.

Committed suppliers
Working together to grow our product offer with authority, while improving sustainable practices in our supply chains.

Brilliant stores
Bringing innovation and inspiration into our stores, while supporting and connecting our store communities.

Agile and flexible technology
Advancing our digital capability to realise our operational scale, efficiency and agility.

Expert supply chain
Continuously improving our ability to get the right products to the right places as efficiently as possible.

BUILDING

Sustainable in everything we do
Making sustainability easier for everyone, and building it into all that we do.

Data capability
Building our capabilities to make data-led decisions and accelerate customer insight.

What makes us different

OUR PURPOSE

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

INVESTMENT PROPOSITION

We are well positioned with a clear runway for growth.

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

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

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

Financial position
A highly cash-generative business with a strong balance sheet and agility to invest.

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

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

How we do it

Our focus areas are reviewed every year by the Board and keep us on track and focused during the year ahead.

OUR FOCUS AREAS

By focusing in the following six areas, we aim to improve our customer proposition at pace.

- **0 Sustainability**
- **1 Product development**
- **2 Customer understanding**
- **3 Shopping experience**
- **4 Data and insight**
- **5 Post sales experience**

MORE INFORMATION PAGE 30

The value we create

We create long-term economic and social value for our stakeholders.

CUSTOMERS

Improved customer service and experience, despite our stores being closed for over one third of the year.

+4.2%pts

YoY increase in customer net promoter score (NPS).

STORE COMMUNITIES

Deepened engagement through our store Facebook groups and work in our local communities.

£580k

Raised for charity by colleagues and the Group.

COLLEAGUES

We invested in our colleagues' social and financial wellbeing throughout the year.

£3.1m

An additional 'thank you' bonus paid.

SUPPLIERS

Continued to support suppliers and improve auditing standards.

>99%

Supplier invoices paid within agreed terms.

SHAREHOLDERS

Recommenced ordinary dividend and declared special dividend.

100.0 pence

Total dividend.

ENVIRONMENT

We worked with Carbon Trust to set challenging Scope 1, 2 and 3 emissions retargets.

20% reduction

tCO_2e/£1m Group revenue reduction FY21 versus FY20.

SUSTAINABILITY FROM PAGE 40

Knowing where to apply our skills and energy

Our ambitions

AMBITIOUS ABOUT

Our brand

Grow as the #1 destination for home, loved by more customers shopping more frequently.

AMBITIOUS ABOUT

Being a good company

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

AMBITIOUS ABOUT

Profitable growth

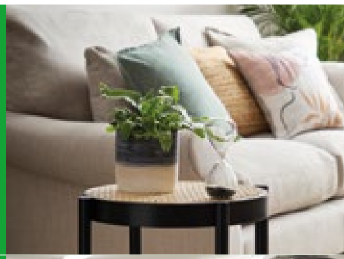
Focusing on quality of growth and long-term value creation by using our resources wisely and efficiently.

Six focus areas

0

Sustainability

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



1

Product development

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

2

Customer understanding

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

3

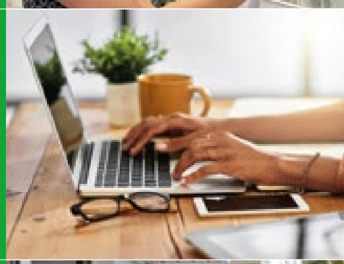
Shopping experience

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

4

Data and insight

Build foundational capabilities in data and accelerate customer insight.



5

Post-sales experience

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

Our plan is to become our customers' 1st choice for home, in line with our purpose, ambitions and shared values, delivering long-term sustainable growth and value for all of our stakeholders. Each year, the Board agrees and communicates our focus areas for the year ahead, signalling where we will apply our skills and energy and expect to see investment and development.

Developing our proposition to drive growth

Products that are great value, with choice, style, quality & sustainability

Services that help from inspiration to delivery, fitting & take-back

Experiences that are seamless, physical & digital, helpful & friendly

HOW WE WILL DEVELOP FURTHER

- Range development with more choice, better value, new collections and new product brands, e.g. Churchgate.
- Extending range in new and developing categories.
- Introducing new materials and circular design, and broadening our sustainable 'The Edited Life' ranges.
- Investing in commercial systems to accelerate these developments.

Developing ranges that resonate with our customers, including more sustainable options

- Increasing delivery capacity and perfect order rates.
- Increasing range of furniture available through own network with convenient delivery.
- Increasing breadth of products on Click & Collect service.
- Pilot take-back schemes for textiles, quilts and pillows.

Improving services for our customers, however they wish to shop with us

- Releasing insight-driven online enhancements powered by digital and data capabilities.
- Building a single view of our customers across channels to power 'next best action'.
- Rolling out stores to our target catchments, testing smaller formats (reaching 65% of UK within 20-minute drive time).
- Accelerating store refits to improve layout and experience.

Using insight and know-how to improve our customers' experience

Measuring and rewarding progress against our ambitions

The Board uses a range of financial and non-financial key performance indicators (KPIs) to measure overall Group performance, the success of our strategic direction in relation to our ambitions, and to determine senior management remuneration. Last year we expanded the number of Group KPIs and regrouped them around our ambitions (our brand, being a good company and profitable growth) to better reflect how we think about, manage and measure what matters most to our business. This year the Remuneration Committee has linked three new sustainability performance metrics to the Group's long-term incentive plan (LTIP) for 2024.

REMUNERATION MEASURES

Metrics that will be used to determine FY22 bonus and FY24 LTIP pay-outs are indicated on page 33 and explained further on page 170. Details of metrics used for FY20 and FY21 bonus and LTIP outcomes can be found on pages 143 to 145 and pages 155 to 160 in the Remuneration Report.

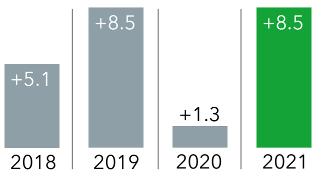
REMUNERATION REPORT PAGE 138

Ambitious about our brand

Unique active customer growth[1]

%pts growth

+8.5% BONUS



We saw an increase in our number of active customers by 8.5% in the year, despite our stores being closed for a longer period of time compared to the prior year.

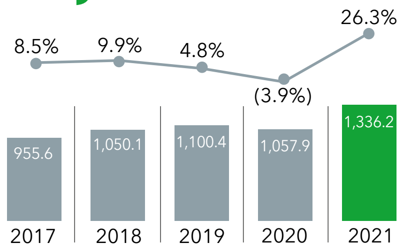
Why this measure is important
We use this metric to measure the acceleration of growth in our active customer base and therefore our ability to reach new customers. This measure combines our active store and online customers.

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

Total revenue

£m and growth % BONUS

£1,336.2m



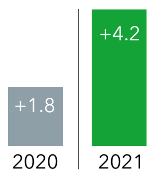
Total revenue was impacted again this year by store closures, but even though the stores were closed for a longer period in the year than last year, we saw a significant increase in revenue. Digital sales performed particularly well in the year, and were 46% of total sales.

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

Net promoter score (NPS)

Year-on-year improvement %pts

+4.2%pts BONUS



Customer NPS improved year on year as we were able to retain our Click & Collect offering in store throughout the whole of the closure periods this year. We continued to experience high online demand, but the necessary suspension of our 'room of choice' delivery option due to Covid-19 restrictions resulted in lower NPS for our online sales compared to store sales.

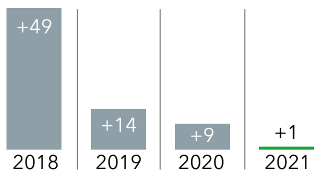
Why this measure is important
The NPS metric is a common business tool that measures how likely people would (or would not) be to recommend a product, service or company. At Dunelm we use this to measure how our customers rate their full experience with us.

Ambitious about being a good company

Employee net promoter score (eNPS)

Year-on-year improvement %pts

+1.0%pts BONUS



We measure our colleague engagement every six months in our colleague survey. Overall, employee NPS has again improved in the year, which is pleasing given the continued disruption to the working environment due to the ongoing pandemic.

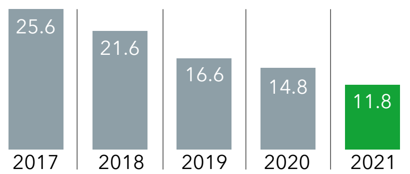
Why this measure is important
This measure rates our colleagues' experience with us and the survey helps us understand where we need to improve. It is also used as an executive bonus measure.

Owing to the lockdown period, we postponed the May 2020 survey, and the 2020 year-on-year improvement quoted compares the November 2019 survey to the November 2018 survey, and the 2021 year-on-year improvement compares the May 2021 survey to the November 2019 survey.

CO_2 emissions

tCO_2e/£1m Group revenue

11.8tCO_2/£1m[2]



We have worked with the Carbon Trust in the year to develop a robust method of calculation of our Scope 1 and Scope 2 emissions. Since April 2019, the majority of our electricity is from renewable sources certified as REGO (Renewable Energy Guarantees of Origin), but for the purpose of the above metric we have included carbon emissions from electricity calculated using the location-based methodology.

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

2. tCO_2e is based on Scope 1 and Scope 2 emissions.

SUSTAINABILITY METRICS

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

Target FY22-24: 80% reduction

LTIP NEW

Reduction in plastic packaging of own brand products against FY20 base.

Target FY22-24: 20% reduction

LTIP NEW

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

Target FY22-24: 50% reduction

LTIP NEW

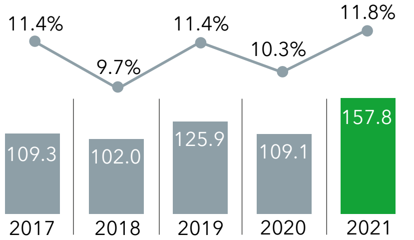
These targets were chosen because they are aligned to our focus areas and ambitions, and cover areas where we are able to make the most impact on the environment and provide the most benefit to our customers and our communities.

Ambitious about profitable growth

Profit before tax[3]

£m and % sales

£157.8m BONUS



Profit before tax (PBT) in the period was £157.8m (FY20: £109.1m), an increase of £48.7m year on year, despite stores being closed for a longer period in FY21 compared to FY20. This reflects the strong sales performance whilst the stores were open, the impact of Click & Collect remaining operational whilst stores were closed and the strong online performance.

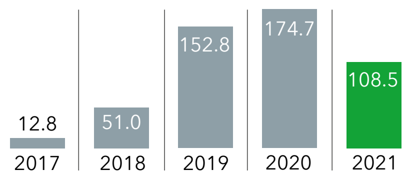
Why this measure is important
PBT measures overall financial performance of the business, reflecting sales, gross margin and cost control. It is also used as a key bonus measure.

3. Profit before tax is presented before exceptional costs.

Free cash flow[4]

£m

£108.5m BONUS



Free cash flow was £108.5m in the year, and this includes the reversal of part of the exceptional working capital benefit from FY20, as we have rebuilt our stockholding.

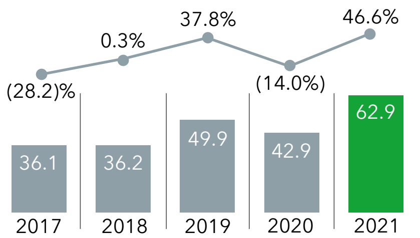
Why this measure is important
Dunelm is highly cash generative. This measure allows the Board to monitor cash flows to support investment decisions for long-term profitability, or to return surplus cash to shareholders.

4. Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid, interest on lease liabilities and repayment of lease liabilities.

Diluted earnings per share

pence and growth %

62.9p LTIP



Diluted earnings per share increased to 62.9p reflecting the significantly higher sales and profit in the year.

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

Focused investment to support growth

In a challenging year, we have delivered against all our financial metrics. Our strong cash flow generation and prudent capital policies will enable us to continue to invest in the business to drive future growth.

Laura Carr
Chief Financial Officer

REVENUE

	52 weeks to 26 June 2021		
	FY21 £m	FY20 £m	YoY growth %
Total Group revenue	**1,336.2**	**1,057.9**	**+26.3%**
Digital % total revenue	46%	27%	+19%pts
Homewares market share	9.1%	7.5%	+1.6%pts

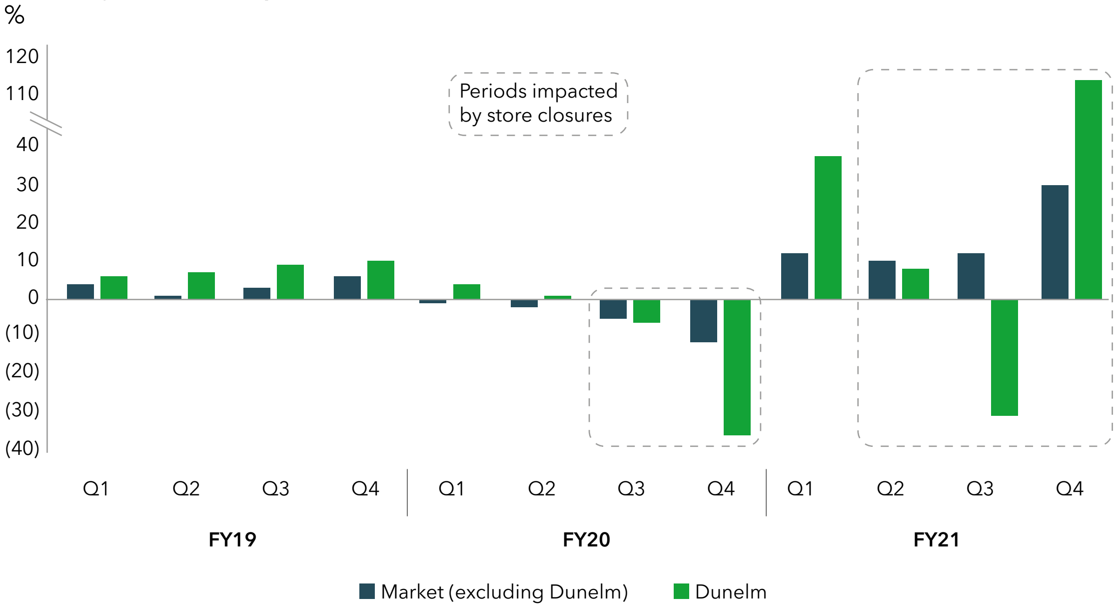
Total revenue for the 52 weeks to 26 June 2021 increased by 26.3% to £1,336.2m (FY20: £1,057.9m). Compared to FY19 sales grew by 21.4%. During this financial year, performance was impacted by the two periods of store closure. In the first quarter, when stores were fully open, revenue grew by 36.7%. During the second quarter, which included the lockdown in November 2020, when our stores were only permitted to offer Click & Collect, sales growth softened to 11.8%. The most significant impact was in the third quarter when stores were closed for most of the period. Despite the closures, sales only declined by 16.8% due to the strength of our digital offer. In the fourth quarter, revenue grew by 101.7% compared to FY20, and 44.0% compared to FY19, despite the delay of our Summer Sale event, in part reflecting pent up demand.

Our digital offer performed strongly throughout the year, and especially during the periods of store closure when Click & Collect revenue covered c.30% of prior year store sales. FY21 digital revenue of £616m was up by 115% compared to FY20 and accounted for 46% of total Group sales (FY20: 27%).

From the annual estimate of the UK Homewares market by GlobalData, we understand that we grew market share by 160bps in FY21. Furthermore, from our analysis of data from a weekly GfK homewares panel (which represents just over half of the market size as defined by GlobalData), we can see that we significantly outperformed the market when we were able to open our stores. Conversely, when we were forced to close our stores to customers, we underperformed the market.

Sales growth in the first ten weeks of the new financial year has been encouraging, with growth against the strong comparative period in Q1 FY21 and continued outperformance versus the homewares market. Quarterly sales growth in FY22 will reflect the volatility in the prior year trading, with particularly strong comparatives in Q1 and Q4 and closures in Q2 and Q3.

Quarterly homewares performance vs. market



	Fully open	Closure periods	FY21
GfK homewares panel growth[1]	+13%	+20%	+15%
Dunelm growth	+40%	(23%)	+22%
Dunelm growth vs GfK[1]	+27% pts	(43)% pts	+7% pts

1. GfK weekly homewares panel, including estimates for key retailers and excluding Dunelm. Represents approximately 50% of the full market as reported by Global Data. Dunelm growth shown for comparable categories.

GROSS MARGIN

Gross margin of 51.6% was 130bps higher than the prior year. Gross margin benefited from a lower level of discounting throughout the year, including during our Winter Sale when Covid-19 restrictions meant that stores were closed for most of the planned event. Furthermore, the delayed store re-openings in April 2021 led us to postpone the Summer Sale into FY22.

We continue to focus on driving sourcing gains by working closely with our suppliers. In FY21 and in the short- to medium-term outlook, we are seeing notable cost price inflation arising from commodity price increases and global pressures on freight costs. Where appropriate, we are increasing some retail prices to offset cost price pressures, however we remain committed to offering our customers great value products at each price point. We will also augment our standard ranges with increased special buys and review price architecture to maintain competitiveness.

We expect gross margin in FY22 to decrease by c.50-75bps as the trading calendar normalises. We expect to mostly mitigate the impacts of raw material and freight inflationary pressures through better sourcing and increasing prices where appropriate.

Over the medium term we aim to maintain gross margin of c.50%, leveraging our strong committed supplier relationships, with a relentless focus on sourcing and a disciplined approach to promotional activity and markdowns, whilst continuing to invest in great value and quality for our customers.

OPERATING COSTS

Total operating costs were £522.5m (FY20: £416.4m), representing an operating cost ratio of 39.1% (FY20: 39.4%). This growth in costs was largely driven by the higher sales volume. Both FY21 and FY20 were impacted by Covid-19.

Costs in FY21 were adversely impacted by the non-recurrence of benefits in FY20 that arose from the closure of the stores in the first lockdown. This included £14.5m relating to the Job Retention Scheme which we claimed in Q4 FY20 at the start of the pandemic. The Board subsequently decided to repay these monies and the repayment cost impacted FY21. We also experienced £8m higher costs to serve in FY21 relating to Covid-19 restrictions. These costs mainly related to the additional roles required in stores to maintain social distancing and capacity requirements, which ensured a safe environment for our colleagues and customers.

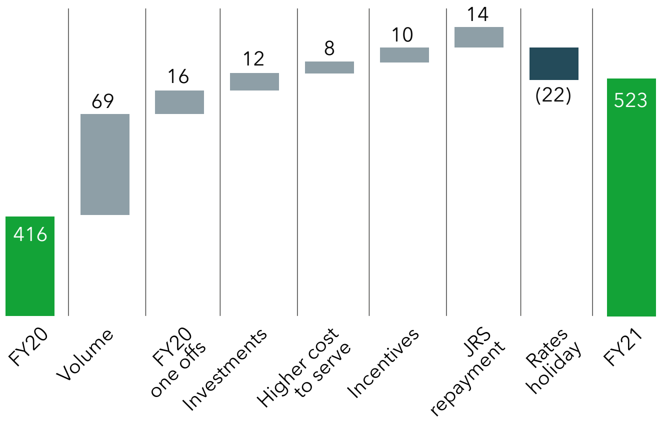
+130bps

increase in gross margin % year on year

100 pence

total dividends in FY21

Operating costs
£m



The business benefited from business rates relief which continued throughout FY21. The lack of rates charges resulted in a year-on-year benefit of £22m, which partially offset the loss of business during the various restricted trading periods during the year.

Our investments in digital, data, insights and supply chain capacity increased by £12m year over year (including £3m of digital costs that would previously have been classed as capital expenditure rather than operating costs). These investments supported the business growth and customer proposition development.

Due to the strong business performance this year, operating costs were impacted by £10m of higher management and colleague incentive costs, given that the majority of FY20 incentive schemes did not pay out as a result of the unexpected impacts of Covid-19 in Q4 FY20.

We anticipate that, over time, our operating cost to sales ratio will remain around 38%, with increased scale offsetting ongoing investments in the proposition. Additionally, we will continue to focus on driving productivity and efficiency improvements to offset cost pressures and labour inflation. In FY22 we will invest in supply chain capacity, expand our teams in digital and data engineering and build new capabilities, for example in product management, insight & analytics and sustainability.

PROFIT AND EARNINGS PER SHARE

Despite making losses in the third quarter when stores were closed, operating profit for the year increased significantly to £166.4m (FY20: £116.0m). This partially reflects the leverage of our home delivery fixed cost base due to strong demand, as well as the higher gross margin. Costs were tightly controlled throughout the year despite the significant disruption caused by the periods of lockdown and the specific cost increases required to operate safely under Covid-19 restrictions.

There was a net cost of £8.6m (FY20: £6.9m) in respect of financial items in the period. This included interest on IFRS 16 lease liabilities of £5.3m (FY20: £5.5m), interest payable and amortisation of arrangement fees relating to the Group's Revolving Credit Facility amounting to £1.0m (FY20: £1.8m) and losses of £2.4m (FY20: £0.3m gain) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities. Interest received on cash deposits was £0.1m (FY20: £0.1m).

PBT in the period was £157.8m (FY20: £109.1m), an increase of £48.7m year-on-year. Profit after tax of £128.9m (FY20: £87.7m) reflected an effective tax rate of 18.3% (FY20: 19.6%). The effective tax rate is lower than the previous year due to the timing of R&D claims and the benefit from the change in future corporation tax rate on the deferred tax asset.

Basic earnings per share (EPS) for the period were 63.7 pence (FY20: 43.4p). Diluted earnings per share were 62.9 pence (FY20: 42.9p).

We anticipate maintaining a PBT margin of c.12% over the medium term, meaning absolute returns will grow as the business scales.

CAPITAL AND DIVIDEND POLICY

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

CASH GENERATION AND NET CASH

In the period, the Group generated £108.5m of free cash flow (FY20: £174.7m).

	FY21 £m	FY20 £m
Operating profit	166.4	116.0
Depreciation and amortisation[1]	80.8	80.2
Working capital (outflow)/inflow	(35.0)	80.1
Share-based payments	7.5	2.1
Tax paid	(35.5)	(34.3)
Net cash generated from operating activities	**184.2**	**244.1**
Capex (net of disposals)	(15.7)	(24.9)
Net interest[2]	(0.7)	(1.3)
Interest on lease liabilities	(5.3)	(5.5)
Repayment of lease liabilities	(54.0)	(37.7)
Free cash flow	**108.5**	**174.7**

1. Including impairment and loss on disposal.
2. Excluding interest on lease liabilities.

There was a working capital outflow of £35.0m in the period (FY20: £80.1m inflow). The inventory balance at the end of FY20 was unusually low due to the strong sales in the final quarter so the working capital outflow reflected a return to a more usual stockholding. Inventory at the end of the period was £172.4m (FY20: £118.2m). This impact was partially offset by an increase in the VAT payable due to the strong trading since stores re-opened in Q4 FY21. We estimate a further working capital outflow of c.£15-25m in FY22.

Total capital investment of £15.7m (FY20: £24.9m) was lower than historic levels, due in part to delays in store development caused by Covid-19 restrictions as well as our policy to expense digital development spend and the absence of any freehold acquisitions. FY21 capital expenditure included one new store and two relocations (£4.7m), refits in existing stores (£5.5m), technology and digital infrastructure developments (£3.6m) as well as investment in supply chain operations (£1.5m). Moving forwards over the medium term, we expect capex levels of between £30-40m per annum.

In FY22 approximately half of the capital investment will be in stores where we expect to open three to five new stores, including smaller store trials, and accelerate our store refit programme and decarbonisation initiatives. The remaining capex will be split between investment in supply chain capacity (new furniture warehouse and dedicated e-commerce facility) and technology, which includes upgrades to commercial and supply chain systems to enable long term growth.

Tax paid of £35.5m (FY20: £34.3m) was similar to FY20 despite the higher profits. FY20 included two additional payments on account in order to adopt the new rules on the timing of corporation tax payments.

Repayments of lease liabilities of £54.0m (FY20: £37.7m) were higher than the prior year due to the deferral of the June 2020 rent payments into FY21 and a full year of payments this year.

After total dividend payments in the period of £24.3m (FY20: £106.0m), the Group ended the year with a net cash position of £128.8m (FY20: £45.4m).

BANKING AGREEMENTS

The Group has in place a £165m syndicated Revolving Credit Facility (RCF) which matures in March 2023. The terms of the RCF are consistent with normal practice and include covenants (both calculated on a pre-IFRS 16 basis) in respect of leverage (net debt to be no greater than 2.5× EBITDA) and fixed charge cover (EBITDAR to be no less than 1.75× fixed charges), both of which were met comfortably as at 26 June 2021.

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

CAPITAL AND DIVIDEND POLICY

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

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

THE GROUP'S FULL CAPITAL AND DIVIDEND POLICY IS AVAILABLE ON OUR WEBSITE AT WWW.CORPORATE.DUNELM.COM.

DIVIDENDS

An interim dividend of 12p per share was paid in April 2021 (FY20: nil). It is proposed to pay a final dividend of 23p per share (FY20: nil). The total ordinary dividend of 35p gives a dividend cover of 1.8×. This cover level is within our policy as described above. Subject to approval by shareholders at the AGM, the final dividend is payable on 19 November 2021 to shareholders on the register on 29 October 2021.

In line with our capital policy, and as a result of the strong cash flow and net cash position at the end of the year, the Board has declared a special dividend of 65p. The special dividend will be paid on 8 October 2021 to shareholders on the register at the close of business on 17 September 2021.

The payment of this special dividend will return us to the bottom of our target leverage range (0.2×), maintaining a prudent approach given the current macro-outlook.

TREASURY MANAGEMENT

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

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

Laura Carr
Chief Financial Officer
8 September 2021

OUR TAX STRATEGY

Total tax contributions	2021 £m	2020 £m
Net VAT collected[3]	83.3	80.0
Payroll taxes including National Insurance[4]	39.0	36.4
Corporation tax	35.5	34.3
Total tax contributions	**157.8**	**150.7**

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

TAX STRATEGY AVAILABLE ON CORPORATE.DUNELM.COM

3. VAT total for FY20 includes VAT payments deferred due to Covid-19 of £19 million, which have now been paid.
4. All Dunelm colleagues are based in the United Kingdom, except for 45 colleagues who work in our store in Jersey.

ALTERNATIVE PERFORMANCE MEASURES (APMs)

APM	Definition, purpose and reconciliation to statutory measure
Unique active customers growth	12-month rolling growth in unique active customers who have shopped in the 12 months, based on Barclays transactional data. Note that Barclays data represents approximately 20% of total Dunelm transactions. To measure whether we are continuing to grow our active customer base – from both new customers and retention of existing customers.
Total sales	Equivalent to revenue (from all channels). This is net of customer returns.
Total LFL sales	Stores and online sales but excludes new stores and stores which have had a significant change of space, which have been trading for less than one full financial year prior to 27 June 2020. Measures total sales growth excluding the impacts of any significant space changes.
Digital sales	Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store.
Digital % total sales	Digital sales (as defined above) expressed as a percentage of revenue. This is not a measure that we seek to maximise in itself, but we measure it to track our adaptability to changing customer behaviours.
Gross margin %	Gross profit/revenue. Measures the profitability made on product sales prior to sales & distribution costs and administrative expenses.
Operating costs to sales ratio	Operating costs/revenue. To measure the growth of costs relative to sales growth.
Effective tax rate	Taxation/profit before taxation. To measure how close we are to the UK corporation tax rate and understand the reasons for any differences.
Capex (net of disposals)	Acquisition of intangible assets and acquisition of property, plant and equipment less proceeds on disposal of property, plant and equipment and intangibles.
Free cash flow	Net cash generated from operating activities less net cash used in investing activities less interest paid, interest on lease liabilities and repayment of lease liabilities. Measures the cash generated that is available for disbursement to shareholders.
Net cash/(debt)	Cash and cash equivalents less total borrowings plus unamortised debt issue costs. Excludes IFRS 16 lease liabilities.

Moving forward by being sustainable in everything we do

In July 2021, we reorganised the way we manage our sustainability activities. Our CEO, Nick, explains our reinvigorated approach.

Q HOW has Dunelm's approach to sustainability changed?

Firstly, we reinforced the way we communicate 'sustainability' both internally and externally. 'Sustainable in everything we do' is now one of our foundations that we are committed to building (see page 28) and 'sustainability' is also at the top of our list of focus areas for the year ahead. This reflects a shift in emphasis and an overall recognition that we must accelerate our work in this area. Secondly, I am now spearheading the excellent progress that our Pathway to Zero Steering Group has made to date as a further signal to our stakeholders and shareholders of the importance we place on building sustainability into all aspects of our business.

Q WHY are you accelerating your efforts to become more sustainable?

We are faced with a raft of pressures – from customers, colleagues, the investment community, legislation and the UK Government – and these have definitely shaped our thinking. More importantly, however, we want to do the right thing to 'future proof' our business. Our rationale also ties in with our new purpose; we are committed 'To help create the joy of truly feeling at home. Now and for the generations to come'. We must look to the long term, but we need to act now.

Nick Wilkinson
CEO and Chair of Pathway to Zero Steering Group

Our reporting mirrors how we think about sustainability in the business.

Q WHAT progress have you made, and what are your biggest challenges and opportunities ahead?

Through our work to date, we have made significant progress – we were pleased to be included in the Financial Times' inaugural listing of Europe's Climate Leaders as one of the top 300 companies that achieved the greatest reduction in their GHG emissions intensity[1]. We are also thinking more about the 'circular economy' in our product development process – reducing impacts at the design stage of our products right through to what happens to them at the end of their lifecycle. We became the first homewares retailer to join Textiles 2030 and, alongside this, we continue to focus on people – improving inclusion and diversity education and network-building and tightening ethical and environmental standards in our supply chains. Further examples are outlined in the following pages. However, our biggest challenge – and opportunity – is to help society transition towards a low-carbon economy by further reducing our own operational and Scope 3 carbon footprint.

In February 2021, we published our 10-year greenhouse gas reduction targets for Scope 1 and 2 emissions, aligned to a 1.5°C pathway (Paris-aligned), and announced our support of the British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040. In September 2021 we announced our 10-year targets for Scope 3 emissions. This is a massive undertaking that puts risks and opportunities associated with climate change right at the heart of our decision-making, including short-term and long-term capital allocation. It also requires us to establish the right level of resources and knowledge to help meet our deadlines. We continued our work with Carbon Trust, appointed a new Head of Climate Change and our CFO, Laura, is overseeing our 'Carbon Reduction' working group. This year we have published our progress against Task Force on Climate-related Financial Disclosures (TCFD) guidelines.

Q HOW is 'sustainability' embedded in your business?

We look at sustainability holistically as there are many overlapping areas. While our colleague, safety and compliance areas are already part of how we operate, our approach to carbon reduction and circularity is less mature. Our new Pathway to Zero working groups: Carbon Reduction, Circular Economy, and Community will help improve this. An Executive Board member heads up each area and I will take overall responsibility for our direction and progress. We have also linked three sustainability performance metrics to the Long-Term Incentive Plan for FY22-24, and the CFO, Executive Board members and I have sustainability objectives in our FY22 annual bonus measures.

Q HOW would you sum up your new approach to sustainability?

Accelerated. Focused. Reinvigorated.

1. As measured between 2014-2019 and defined as CO_2e per €1m of revenue. Report compiled by statistica and published May 2021. www.ft.com/climate-leaders-europe-2021

Circular Economy

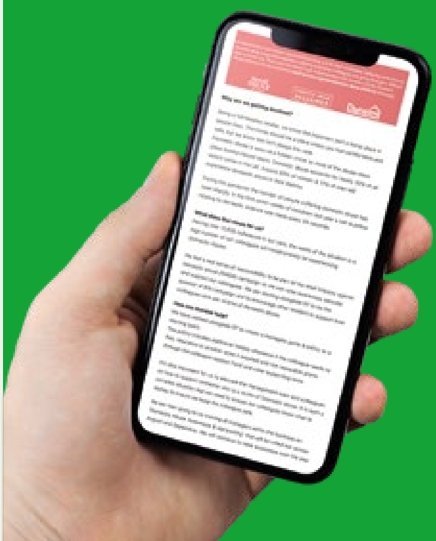
Developing take-back schemes for textiles and other product categories, while raising awareness of the 'circular economy' across our business and supply chains.

Textiles 2030

Looking ahead

Carbon Reduction

Working with suppliers to understand, verify, develop and implement actions that need to be taken to reduce Scope 3 emissions.



Communities

In July 2021, we announced our work with Retail Trust to combat domestic abuse by educating and supporting our colleagues affected by this 'hidden crime'.

Sustainability metrics at a glance

CARBON REDUCTION – Better for the planet

REDUCING GHG EMISSIONS PAGE 44

GHG reduction targets

10-year greenhouse gas reduction targets set, aligned to a 1.5°C pathway.

Scope 1 (direct emissions in operations)

- Reduce emissions by 50% in absolute terms by FY30 (using FY19 as a baseline). NEW
- 8% decrease in natural gas emissions in FY22 (using FY19 as a baseline). NEW
- Reduce company car fleet emissions by 2% each year to FY25.

Scope 2 commitment (purchased energy)

- Continue to purchase 100% renewable electricity.
- Maintain like-for-like electricity consumption at or below FY19 levels.

Carbon intensity GROUP KPI

- Reduce tCO_2e/£1m Group revenue (Scopes 1 and 2) year on year, in line with our 2030 target (see page 33).

Scope 3 (supply chain emissions)

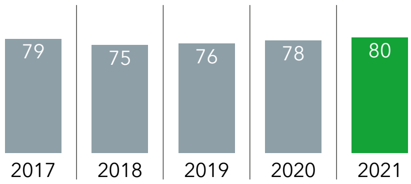
- Reduce emissions by 50% in absolute terms by FY30 (using FY19 as a baseline). NEW

WASTE MANAGEMENT PAGE 46

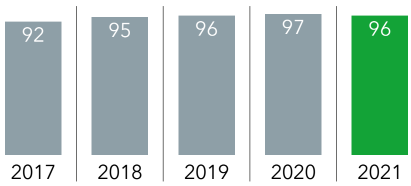
Operational waste reduction

- 98% diversion from landfill for all operational waste in FY22.
- 80% of operational waste to be recycled over the medium term.

Operational waste recycled
%



Diversion from landfill
%



METRICS RELATED TO SUSTAINABILITY ACTIVITIES AND POLICIES

During FY21, as we developed our sustainability objectives, we set ourselves additional targets and metrics, including our long-term greenhouse gas emissions targets, packaging reduction and circular economy targets. We have also reviewed our targets on key materials sourcing and made some of them more ambitious. We included sustainability metrics in our LTIP for the first time, which is why some of the targets go to FY24. As we move towards full disclosure under the Task Force on Climate-related Financial Disclosures (TCFD) and develop our ambitions, we expect to augment these targets.

PERFORMANCE

Commentary on performance against metrics which were in force throughout FY21 can be found on the indicated pages. During FY20 and FY21, performance against many targets was impacted (in some cases positively and in others negatively) by store closures, social distancing restrictions and abnormal travel patterns as a result of Covid-19.

ALL GROUP POLICIES ARE AVAILABLE ON OUR CORPORATE WEBSITE, CORPORATE.DUNELM.COM

SUSTAINABLE DEVELOPMENT GOALS

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

COMMITMENT TO SCIENCE BASED TARGETS INITIATIVE

The Business Ambition for 1.5°C campaign enables companies to set robust emissions reduction targets at the pace and scale required by climate science. Companies committed to Business Ambition for 1.5°C receive independent validation of their targets from the Science Based Targets initiative (SBTi) and become part of the UN Climate Champions' Race to Zero. In September 2021, Dunelm committed to a long-term target to reach net-zero emissions by no later than 2050, backed up by interim science-based targets across the entire value chain, and will set verifiable science-based targets through the SBTi, which independently assesses corporate emissions reduction targets in line with what climate science says is needed to meet the goals of the Paris Agreement.

Source: SBTi

CIRCULAR ECONOMY – Better for your home

CIRCULAR ECONOMY PAGE 52

Take-back

- 50% of own brand products for which we offer an easy-to-use take-back service by FY24. LTIP NEW

PLASTICS AND PACKAGING PAGE 54

Plastics and Packaging Policy POLICY

Less packaging

- Reduce own brand plastic packaging by 10% by FY22 and by 20% by FY24. NEW LTIP

Better packaging

- Own brand plastic packaging to contain average 30% recycled content by FY22 and 50% by FY25.
- Own brand cardboard packaging from 100% sustainable sources by FY25.
- Own brand packaging to be 100% recyclable by FY25. NEW

Closed loop packaging

- Launch a plastic packaging take-back scheme by FY25. NEW
- Ensure there is a full-closed packaging loop, reproducing Dunelm packaging by FY30. NEW

RESPONSIBLE SOURCING PAGE 56

Responsible Cotton Policy, Responsible Timber Policy, Ethical Code of Conduct, Responsible Animal Welfare Policy, Slavery and Human Trafficking Statement POLICY

Cotton

- 80% of own brand cotton products to meet our 'More Responsibly Sourced Cotton' standard by FY24. LTIP

Timber

- 100% of timber from legally harvested sources.
- 50% of all timber products used in Dunelm own brand product to meet our 'More Responsibly Sourced Timber' standard by FY25.

Palm oil

- All Dunelm and Pausa own brand products that contain palm oil to be 100% sustainably sourced (RSPO).

Ethical assessment

- 100% of Tier 1 factory base for own brand products with audit no more than two years old.
- 90% low- or medium-risk audits.

COMMUNITY – Better for our people

CUSTOMERS PAGE 63

Privacy Policy POLICY

Customer growth GROUP KPI

- Grow active customer base

STORE COMMUNITIES PAGE 65

Community fundraising

- Exceed previous year's charitable funds raised.

COLLEAGUES PAGE 66

Equality and Diversity Policy, Whistleblowing Policy, Slavery and Human Trafficking Statement, Ethical Code of Conduct POLICY

Colleague engagement BONUS

- Improve colleague engagement score (eNPS) year on year.

HEALTH AND SAFETY PAGE 72

Health & Safety Policy Statement POLICY

Colleague safety

- Reduce reportable accidents (under RIDDOR)[1] year on year.

ANTI-BRIBERY, ANTI-FRAUD AND TAX EVASION

PAGE 75

Anti-Corruption and Anti-Bribery Policy, Code of Business Conduct, Group Tax Strategy POLICY

Colleague training

- 100% of targeted training completed relating to anti-bribery, anti-fraud and tax evasion.

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

CARBON REDUCTION

Better for the planet

Relevant UN SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Our commitment

We are committed to minimising the impact of our business on the environment. When looking at our own operations, we focus on reducing energy consumption and carbon (CO_2) emissions and reducing operational waste through recycling and careful waste management. In this section we cover progress made in reducing our greenhouse gas (GHG) emissions and our operational waste, and share our first update in line with the Task Force on Climate-related Financial Disclosures (TCFD).

Who is responsible	Executive Board sponsor: Laura Carr, Chief Financial Officer
Key Dunelm functions involved	Finance, Store Development, Operations, Procurement, Supply Chain, People
Links to principal risks	Brand damage Climate change and environment Regulatory and compliance
Links to foundations	Sustainable in everything we do Expert supply chain
Awards and recognition	Financial Times' Europe's Climate Leaders, see page 41
Key stakeholders/ relationships affected	Colleagues, Store communities, Suppliers
Stewardship	Committed to supporting the British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040

Reducing GHG emissions

PATHWAY TO ZERO

We completed the initial phase of our work with Carbon Trust to create a baseline of our emissions in all scopes, to forecast emissions growth and to assess feasible 10-year targets for reduction in line with the Science Based Targets initiative (SBTi) 1.5°C scenario. This led to setting public commitments and targets (see page 42), including supporting British Retail Consortium's (BRC) Climate Action Roadmap to achieve net zero by 2040. In FY21 we have initially focused on setting our 10-year target and a plan to reduce Scope 1 and 2 emissions, as we have more robust data and the decisions are within our control. We have also built out a more robust model of our Scope 3 emissions. In September 2021 we set our 10-year targets for Scope 3 and SBTi approved our full value chain targets, see page 42. In FY22, we will feed our climate change risk assessment results into the development of our wider climate change roadmap.

SCOPE 1 (DIRECT) EMISSIONS

Emissions from gas heating, air conditioning units and refrigerants, and owned and operated logistics (home delivery network, fitter vans and company cars)

While gas accounts for a smaller part of our energy usage than electricity (see below), we continue to reduce emissions by replacing gas heating and cooling systems with electric power, and gaining efficiencies by optimising heating times and controls. This forms part of our multi-year investment programme to remove gas heating where practically possible and, where feasible, harmful refrigerants. We have created an asset register of all refrigerant gas types by location and where we replace units, we will ensure that we install new units with new lower global warming potential (GWP) gases (such as R32). If it is not possible to remove gas entirely, we seek to decarbonise. GHG reduction targets (rather than cost and functionality alone) are now firmly at the heart of store refit decisions.

In FY21 we replaced gas installations when we refitted our Banbury store and removed the previous occupier's gas at our Clydebank re-site; our new store in Gateshead is gas-free. We also approved a 10-year plan to decarbonise gas heating.

Home delivery network (HDN) fleet

We use telematic technology, alongside driver training, to improve driving habits and to lower fuel usage and carbon intensity. As a result of our increase in online sales, the volumes handled by our fleet have increased and this has led to an overall increase in our Scope 1 emissions, although our overall carbon intensity measure, which is linked to sales, has reduced. We have sought to mitigate our impact by maximising vehicle fill to reduce the number of deliveries. To meet our long-term Scope 1 targets, however, we are dependent on advances in vehicle technology and national electric vehicle charging infrastructure, and are working with our logistics partners and BRC industry working groups to support change and stay aware of developments in these areas.

SCOPE 2 (INDIRECT) EMISSIONS

Purchased electricity and reduction in electricity consumption; LED lighting

The vast majority of our Scope 2 GHG emissions come from electricity consumption. Since 1 April 2019 we have switched to Renewable Energy Guarantees of Origin (REGO)-qualifying electricity sources for all sites where we purchase this directly and have committed to doing so (as a minimum) until 2030.

Although this reduces our Scope 2 emissions to zero, we continue to take action to reduce electricity consumption. LED lighting is standard in new installations, and is fitted at 99% of our sites. To raise internal awareness, we have implemented a sustainability induction training module for store-based colleagues, covering energy and waste. We also continue to minimise usage through our centralised building management systems (BMS). During the year we reduced our like-for-like electricity consumption versus FY19 by 15%; this performance was favourably impacted by Covid.

ABSOLUTE GHG EMISSIONS FROM OUR OWN OPERATIONS, CO_2E TONNES

	FY19	FY21	
	Location-based	Location-based	Market-based
Scope 1	7,260	7,936	7,936
Scope 2	11,002	7,866	245
Total	18,262	15,802	8,181

Note: FY21 emissions are compared against our FY19 baseline emissions level. Market-based Scope 2 emissions reflect the purchase of REGO-qualifying electricity. Our SECR disclosure and further commentary on our GHG emissions can be found on page 176.

Company car fleet

We are introducing a low-emission electric and hybrid company car fleet in FY22, aiming to phase out other vehicles by 2025, and developing a colleague communications plan to encourage take-up. In June 2021, we completed the installation of electric vehicle charging points at our Syston Support Centre. In FY21, company car fleet emissions reduced by 33%, helped by restricted travel during lockdowns.

SCOPE 3 (SUPPLY CHAIN) EMISSIONS

Product (stock) suppliers, non-product (non-stock) and logistics suppliers

As is the case for most retailers, most of our carbon emissions are generated outside our operational control in Scope 3. The reduction of these emissions represents our greatest opportunity and toughest challenge. We have worked throughout the year with Carbon Trust and our suppliers to establish a more robust baseline model for our Scope 3 emissions, covering major non-stock purchases, outsourced logistics and a significant portion of our textiles supply route, which accounts for around 50% of our own brand sourcing volumes. This has shown us that over 80% of our Scope 3 emissions are attributed to the sourcing and manufacture of our products.

We will continue to work with suppliers to develop and verify this model, and to understand and implement the actions that need to be taken to reduce them.

Influencing customer and colleagues

We are introducing information, products and services (some of which are covered under 'Circular Economy' on page 55), to support our customers and colleagues in reducing their own emissions and also support our commitment to net zero and to Textiles 2030.

Moving forward: focus on GHG emissions

- Develop climate change roadmap to achieve new 10-year targets.
- Refine and develop our climate change risk assessment in specific hotspot areas.
- Refine Scope 3 emissions model and data collection.
- Build carbon considerations into more business decision-making processes.

CARBON REDUCTION continued

Operational waste management

Our aim is to reduce operational waste, increase the proportion which is recycled and diverted from landfill, and find the optimum recycling routes which balance cost and environmental impact. Our approach is also driven by upcoming legislation, including the introduction of taxes on plastic packaging from 2022, and increasing producer responsibility obligations on packaging, waste electricals and, we expect, textiles.

IMPROVING OPERATIONAL RECYCLING

Our priority is to minimise waste generated, and ensure that it is disposed of legally and sent to landfill sites as a last resort. Most of the waste from our sites goes directly to recycling plants, and we are working with those sites which are not located near suitable recycling plants to find alternative solutions to avoid the environmental cost of transporting waste. We strive for continuous improvement: we have introduced clearer 'back-of-store' signage and communication, making it easier to segregate waste, and we work closely with our logistics partners to reduce waste volumes and identify waste reprocessing opportunities.

We now capture data on rubble and ground waste generated by contractors during property and store development activities and aim to find solutions to repurpose this waste stream.

Food waste

Across our store estate we have 152 Pausa cafes and we run three Pausa restaurants for colleagues at our distribution centres and store support centre. During the year, we improved our ordering systems and rationalised our range to reduce stock levels and potential food waste – particularly for short shelf-life products. Our new Pausa hub on our internal 'Home Comforts' intranet drives consistency by giving colleagues guidelines to successfully operate a Pausa cafe. This reduces waste by providing clear processes on presentation levels and ordering. In addition, our reporting systems give the Pausa central ordering team better oversight and management of perishable stocks and wastage.

19,000

portions of soup were donated to colleagues, foodbanks and charities in local store communities.

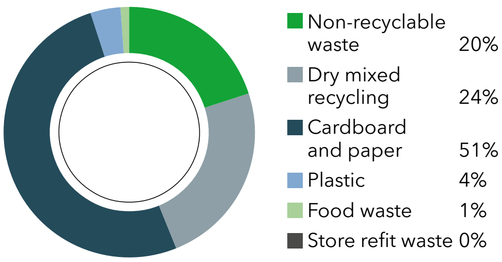
Left with stocks of perishable items heading back into lockdown at short notice, we donated food to care homes, colleagues, foodbanks and to charities in our local store communities. In summer 2021 we started a trial to give last-day-of-life food to customers and colleagues. Our aim is for no food to be thrown away. See page 64 for an overview of other sustainability initiatives in Pausa.

Performance

Volumes of operational waste are measured by site, amalgamated for the whole business each month, and formally reported to the Group Board and Executive Board each quarter, alongside our recycling and landfill diversion rate.

Our FY21 our operational recycling rate was 80% (FY20: 78%) and in line with our target. Our landfill diversion rate declined by 1% to 96% (against a target of 98%), owing to Covid-19-related restrictions on our waste management partner.

Breakdown of waste generated by weight FY21



Recycled ocean plastic

25%

of plastic in our new trolleys (and baskets) comes from used fishing nets and ropes – reducing plastic and marine pollution.

Using smart technology

We maximise vehicle fill to optimise the number of home deliveries and use telematic technology to make the best route choices, reduce idling time and improve driver performance.

Reducing plastic and inks

Launched in September 2021, our new mailing bags are made with 95% recycled plastic and are 100% recyclable. Their new white background saves 70% in solvent ink.

More efficiency, less waste

Across our sites and delivery operations we aim to improve efficiency, reduce waste and increase recycling rates.

Managing waste

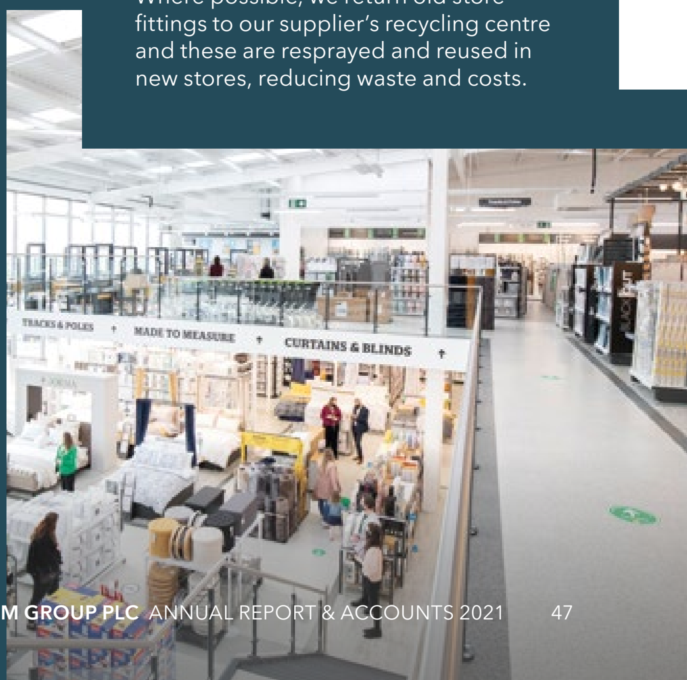
We are getting better at sorting, baling and recycling and work closely with our waste management partners to identify further opportunities to minimise our operational waste.

80%

We recycled 80% of operational waste in FY21.

Out with the old...

Where possible, we return old store fittings to our supplier's recycling centre and these are resprayed and reused in new stores, reducing waste and costs.



Task Force on Climate-related Financial Disclosures (TCFD)

OUR PATH TO A MORE SUSTAINABLE FUTURE

During the year, we made a step-change to the way we approach, measure and communicate climate-related risks and opportunities across the Group. Being sustainable in everything we do is a foundation of our business and integral to our shared value of 'long-term thinking'. We set out below an abbreviated disclosure under TCFD, in advance of full disclosure next year.

	Governance	Strategy	Risk	Metrics
PRIOR FINANCIAL YEARS	• Sustainability Focus Group chaired by Company Secretary with formal reporting to Board.	• Focus on emissions reduction and operational waste management. • Sustainability identified as key strategic focus area at Board strategy days in May 2020. • Appointed Carbon Trust in FY20 to help us measure carbon footprint and complete an initial climate change risk assessment.	• Climate change and environment on operational risk register and disclosed as principal risk in FY19.	• Carbon intensity metric set as Group KPI and measured since 2016 (based on GHG protocol Scope 1 and Scope 2). • Energy and waste management targets in place since 2009. • Model created with Carbon Trust in 2020 to measure Scope 1 and 2 carbon footprint.
FY21	• Sustainability standing item on Board agenda. • Sustainability Focus Group widens remit. • Worked on initial TCFD report published for FY21 in advance of full report for FY22.	• Board commits to supporting British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040. • Joined WRAP's Textiles 2030 agreement (see page 58). • Became TCFD supporter. • Sustainability reconfirmed as focus area during Board strategy days in May 2021.	• Climate change and environment reconfirmed as principal risk. • Carried out high-level climate change risk assessment with Carbon Trust. • New Risk and Resilience committee carries out first 'deep dive' into climate change in June 2021. • Top-line climate-related risks and opportunities disclosed.	• SECR data published in October 2020. • Actual Scope 1 and Scope 2 emissions disclosed. • Initial model created with Carbon Trust to measure Scope 3 carbon footprint. • Published 10-year greenhouse gas reduction targets, aligned to a 1.5°C pathway: – Scope 1 target: reduce emissions by 50% in absolute terms by 2030 (using 2019 as base). – Scope 2 commitment: continue to purchase renewable electricity.
FY22	• CEO becomes Chair of Sustainability Focus Group in July 2021 and renames it Pathway to Zero Steering Group to signal critical importance of addressing climate change to the long-term success of the Group. • Members confirmed as CEO, three Executive Board members, each heading up new working groups, and Company Secretary. • CFO heads up Carbon reduction working group, taking direct responsibility for Scope 1 and 2 carbon reduction and TCFD reporting, supported by Company Secretary. • Head of Climate Change appointed in July 2021, reporting directly into CFO, and working closely with two other Executive Board heads.	• New forward-looking purpose encapsulates commitment to being a sustainable business. • Sustainability identified as a business foundation. • Circular principles further embedded into product design and development process. • Roadmap for removal of gas heating and harmful refrigerants developed.	• Climate change risk assessment results to be fed into development of wider climate change roadmap. • Scenario planning to be completed to assess resilience of relevant risks under different climate scenarios.	• Published 10-year greenhouse gas reduction targets, aligned to a 1.5°C pathway, to reduce Scope 3 emissions by 50% by 2030 (using 2019 as a base). • Circular economy, 'more responsibly' sourced cotton and packaging reduction KPI targets assigned as measures for FY22-24 LTIP. • Sustainability targets in FY22 annual bonus for CEO, CFO, Company Secretary and Executive Board members.

Governance

BOARD OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

During the year under review, our Board had a two-pronged approach for governing climate-related risks and opportunities – through our formal risk management framework (see page 77 and below) and our Sustainability Focus Group, whose remit included understanding, mitigating and/or benefiting from the impacts of climate change on our business. Through both formal channels the Dunelm Board had oversight of and fulfilled its overall responsibility for our approach, strategy, risk management and performance in this area.

In FY21, two formal presentations on Sustainability were made to the Board by our Company Secretary (Chair of our Sustainability Focus Group during the period under review), one of which supported the decision to set 2030 targets to reduce our Scope 1 and 2 carbon emissions, aligned to a 1.5°C pathway, and announced in February 2021. Additionally, the Board received a monthly update from the Company Secretary. Our Board and Audit and Risk Committee also formally reviewed our principal risks, one of which is Climate Change Risk – this is mandated to take place twice a year.

The Executive Board was also updated each month on the activities of the Sustainability Focus Group by the Company Secretary. In May 2021, Carbon Trust presented to the Executive Board and the Chairman of the Board the outcome of the work completed to create a model of our Scope 3 emissions and the initial climate change risk assessment. This was included in the preparatory reading for the Board strategy days in May 2021 and informed the debate on the development of Dunelm's sustainability ambitions.

» Moving forward

As outlined in the table on page 48, the Board took a significant number of steps this year to underscore the critical importance of managing climate change risks and opportunities to the long-term success of the Group. Our new Pathway to Zero Steering Group will meet at least three times a year and is headed by Nick Wilkinson, our Chief Executive, who will report to the Board on its activities. Our Company Secretary will continue to provide an update on sustainability matters, including climate change, at each Board meeting. Our Board and Audit and Risk Committee will continue to formally review our principal risks twice a year – bolstered by our newly-formed Risk and Resilience Committee, which will carry out a 'deep dive' into climate change at least annually. The first of these took place in June 2021.

Strategy

INTEGRATING CLIMATE CHANGE RISKS AND OPPORTUNITIES INTO OUR BUSINESS

Climate change considerations are increasingly integrated into day-to-day business activities. Energy efficiency/carbon impact is already included in all new store and store refit proposals; our stock supplier (product) assessment has been extended to include climate-related matters and is completed on a mandatory basis by all Dunelm branded suppliers; and our product development/selection process now includes consideration of matters relevant to climate change and the environment (see 'Circular Economy' (page 52) and Responsible Sourcing (page 56). Our principal risks are considered in the process of developing our five-year financial plan, and we have a specific budget for climate-related matters, with additional resource requirements (for example to support product sourcing) built into the relevant functional budget. With this pivotal change in emphasis, we aim for climate-related considerations to become more central to our business, strategy, and financial planning.

Through our work with Carbon Trust we undertook an initial, high-level assessment of potential risks and opportunities that climate change could have on our business over the following time horizon scans: short term (0 to 2 years), medium term (2 to 5 years) and long term (over 5 years). These are presented in the table on page 50.

» Moving forward

- Build out our detailed roadmap to meet our targets, gaining a better understanding of the key drivers of carbon reduction through our supply chain.
- Increase stakeholder engagement, improve internal and external communications.
- Invest in resource and expertise to support this activity.
- Recognising that climate change is a complicated and complex topic – it is technical, scientific and moving at a fast pace – we will continue to engage more with our peers and stakeholders to improve our understanding, share ideas and progress, and gain support.

Task Force on Climate-related Financial Disclosures (TCFD) continued

TCFD main risk categories	TCFD sub risk categories	Indicative timeframe, post mitigation	Risk	Opportunity	Link to Dunelm's principal risks
TRANSITION RISKS (related to a lower-carbon economy)	**Policy and legal risks**	Medium	Risk of increased taxation as UK Government aims to meet its own climate change commitments. Key areas relating to Dunelm include: increased taxes for energy, plastic, vehicle fuel taxes, waste and overall 'carbon tax'.	Reduce fuel costs by partnering with leading low-carbon logistics providers. Warehouse and distribution savings through efficiency improvements in logistics, packaging reduction, picking and route optimisation.	Business efficiency
		Long	Increased costs associated with building efficiency standards, including legislation to remove and replace gas-fired heating and refrigerants.	Long-term cost savings through move to renewable energy.	Business efficiency
		Short/ Medium	Extended producer responsibility is increasing costs of operational waste disposal (products, packaging and raw material waste).	Potential longer-term savings in procurement and inventory costs by moving to a more circular business model. Reduction in waste management costs by phasing out single-use plastics and improving reuse and recycling schemes.	Business efficiency
	Market risks	Medium	Increasing demand for more sustainable materials (recycled, recyclable) – currently a scarce resource. This may increase costs.	Benefiting from decreasing costs of alternative and/or climate-stable raw materials, while increasing reputation as a sustainable retailer. Future-proofing our business through the above, particularly in relation to new product development, decreasing reliance on narrowing supply chains, improving processes and distribution efficiencies and gaining preferential access to financing to support future growth.	Business efficiency
		Medium/ Long	Demand for more durable products/ repair and reuse/circularity leads to lower sales of new products; potential loss of sales to competitors who have a more sustainable offer.	Increased sales of products, which help customers lead more sustainable lifestyles. Increased revenue from products associated with circularity (e.g. upcycling).	Competition, market and customers
	Reputational risks	Medium/ Long	Failure to attract/retain customers if we are not perceived as a responsible company.	Enhanced brand and reputational credentials, leading to wider, and more loyal customer base.	Competition, market and customers; Brand damage
		Medium/ Long	Failure to attract/retain colleagues if we are not perceived to be a responsible company.	Enhanced brand and reputational credentials, leading to wider, and more loyal colleague base.	People and culture
		Medium/ Long	Failure to attract/retain investors/ pressure from investment community if we are not perceived as a responsible company.	Easier access to capital through enhanced disclosure and investor relations activities.	Finance and treasury
		Medium/ Long	Bank or other finance is not available or has a higher cost due to poor sustainability credentials.	Easier access to capital and improved lending conditions through enhanced disclosure and investor relations activities.	Finance and treasury
PHYSICAL RISKS (related to physical impacts of climate change)	**Acute risks**	Medium/ Long	Extreme weather events could cause significant transport disruption.	Work with distribution suppliers to improve efficiencies and ensure resilience to potential disruption.	Supply chain disruption
		Medium/ Long	Extreme weather events (flood, drought, wildfire, storm surge) could increase competition for land use and impact availability or cost of raw materials.	Benefiting from decreasing costs of alternative and/or climate-stable raw materials, while increasing reputation as a sustainable retailer.	Business efficiency
	Chronic risks	Medium/ Long	Water stress/soil degradation/ deforestation creates raw material shortage, for example cotton, timber, palm oil and coffee.	Refine supplier selection process and work with existing suppliers to improve resilience and sustainability in the supply chain.	Business efficiency; Brand damage; Competition market and customers

Risk management

MANAGING OUR CLIMATE-RELATED RISKS AND OPPORTUNITIES

As our Climate change and environment risk is classified as a principal risk in our risk register, this is discussed with our Executive Board, Audit and Risk Committee and Board as part of a twice-yearly formal review of our principal risks. Additionally this year, a detailed climate change risk and opportunities register was developed by management with Carbon Trust, which forms the basis of our summary on page 50 and was discussed at a 'deep dive' session of our newly formed Risk and Resilience Committee in June 2021.

More information about our Climate change and environment risk can be found in the principal risk section on page 83. An overview of our risk management responsibilities is set out on page 77, and explains in more detail how responsibility for risk management is allocated and how that responsibility is discharged by our Board, Audit and Risk Committee, Executive Board and Company Secretary.

» Moving forward

Our focus in FY22 onwards will be to refine our high-level risk and opportunities assessment, and establish the most appropriate scenarios for resilience testing of relevant risks and opportunities.

We will also develop a better understanding of the potential impact of the risks identified by our climate change risk assessment, particularly the physical climate change and biodiversity risks and opportunities associated with our key supply chains, such as cotton and timber, under different climate scenarios.

Metrics and targets

MEASURING OUR CLIMATE-RELATED RISKS AND OPPORTUNITIES

We have allocated a metric for each climate-related risk and opportunity, for those which we have been able to quantify to date. In relation to our Climate change and environment risk, we monitor the number of regulatory/reputational issues (see page 83). Carbon intensity remains a Group KPI and we track performance against our three-year Scope 1 and 2 emissions reduction targets quarterly, and aim to do so for our Scope 3 targets in FY22. We also measure progress against packaging reduction targets, waste management, recycling and landfill avoidance, and the move towards more sustainably sourced materials, all of which will contribute towards reduction of carbon emissions and other environmental impacts such as water and chemical usage. Metrics related to sustainability performance can be found on pages 42 and 43, including for energy reduction, waste management, and single-use plastics. We also comment on other environmental impacts.

» Moving forward

In September 2021 we announced our 1.5°C Paris-aligned target to reduce our Scope 3 emissions by 50% by 2030, which reflects our Textiles 2030 commitments.
This year we will:

- Continue to improve our data quality and accuracy.
- Progress our understanding and quantification of the material financial impacts of climate change.
- Set intermediate targets and apply for SBTi approval.

CIRCULAR ECONOMY

Better for your home

Relevant UN SDGs

3 GOOD HEALTH AND WELL-BEING

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

Our commitment

We aim to make it easier for our customers to live sustainably, by giving them access to more sustainable products and services. We will provide responsibly sourced and responsibly made products, develop helpful services, and improve our communication to encourage and influence sustainable behaviour. We will design products for the longer term, use resources wisely, prioritise materials that have less impact on the environment (carbon, water and biodiversity), reduce waste by developing closed loop systems, and 'give back' to nature.

Who is responsible	Executive Board sponsor: Faye Atkins, Commercial Director
Key Dunelm functions involved	Design, Buying, Marketing, Operations, Procurement, Supply Chain
Links to principal risks	Brand damage Climate change and environment Regulatory and compliance
Links to foundations	Sustainable in everything we do Committed suppliers
Stewardship	We are committed to supporting the British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040 and were the first homewares retailer to sign up to Textiles 2030
Key stakeholders/ relationships impacted	Suppliers, Customers, Colleagues

'The Edited Life' sofa range

In September 2021, we launched our new 'The Edited Life' made-to-order sofa range. The seats use fibre made from recycled plastic bottles and fabrics from post-consumer waste and the frames have a 25-year guarantee.

The packaging also uses recycled and recyclable content – 30% post-consumer waste for the bags and FSC-certified cardboard.

Our aims and objectives for product circularity

'Give back'
- Develop customer 'take-back' scheme
- Promote biodiversity projects, education and volunteering
- Explore supply chain opportunities

Promote responsible recycling
- Help customers dispose of/recycle products and packaging at end of lifecycle

Design to last
- Plan product longevity at design stage (including end of lifecycle options)
- Greater understanding of our carbon/nature cost

Prioritise lower-impact materials
- Use more recycled, durable and lower-impact raw materials and packaging
- Reduce water, carbon and biodiversity footprint

Keep products in use
- Encourage product repair/upcycling
- Promote selling/donating over disposal
- Research take-back schemes

Design to last

Our increasing focus on product circularity is changing the way we think about design and how we operate and resource our teams. We aim to 'design out' waste by using components that are longer-lasting and more recycled/reclaimed materials that can be reused and/or recycled at the end of life. Of our approximately 50,000 products, around 80% are designed either in-house at Dunelm or exclusively for us by external designers, allowing us to co-ordinate the development of more sustainable ranges effectively.

12

We have 12 in-house designers, and we are looking to attract talented textile artists and crafting experts who can plan in product longevity at the product concept stage.

In September 2020, we launched our flagship range of sustainable products under 'The Edited Life' brand. Initially launched across six major categories (curtains, bedding, cook n' dine, lighting, home accessories and furniture) we aim to expand this range into as many categories as possible to provide more affordable options for customers choosing a more sustainable lifestyle. Each product in the range has its own sustainability credential and is designed to last longer. Our urban tableware, for example, has been manufactured and tested to hospitality standards, and designed to withstand wear-and-tear. We use simple, pared-back designs with neutral, nature-inspired colours that will not go out of fashion and can be easily mixed and matched.

20+

We also have a team of over 20 specialist product technologists, who ensure products meet quality and performance standards as well as all relevant legal and safety requirements.

CIRCULAR ECONOMY continued

Prioritising lower-impact materials

PLASTICS AND PACKAGING

In May 2021 we published our first Plastics and Packaging Policy (available on our website) and now have six related metrics and targets (see page 43). In June 2021 we issued our second Sustainable Packaging Manual to our supply base. This includes our requirements to bring our packaging standards in line with legislation changes affecting plastic packaging in April 2022.

POLICY

We cannot eliminate all packaging but are committed to reducing its environmental impact by using less packaging (for example, by reducing bag sizes and film thickness), better packaging (introducing recyclable materials and a higher percentage of recycled or certified content), and aiming for a fully closed packaging loop.

We are focusing initially where we can make the most impact: opportunities in high-volume customer-facing packaging (for example, bedding and blinds) and transit packaging (for example, bags, sheeting and air cushions). We have removed around 110 tonnes of virgin plastic packaging from our supply chain and have identified many more opportunities to increase the 'recyclability' of existing packaging and the percentage of recycled content to remove virgin plastic.

14 tonnes

We have already removed 14 tonnes of virgin plastics from our pillow and duvet packaging.

LOWER-IMPACT MATERIALS

We are also proactively working with suppliers to introduce more recycled and responsibly sourced materials into our product ranges, for example in our 'The Edited Life' range. We aim to report on progress against our new target next year.

Keep products in use and promote responsible recycling

We will help our customers engage in the circular economy by offering and promoting services which prolong product use and sustainable living.

RECYCLING AND COLLECTION SERVICES

In FY21, following research into customer attitudes towards recycling, collection and second-hand products, we introduced services with a range of partners. British Heart Foundation and Clearabee, for example, take back bulky items (such as mattresses, beds, bedroom furniture and living room furniture) either free or at discounted rates, and we are actively promoting the WEEE take-back electrical scheme (see page 55). In July 2021 we announced our Group charity partnership with Mind and are exploring how we can best work with Mind to encourage customers to donate unwanted homewares products for resale in Mind charity shops.

We encourage the local selling of old or unwanted products via our community Facebook groups and Facebook marketplace (see Community, page 65) and aim to extend these initiatives in FY22.

In Autumn 2021 we trialled our first quilts and pillows take-back scheme in 18 stores, allowing us to recycle feathers and hollow fibres. We aim to refine and roll this out based on our trial results.

CARE AND REPAIR

Our online and in-store tips for everyday care and repair can improve product life, save money, and reduce waste and environmental impacts by, for example, using lower washing temperatures and dosing detergent correctly. For dry clean only products, we partner with Green Earth, a sustainable dry-cleaning company that discounts prices for Dunelm products.

PRODUCT AND PACKAGING RECYCLING

We continued to roll out On Pack Recycling Labelling to make it easier for customers to understand the best disposal or recycling options for packaging. As part of our 'circular economy' ethos, we aim, in time to provide instructions on how on how to disassemble products for easier recycling.

RECYCLING SERVICES

COLLECTION SERVICES

CARE & REPAIR HUB

Roof rainwater harvesting

SUSTAINABLE LIVING

To support sustainable living we stock a range of practical products such as beeswax paper to reduce use of cling film and storage containers to help customers manage food waste. To encourage customers to upcycle and update products, we have expanded our crafting and haberdashery ranges and launched a new paint range including chalk paints for furniture projects. We also sell a range of 'spare parts' such as drawer knobs and different coloured chair legs to enable customers to update the look of products rather than buy new ones.

'Give back'

BIODIVERSITY, WATER AND LAND-USE

We are increasing our focus on minimising other environmental impacts, such as water usage and the degradation of biodiversity.

We are not high water users; nonetheless we save water by using rainwater for flushing toilets in some of our distribution centres, installing waterless urinals across our store estate and upgrading to low-spray and sensor water taps during store refurbishments. In FY21, we established that 12 UK sites are adjacent to estuaries, which are considered key biodiversity areas. While none are in or near sites of special scientific interest, 31 UK sites are in high water-stressed areas.

In our supply chain, we have had a timber policy in place for many years that seeks to avoid deforestation, and we have increased the use of organic cotton that reduces water and chemical usage. In FY22, we will evaluate our biodiversity risks and opportunities to focus on activities where we can make the most impact.

MOVING FORWARD: CIRCULAR ECONOMY

- Build awareness of circular design and manufacturing requirements across product teams and our supply base.
- Develop scalable take-back schemes for textiles and non-textile product categories (now a FY24 LTIP metric).
- Reduce plastic and track recyclable and recycled content for FY22 disclosure.
- Evaluate biodiversity impacts and developing initiatives across the business and supply chain.

Electrical Take Back Scheme
recycle your electricals campaign

Promoting WEEE

The WEEE electricals recycling scheme in partnership with 'Recycle Your Electricals' was relaunched in January 2021. Since April 2021, when our stores re-opened, we have actively promoted this service on dunelm.com, via our Facebook community groups and on posters in-store.

CIRCULAR ECONOMY continued

Responsible sourcing and manufacturing

As we do not manufacture the majority of the products that we sell, we engage regularly with our suppliers to ensure they know their responsibilities as a Dunelm supplier and take ownership for compliance and progress towards our targets. All suppliers sign up to our Ethical Code of Conduct (which aligns to international labour standards and includes an enhanced section on Modern Day Slavery and a commitment to improve their environmental performance) and to our standard terms and conditions. Recently, we have evolved our audit programme to include environmental risks alongside ethical and social risks, which we have monitored for many years.

ETHICAL ASSESSMENTS AND AUDITING

We expect our supplier partners to demonstrate full compliance with the social, ethical and environmental standards set out in our policies in a transparent manner.

Who needs an audit?

All sites that manufacture a finished product for Dunelm (Tier 1 suppliers) must provide a low-to medium-risk graded ethical audit (not more than two years old) and a valid building and fire safety certificate. Our ethical audit programme has been extended to cover all warehouses that hold stock of Dunelm branded product and selected Tier 2 sites. In response to our findings, we review and raise our audit standards annually – making it harder to reach our internal targets but 'doing the right thing' for the long term, see page 74. In FY21, our ability to audit sites and close off corrective actions was hampered temporarily by Covid-19 restrictions. At FY21 we had in-date audits for 89% of Tier 1 factories. In FY22 we intend to map all Tier 2 textiles suppliers and extend our ethical programme to them.

We use an independent third-party expert Verisio to assess, grade and monitor the social and ethical performance of the supply chain for both product and third-party service providers. Corrective actions and timescales are logged on digitised supplier scorecards on our web portal, giving a 'live' overview of individual supplier performance. We work closely with our suppliers – especially key partners – to help them rectify any issues within agreed timescales. However, where participants refuse to engage in continuous improvement or to supply minimum documentation, we will not compromise our supply chain integrity.

Supply chain tiers

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

If action is not taken within an acceptable period, Dunelm will stop buying products from that supplier and supply chain. This year we implemented unannounced, full spot check audits in UK sites on a risk basis and during FY21 we audited over 40% of applicable sites. This was a major initiative which focused on areas such as 'right to work', minimum wage payments and Covid safety. We plan to increase the frequency of spot checks in FY22.

ENVIRONMENTAL ASSESSMENT AND AUDITING

In FY21, we continued to roll out processes to assess the environmental practices of sites that manufacture our own brand products, including water, chemicals, emissions and energy use. We moved from a trial stage to working with independent supply chain verification specialists for our major/high-profile supply chain materials and introduced an assessment programme to support the verification of recycled materials. We also joined the Textiles 2030 industry group and committed to their targets to reduce the environmental impacts of textile sourcing, see page 58.

Dyeing to make a difference

Some of our best-selling Egyptian Cotton Towels are being dyed using a more sustainable process, which uses less water. We made the switch last year for three colours, added another nine new colours in early 2021 and are now working to develop the same process for the remainder of the range and new launches.

20m

Since the switch, we've saved around 20 million litres of water.

'Beyond cotton'

We continue to evaluate alternative fibres with key textile suppliers to understand what other options are available 'beyond cotton' in the longer term. This includes recycled, recyclable and adaptable fabrics such as bamboo, hemp and linen.

Reducing cotton's environmental and social impact

Cotton is the core natural raw material in our bedding, towels and curtain ranges.

Reducing chemicals

Our Natural Dorma Sumptuously Soft towels are not dyed at all, fully eliminating bleach and chemicals and saving water. With their natural cotton colour they are also kinder to the skin as fibres are allowed to retain their natural softness.

Responsible sourcing

80%

Our target is for 80% of own brand cotton products to meet our 'More Responsibly Sourced Cotton' standard by 2024. It is also a new metric for Director remuneration (LTIP award).

Our supply chain audits cover social and environmental factors and we always engage with our suppliers to help them improve. Equally, where there is no long-term solution we will reduce our exposure to high-risk suppliers or regions.

CIRCULAR ECONOMY continued

Understanding and managing ESG risks in our key supply chains

A summary of progress and updated approaches for each of our major supply chains is set out below.

RESPONSIBLY SOURCED COTTON

COTTON

With our strong textile heritage in curtains, quilts and pillows (which account for around 50% of revenue), cotton is one of the core natural raw materials in our products. Global cotton production and export is vital to the economies of much of the developing world and supports the livelihoods of millions of farmers. However, some cotton farming and processing businesses – if left ungoverned – can have negative impacts on the environment and the quality of the lives of people involved. Some of the known issues along cotton supply chains are illustrated in the table opposite on page 59. We are committed to addressing these and using our influence to steadily reduce environmental and social impacts in our cotton supply chains.

We ban the sourcing of cotton fibres from any high-risk regions without clear evidence of independently assessed cotton farming/production against approved cotton standards.

All regions deemed high risk are set out in our policy, alongside a list of industry-recognised cotton programmes that we consider promote better cotton sourcing standards (for example, Better Cotton Initiative and Fairtrade) and manufacturing standards (for example, ISO26000, and MADE IN GREEN by OEKO-TEX).

In FY21 we appointed Track Record Global to map our cotton supply chain, extending our visibility of origin back to the ginning process (see table on page 59) and by year end FY21 had assessed the social risk of around 90% of our 160 cotton supply chains. This exercise led to us delisting two cotton supply chains. We are now starting our second mapping stage, which includes undertaking a full environmental assessment to meet our 'More Responsibly' Sourced Cotton' standard, available on our website. Only cotton supply chains which meet our minimum requirements and our preferred conditions are eligible to carry this logo.

POLICY

By FY21, we estimated that around 6% of our cotton supply chains met this standard and this has improved significantly between June and September 2021. In FY22, we will continue to work towards meeting our longer-term target of 100% of own brand cotton products meeting our 'More Responsibly Sourced Cotton' standard by FY25.

TEXTILES 2030

Since 2019, our Head of Product Quality & Sustainability has been involved in the Waste and Resources Action Programme's (WRAP) planning working groups and UK Government consultation to understand the challenges of adopting a circular approach in the textiles industry. Focused initially on the fashion industry, the scope extended to home textiles, and Dunelm become an official member of Textiles 2030 in April 2021. Signatories to this voluntary agreement commit to and collaborate on carbon, water and circular textile targets, and contribute to national policy and regulatory developments. Dunelm's participation in Textiles 2030 will also feed into its commitment to supporting British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040.

UNDERSTANDING ESG RISKS IN OUR COTTON SUPPLY CHAIN

Process map	Grow	Gin	Spin	Fabricate	Manufacture
Process steps	Planting and growing cotton, harvesting seed	Separating the cotton seeds from the cotton fibre	Processing cotton lint to remove short fibres, align those remaining and twist to form yarn, which may be dyed to produce different colours	Processing cotton yarn into knitted or woven cotton fabric which can be dyed to produce different colours	Processing finished cotton into finished goods, i.e., homewares, clothing. Can include dyeing and finishing i.e., laundry
SOURCES OF INHERENT RISK					
ENVIRONMENTAL	Pesticide and fertiliser use Water consumption Water pollution Soil depletion GHG emissions		Water pollution (if dyed) GHG emissions	Water pollution (if dyed) GHG emissions Harmful chemicals	Water consumption Water pollution GHG emissions Harmful chemicals
SOCIAL	Child labour Forced labour Low incomes for smallholder farmers Health and safety Working hours Minimum wage	Child labour Forced labour Health and safety Working hours			Child labour Forced labour Health and safety Working hours
GOVERNANCE			Certification fraud	Certification fraud	Certification fraud Unauthorised sub-contracting Counterfeiting

← **Increasing visibility** →

OUR APPROACH

We are working with Track Record Global to independently assess our cotton supply chains against our cotton policy.

Through this approach:

- ✓ **We understand where our raw materials come from**
- ✓ **We identify risks in the supply chain**
- ✓ **We identify good practices that meet our policy**
- ✓ **We support Tier 1 suppliers to continuously improve their sourcing practices**

TEXTILES 2030 TARGETS – SIGNATORY COMMITMENTS

- Reduce the aggregate greenhouse gas footprint of new products by 50%, sufficient to limit global warming to 1.5°C in line with the Paris Agreement on climate change and achieving Net Zero by 2050 at the latest.
- Reduce the aggregate water footprint of new products sold by 30%.
- Target (to be developed and added in 2022): reduce the amount of virgin textile materials used to meet consumer needs ('materials intensity').

Textiles 2030

wrap

CIRCULAR ECONOMY continued

TIMBER

Timber is a renewable resource and plays an important role in offsetting greenhouse gas emissions as it captures carbon naturally. Overlogging, illegal deforestation and unethical practices in harvesting and transportation cause harm to people and the environment. At Dunelm all products must meet minimum legal requirements and suppliers must provide full transparency of source, together with supporting documentation. Suppliers must also work progressively towards Dunelm's 'More Responsibly Sourced Timber' standard.

Vulnerable, endangered and critically endangered species may not be used, and timber from former forest land may only be used if established before 1994. We assess our supply chain based on country of origin, species and governance standards to establish the risk of harm to people's health, safety and wellbeing, and of illegal deforestation to the environment.

To meet Dunelm's 'More Responsibly Sourced Timber' standard, all Dunelm own brand products must either be certified to timber programmes, such as Forest Stewardship Council (FSC) or Programme for Endorsement of Forest Certification (PEFC) or the supply chain must be located in a country with a low inherent risk rating.

We work with an independent team of experts to collect, review and risk assess all suppliers of own brand products containing timber and require each supply chain to be assessed at least once a year, or more frequently if the structure of the supply chain changes. We provide training and guidance via a third party to all our suppliers on the implementation of this policy and how to reduce the risk of non-compliance. We will measure and report on supplier performance and compliance annually against our policy, which is available on our corporate website.

POLICY

Our current targets are for 100% of timber to come from legally harvested sources, and for at least 50% of all timber in our own brand products to comply with our 'More Responsibly Sourced Timber' standard by 2025. In FY21, 86% of timber products assessed against the European Union Timber Regulation had no specified risk and we re-sourced supply routes where risk was identified. At FY21, around 10% of our timber supply chains qualified as being 'More Responsibly Sourced'.

FSC
MIX
FSC® C117990

Around 100 of our products are fully certified to FSC standards.

RSPO certified

PALM OIL

Global demand for palm oil comes at a cost. Oil palm trees only grow in the tropics and the conversion of forests to large-scale oil palm tree plantations risks unbalancing habitats for many endangered species and reduces the role of tropical forests in combatting climate change impacts. Very few of our products contain palm oil: for example, it is present in food products served in our Pausa cafes and in fragrances used in candles and home diffusers. At the end of FY21, 94% of palm oil used in Dunelm own brand and Pausa products was certified by Roundtable on Sustainable Palm Oil (RSPO) – globally recognised as a leading standard in this area. Our assessments are carried out by an independent third party. Our policy is available on our corporate website.

POLICY

ANIMAL-DERIVED PRODUCTS

Although we aim to seek alternatives if possible, some materials used in our products come from animals, including sheepskin and leather (used predominantly in furniture ranges), and down, feathers, wool and animal hair (used in quilts, pillows, cushions and upholstery).

Our Animal and Welfare Policy (available on our website) is unequivocal – we only use humanely-sourced materials, which are a by-product of the food industry (primarily meat production) and from conventionally farmed animals. Our policy is guided by the Farm Animal Welfare Committee's Five Freedoms. No products may be sourced from endangered species as per the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) or the International Union for Conservation of Nature's (IUCN) Red List of Ecosystems, and we ban imports from certain countries where poor practices have been identified, for example, in the tanning process. All cosmetic and household products and ingredients must be approved by the BUAV/Cruelty Free under the Humane Cosmetics Act. Our policy is available on our corporate website.

POLICY

Faux leather

Our aim – wherever possible – is to substitute real leather with high performing polyurethane (PU) leather that provides equivalent durability and product quality (and can be recycled). Currently, no real leather is used in Dunelm-branded products.

'More responsibly sourced'

We have introduced 'more responsibly sourced' cotton into our latest range of duvets and pillows – some of which also contain recycled polyester and feathers.

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS
OTHER INFORMATION

COMMUNITY

Better for people

Relevant UN SDGs

3 GOOD HEALTH AND WELL-BEING

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

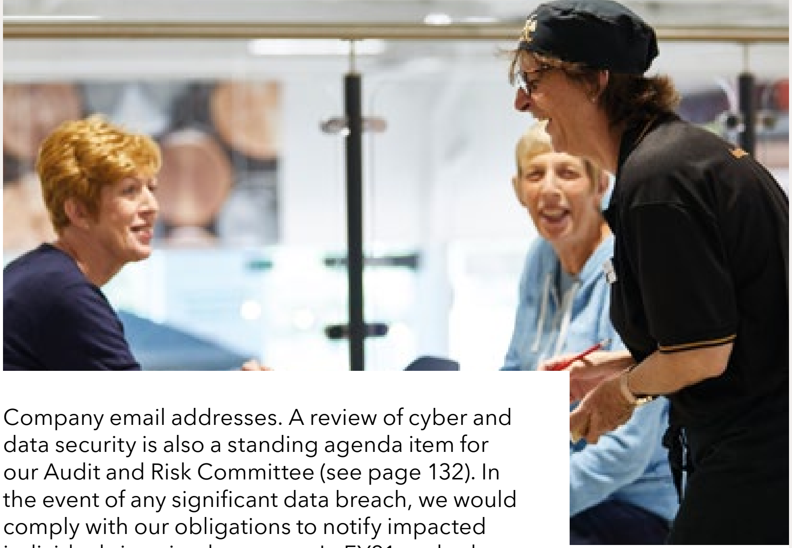
10 REDUCED INEQUALITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Our commitment

To deliver joy to our customers and local communities, we need to look after and out for our colleagues, keep them safe, be mindful of their mental and physical wellbeing, and help them develop to the best of their ability. We are responsible for our customers' safety in store, and we need to ensure that our shared values are understood and followed across the Group. In this section we focus on colleagues, customers and store communities, with our approach to the welfare of workers in our product supply chain covered on pages 73 to 74.

Who is responsible	Executive Board sponsor: Terri Westlake, Customer Director (Community); Amanda Cox, People and Stores Director (Colleagues); Dawn Durrant, Company Secretary (Health and Safety and Anti-Bribery)
Key Dunelm functions involved	Marketing, People, Finance, Operations, Procurement, Supply Chain, Health and Safety, Company Secretariat
Links to principal risks	Competition, market and customers People and culture Regulatory and compliance
Links to foundations	Trusted colleagues Brilliant stores Sustainable in everything we do
Awards and recognition	2018 Employer of choice (Best place to work) 2019 Top 20 (Happiest place to work) Retail Week 2021 Glassdoor (one of the highest-scoring retailers)
Key stakeholders/ relationships affected	Customers, colleagues, store communities, suppliers
Stewardship	We were one of the first 50 retailers to sign up to the British Retail Consortium (BRC) Diversity and Inclusion Charter in March 2021 that commits us, among many other things, to make our CEO accountable for diversity and ensure there is no bias in our recruitment process. Our Head of Health and Safety, Risk and Insurance is a member of the Health & Safety Forum – a group of around 70 UK retailers, whose aim is to reduce the risk of harm to colleagues and customers in the retail environment. He also sits on the BRC's health and safety group, which helped shape the UK Government's guidance and policy documents for safe store opening during the Covid-19 crisis.



Creating joy for our customers

OUR PROPOSITION

Products that are great value, with choice, style, quality & sustainability

Services that help from inspiration to delivery, fitting & take-back

Experiences that are seamless, physical & digital, helpful & friendly

Our plan is to become our customers' 1st choice for home, by giving them a wide range of products, services and positive experiences no matter where, how or when they shop with us. Our key metric in this area is net promoter score (NPS) – a Group KPI and executive bonus metric, see page 32. Nick, our CEO talks more about developments and performance in his CEO's review on pages 20 to 26.

GROUP KPI

CUSTOMER SAFETY

Safe to shop

During the year – in and out of lockdown – we continued to make it as safe as possible for our customers to come back into stores, use our contactless Click & Collect and 'to car' services and be reassured of home delivery protocols. We continued to implement Covid-safe protocols in our Pausa cafes, including socially distanced seating, the installation of screens, and enhanced food handling and cleaning regimes. More information about our overall approach to health and safety is covered on page 72. Product safety standards are set out in our Quality manual which is shared with our suppliers.

Customer data protection and cyber security

All Dunelm colleagues are trained via an online module in data protection compliance and cyber security on induction and then complete an annual refresher. This year, we have engaged a specialist legal firm to provide tailored small group training sessions to our leadership team and to relevant functional teams, including our digital marketing, analytics, data engineering, supply chain, people and contact centre teams. These have been well received and have increased awareness and the profile of this topic across the business. Additionally, cyber security awareness updates are sent every month to colleagues with Company email addresses. A review of cyber and data security is also a standing agenda item for our Audit and Risk Committee (see page 132). In the event of any significant data breach, we would comply with our obligations to notify impacted individuals in a timely manner. In FY21 we had no breaches which we were required to notify to the UK Information Commissioner's Office or to any individuals. Our Privacy Policy makes it clear to customers why and how we use their data, how we protect it and what their rights are regarding control of their data, including how they can 'opt out'. Third parties engaged to handle our customer data are also assessed for good practices and care of customer data. We last updated our Privacy Policy in April 2021 and it is clearly dated and available from dunelm.com. More information about we manage risks relating to IT systems, data and cyber security can be found on page 86.

POLICY

Pausa cafes: food safety, labelling and provenance

Our policy is to provide safe, quality food and drinks, in a safe environment. Our Food Safety Manual sets out food safety and hygiene requirements, and our brand standards policy sets out provenance and quality standards. For example, our tuna is only caught by pole and line, or using Purse Seine netting – methods which reduce the risk of catching unintended species or damaging the sea bed. We have no GMO nor irradiated products, and we have committed to using free range eggs in all products and removing all hydrogenated fats by March 2022 (we need to address just a handful of products in our product range of over 100 products). All coffee and tea ranges are Rainforest Alliance certified and we have introduced five plant-based lines in our current range. We are also working to ensure all food and drink categories have either a 'plant based' or gluten-free line option.

Food safety involves safe practice from start to finish in the food chain. As well as our policies referred to above, we have a cross-functional food safety group run by the Head of Pausa and attended by members of operations, legal, and health and safety teams, and an expert third-party food technologist. This group oversees safety, compliance and the implementation of new legislation. In FY21 there were no reportable food safety incidents or public recalls. In recent years we have improved on-pack allergen information for customers and through our new allergen web-based software which is displayed on our in-store Pausa tablets. This also includes nutritional information as required by legislation coming into force later in 2021.

Drinking and eating sustainably

One of the UK's top-ten coffee shops

19 tonnes
of coffee sold in FY21

90,000+
hot drinks served a week

Our coffee and tea are certified by Rainforest Alliance, which benefits farmers, forest communities, and indigenous people around the world. We have our own, bespoke coffee blends and our coffee bags are lined with sugar cane, making them recyclable.

Water refills?

145 of our 152 in-store Pausa cafes are linked to the Refill app so that our customers know they can refill their own water containers with free tap water, eliminating single-use plastics. The Refill campaign is run by the organisation City to Sea, which aims to reverse the trend for disposable items, and reduce plastic pollution in our oceans.

145
Pausa cafes are linked to the Refill app

Our Pausa cafes serve customers, colleagues and, increasingly, local communities who use them as meeting hubs.

Celebrating Pride month

In June 2021 we supported the work of three charities: Mind Out, Switchboard and Stonewall on dunelm.com and raised awareness by labelling Pausa cafe products.

Compostable cups

In our Pausa cafes, all take-away hot beverages are served in durable cups made from plant-based materials. We are reviewing all Pausa packaging to see where else we can improve, for example, by ditching loose wrappers on individual products.

Supporting store communities

BUILDING LOCAL COMMUNITIES

In FY20, during the first Covid-19 lockdown, our colleagues set up Facebook groups in their store communities, firstly using social media to help organise local initiatives to help the NHS, care homes, and to support vulnerable individuals, then to understand local customer and colleague sentiment about store re-openings. We saw the potential to develop more meaningful connections with our local communities and have since focused our efforts on strengthening our 175 Facebook groups – one for every store. At year end FY21 we had over 700,000 Facebook followers (FY20: 152,000), above our informal internal target of 555,000.

These thriving groups were instrumental in helping to communicate and co-ordinate this year's community campaigns that we ran when stores were open:

- **Delivering joy:** through our Christmas campaign, customers and colleagues donated over 18,000 gifts which were delivered by store colleagues to local care homes, women's refuges and underprivileged children.

- **Delivering kindness:** 2,000 blankets were collected in store and donated to homeless shelters and dog homes, 200 trolleys of donated food were distributed to local food banks and 1,200 cards were sent to people in care homes, hospices and hospitals, including Great Ormond Street Hospital. Cards included pictures and notes organised through our Facebook groups.
- **Delivering sunshine** is a smaller initiative, with a more sustainable/environmental theme – engaging with local schools to distribute sunflower seeds and run growing competitions, rejuvenating local buildings with hanging baskets and planting, and giving away wildlife-related items such as bird boxes.

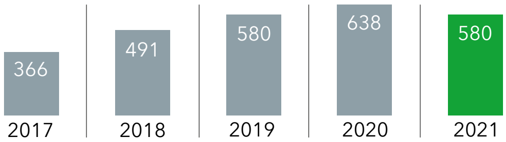
In some stores we have opened up our Pausa cafes in the evenings to local communities, and have welcomed knitting groups, young parent groups, Scout meetings and book clubs. We are setting up panels to investigate more ways of benefiting our local communities through our Pausa hubs – from product tasting and samplings to promoting local businesses through online community notice boards.

CHARITY CONTRIBUTIONS

We continued to support our Group charity partner, Macmillan Cancer Support and, in Wales, Groundwork, during the year. As store lockdowns hampered our fundraising activities the Board agreed to make a 'top up' donation of £112.5k to Macmillan Cancer Support – bringing the total donated since the start of our partnership in February 2019 to £1.3 million.

We rotate our chosen Group charity partner every two years. This year, colleagues voted for our new charity partner, Mind, via our 'Home Comforts' intranet. Our CEO, Nick announced our new partnership in July 2021 alongside a £112.5k 'starter' contribution. We are excited to explore how we can link our community activities with Mind's 160 stores. Overall, our fundraising and Group cash charity contributions amounted to £580k in the year (FY20: £638k) in line with our pre-Covid contribution in FY19. These figures exclude the costs associated with operating our Facebook groups and the community campaigns referred to opposite which we do not quantify.

Group and colleagues fundraising and Group cash charity contributions
(£k)



COLLEAGUE VOLUNTEERING

Every Dunelm colleague is encouraged to take up their annual paid day off to volunteer or provide support for a charity and this proved difficult during Covid-19 restrictions. Nonetheless, groups of colleagues undertook projects such as weeding and planting in their local communities. We aim to promote and better monitor this important aspect of local community engagement, including co-ordinating colleague volunteer days in Mind charity shops and projects.

Keeping it local

We keep an eye out for local opportunities to repurpose products and encourage recycling and reuse. We provide used store packaging free of charge for house movers and recirculate these boxes for as long as possible.

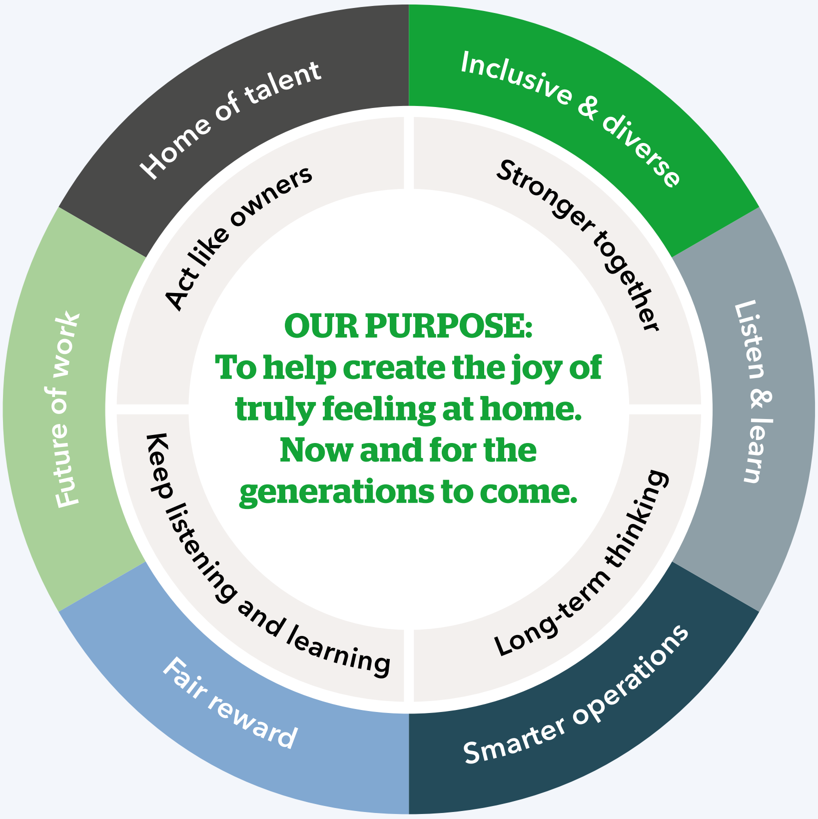
We donate cardboard rolls to local schools for craft projects and promote suggestions via our Facebook groups on how to upcycle old items – for example using colanders as hanging baskets and loaf tins as window-sill planters. We advertise 'Second life Sundays' locally, where we sell less-than-perfect stock and we are linking up stores with local recycling enterprises. In and around Exeter, for example, we are collecting old candles and candle wax on behalf of a local entrepreneur who turns these into new candles.

COMMUNITY continued

Delivering a better experience for our colleagues

We believe that a great place to work is a great place to shop. We can only deliver brilliant products, services and customer experiences through the hard work and commitment of engaged colleagues. Our people strategy is centred around our new purpose and shared values as illustrated in the graphic opposite. We cover our progress and plans below.

Our new people strategy



Home of talent

Our colleagues tell us that they are happier and more engaged when they feel personally connected to and supported by the Dunelm business and have access to learning and development opportunities.

SUCCESSION PLANNING

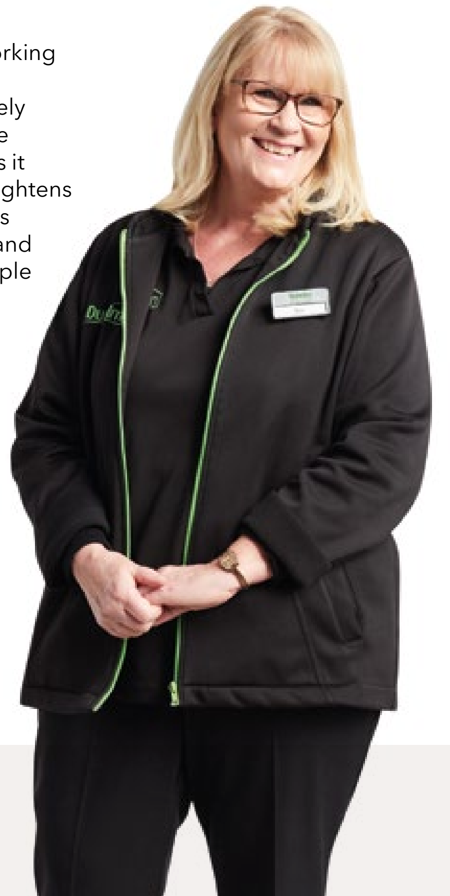
We continue to grow and retain talented colleagues in the business, filling management roles internally where possible and investing in colleague training and development: over 85% of store leadership roles were filled internally during the year. We maintained a ratio of around 40:60 internal and external appointments in support roles, which reflects the labour market and our need to look outside our business to build expertise in specialised areas, such as technology, data and sustainability. At the Dunelm Leadership Team (DLT) level, through our increased focus on talent and succession, we strengthened our talent pipeline.

RETAINING OUR COLLEAGUES

Despite the stop-start nature of our store working environments during the year, overall our unplanned labour turnover remained relatively stable: at store level turnover reduced for the third year in a row and at our support centres it increased marginally. As the labour market tightens in the coming year, we aim to give colleagues stability through purpose and permanency and evaluate how we can best help younger people (hit hard by the closing of the hospitality industry) to emerge from the prospects of longer-term unemployment.

LEARNING AND DEVELOPMENT

We undertake a mixture of colleague training: compliance training to ensure that colleagues know their responsibilities and expected behaviours, and skills training for personal development that meets the long-term needs of the business.



INVESTING IN OUR COLLEAGUES

Our training and development programmes take on board the Group's focus areas presented to the business each year. As many of our programmes revolve around behavioural and leadership training it is difficult to measure specific return on training investment. However, overall, we monitor three key indicators: colleague retention, colleague engagement (colleagues are more likely to feel settled and committed if they feel 'invested in') and home-grown talent (the % of colleagues who have been promoted in the business). We are also updating our online learning systems. This is a considerable investment to help build colleague skills more intuitively through a 'user experience platform'. We learned during the pandemic the value of introducing more interactive, bite-sized learning modules and the power of video, and these will also shape future initiatives.

GRADUATE AND APPRENTICESHIP PROGRAMMES

Our graduate programme has been running since 2016. Over 50 graduates have enrolled since its inception, including ten new hires who started in September 2021. Reflecting where we need to bolster our skills for future growth, we have developed five two-year programmes (in Technical, Data and Insight, Commercial, People and Operations, and Design) and a three-year programme in Finance. In summer 2021 we welcomed eight people on to our new internship programme – a structured, paid three-month experience offered in five different business areas. Additionally, we launched an internal retail management programme, which started in September 2020, to 'fast track' skills and career development. We recruited ten graduate colleagues on to our two-year course to develop future store managers and nine 'early career' colleagues on to a 12-month trainee programme to develop skills to equip them for leadership and trade roles.

Through the UK Government's Kickstart funding scheme, launched in mid 2020, we have provided around 100 16- to 24-year-olds with a paid six-month job placement and aim to increase this to around 200 people as this programme gains momentum. After a three-month period, we give attendees the opportunity to apply for level 2 retail apprenticeships which aim to offer additional maths and English skills. Our apprenticeships improve social mobility, plug skills gaps in areas where it is hard to recruit people and allow us to target high-potential groups of colleagues.

'Friendly and helpful'

Across our store estate, we have been moving from a task-focused to a service-orientated way of working for several years – broadening our colleagues' knowledge of what it takes to be part of a successful store – from delivery, through to tills and front-of-store hosting. By mixing and matching roles and skills, we can give more meaningful work to our colleagues and at the same time improve our customers' in-store experience and satisfaction.

Early in 2021, following cross-team brainstorming, we invested in training over 7,500 store colleagues in a new 'friendly and helpful' programme – amounting to 25 hours of training per colleague – keeping them engaged and motivated during the third lockdown. By focusing on three key areas: product knowledge, serving customers and understanding all aspects of our dunelm.com website, we aimed to improve our store colleagues' confidence in recommending specific products, interpreting customer cues, and dealing with complex web-assisted queries. This training module is now a mandatory part of our induction process for all new store colleagues. To keep it up to date, our design team introduce new and seasonal ranges via online sessions which are housed on our new learning and development hub.

MENTAL WELLBEING TRAINING AND SUPPORT

We have a group of around 40 'Wellbeing Buddies' – mental health first aiders, who represent different parts of the business. They are trained to listen to colleagues and make recommendations for further external support. Line managers have completed their first mental health awareness training sessions and are starting their second. Training is complemented by increased communication and topics on our 'Home Comforts' intranet – including personal care plans and practical guides on how to talk to direct reports about health and financial wellbeing. Line managers are encouraged to start their regular one-on-one updates with the first question being 'How are things?' and store colleagues have participated in an online mental health training module. Eligible colleagues can access mental health support as part of their private healthcare benefit and through the Retail Trust all colleagues can access free mental wellbeing phone counselling 24/7 and up to six face-to-face sessions.

COMMUNITY continued

Inclusive and diverse

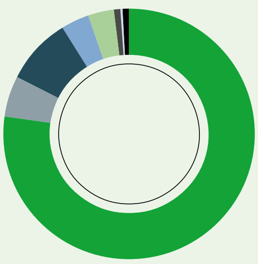
Our aspiration is to achieve a colleague base reflective of society at all levels, providing opportunity for all, regardless of background, gender, sexual orientation, disability or age.

Details of our Equality and Diversity Policy can be found on our corporate website, corporate.dunelm.com

POLICY

Ethnicity data

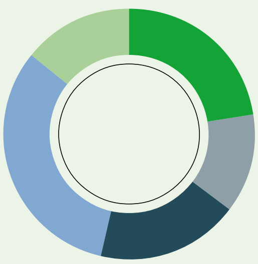
Collected November 2019-April 2021[1]



	%
White British	77.3
White – other	5.4
Asian British	8.7
Black	3.4
Multi-ethnic	3.3
Other	0.8
Arab	0.3
Prefer not to say	0.7

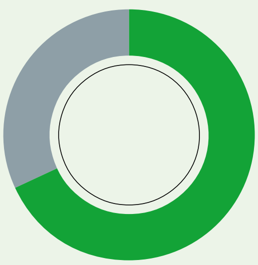
1. Data collated from November 2019 to April 2021 from new joiners, covers around 29% of our colleagues.

Age split



50+	2,523
41-50	1,412
31-40	2,031
21-30	3,549
Under 21	1,569

Gender split



Female	7,564
Male	3,520

GETTING TO KNOW OUR COLLEAGUES: ETHNICITY, AGE AND GENDER

Since November 2019 we have been collecting ethnicity data for new joiners. Of these, 77% of colleagues are white British and, overall, this is in line with the ethnicity split across the United Kingdom as collected in the last national census.[2] Additionally, to support our 'This is Me' inclusion and diversity campaign we trialled our first colleague census across the whole business. The results indicate that our colleague diversity also broadly mirrors regional ethnicity profiles. However, we are mindful that we need to do more at our Dunelm Leadership Team, Executive Board, and Board levels whose composition does not reflect the ethnic profile of our new recruits nor the population at large. Board member ethnicity is noted this year on the Board biographies on pages 96 to 99.

Around one third of colleagues are aged between 21 and 30, representing the largest proportion of all colleagues and, across the Group, 68% (FY20: 68%) of colleagues are female. A more detailed gender breakdown is provided in the table below. As we get to know our colleagues better, we will use our data to tailor further our training and inclusion and diversity programmes.

TRAINING AND RAISING AWARENESS

Examples of training programmes undertaken by the Board and senior management in FY21 are set out opposite. In FY22 we aim to set personal objectives relating to diversity and inclusion for line managers. Colleagues are able to view educational posts and videos linked to a calendar of diversity, inclusion, and wellbeing events on our 'Home Comforts' intranet. These include important religious dates, and international festivals such as Pride month. We are also working to adopt additional inclusive recruitment techniques that remove bias and expand personality tests, so we do not miss out on diversity of thought.

Gender breakdown as at 26 June 2021

	Male	Female	Male, %	Female, %
Group Board	6	3	67%	33%
Executive Board	4	5	45%	55%
Dunelm Leadership Team (including Executive Board members)	15	9	62%	38%
Store colleagues	2,301	6,673	26%	74%
All colleagues	3,520	7,564	32%	68%

2. Source: Office for National Statistics census data, www.ons.gov.uk

THIS IS ME

4 network groups

We launched our first inclusion and diversity networks: Gender, LGBT+, Disability and Ethnicity. Each is sponsored by an Executive Board member and chaired by a Dunelm leadership team member.

Leading in an inclusive world

300+ leaders

Dunelm business leaders took part in this training, which focused on understanding people's perspectives and our colleagues' own stories.

Inclusive and diverse

Everyone is welcome at Dunelm. We want our colleagues to have access to a strong, supportive network across our business.

Talking at the top

Our Board Directors attended awareness workshops, with expert guest speakers leading discussions on:

- Black Lives Matter
- LGBT+
- Social mobility

Setting objectives

800+ colleagues

In FY22, we will roll out conscious inclusion training to all line managers (over 800 colleagues) and set personal inclusion and diversity objectives.

COMMUNITY continued

Listen and learn

We will continue to develop effective two-way communication channels that are engaging and involving.

NATIONAL COLLEAGUE VOICE (NCV)

Our colleagues are formally represented across our business through our colleague voice forum, which ensures that our colleagues 'have a voice' and can engage regularly with members of our Board and senior management team. One local representative from each store and site, and around eight to ten representatives from our support centres are elected for a period of two years via our 'Home Comforts' intranet. From this group, 14 colleagues are elected to represent colleagues at our National Colleague Voice (NCV) meetings:

Business areas/team	No. of NCV representatives
Stores	5
Customer centre	1
Manufacturing centre	1
Home Delivery Network	1
Stoke distribution centres	1
Support centres	5
Total	**14**

Prior to the Covid-19 crisis, NCV meetings were usually held twice a year in person in relatively formal settings. Retrospectively we now realise this was not the most conducive way to ensure our colleague voices were heard. The Covid-19 pandemic forced us to change our format – for the better. By moving it online we could increase the number of meetings and invite more attendees to better represent our business; it also made our colleagues feel less intimidated about speaking up and we built on this by training representatives to better understand the NCV role and consultation process.

We introduced online interactive tools such as 'live polling' to help shape our conversations and changed the structure of the meeting – starting with a 'What's on your mind?' session, followed by in-depth discussions on particular topics. Prior to each meeting, colleagues are sent comprehensive and often confidential pre-reads to encourage active participation and meetings typically include break-out groups. A list of topics covered, Board attendance and outcomes is shared after each meeting. An overview of topics covered and an insight into the NCV from a store colleague perspective can be found in our governance report on page 112. Attendance is recorded at each meeting and includes diversity metrics – typically around a 50-50% gender split, with 20% non-white.

Based on feedback and last year's experience, we aim to increase the meeting length to improve in-depth debate further and to give more space between meetings for information to be communicated from national to local colleague voice representatives and vice versa. We made a step-change this year; our colleague representatives are more confident and engaged and they challenge and contribute more readily. We are committed to evolving further how we listen to our colleague voices and act upon what we hear.

COLLEAGUE ENGAGEMENT SURVEY

We ran our twice-yearly colleague surveys in November 2020 and May 2021. In the May survey, our participation rate was very high at 79% with record rates in our Customer Care Centre and Stoke distribution centre, and improved participation in our home delivery network team. Our overall colleague engagement (eNPS) score improved by 1.0%pts and over 70% of store colleagues are 'promoters' (meaning that they would recommend working at Dunelm to a friend). We were pleased to have improved our eNPS score during a challenging year of disruption and furlough and that a recently added question indicated that around 90% of colleagues expected to remain with Dunelm in FY22. eNPS is a Group KPI and executive bonus measure, see page 33.

GROUP KPI

We have analysed data from our last few engagement surveys to understand what really resonates with our colleagues (purpose, shared values and confidence in our leadership) versus what may disengage them (perceived unfairness, feeling unsafe or ill-equipped to contribute to overall success) and to create tangible action plans. Glassdoor is another channel that we use to understand how Dunelm colleagues feel about working for us, and we are one of the highest-scoring retailers on this platform.

79%

of colleagues took part in our last engagement survey, with record rates in our Customer Care Centre and Stoke distribution centre, and improved take-up in our home delivery network.

Smarter operations

Investing in smarter operations so our colleagues can do their jobs better.

We continue to improve our systems and processes to remove repetitive and unrewarding work and provide more compliant and leaner operations. Our FY22 investment programme, for example, aims to improve our commercial processes and systems and we are using tablets more frequently to record audit information rather than time-consuming forms.

Fair reward

Our colleagues expect us to pay and incentivise them fairly and this was a topic of debate at our National Colleague Voice (NCV) meeting in April 2021 (see page 111).

BASE PAY AND BENEFITS

We apply the same pay principles throughout the organisation (see the Remuneration Report on page 141). Our aim is that base pay should be competitive and set at median. All colleagues are paid at least the National Living Wage or the Minimum Wage, as set by UK Government. In addition, colleagues receive a range of benefits including pension, colleague discount, a paid 'birthday day off', and access to a range of discounts with third parties. All colleagues with minimum service (usually one month) are eligible to contribute to a sharesave scheme, allowing shares to be bought after three years at a 20% discount to the share price at the start of the scheme, see page 151. Currently, around 22% of eligible colleagues have joined, and, typically, this scheme has low drop-out rates.

In FY20, and again in FY21, the Board agreed to make a special 'thank you' payment for commitment shown during the pandemic, meaning that over 97% of colleagues received a bonus each year. In 2020, we paid a flat rate of £250 to all colleagues, and in 2021 we paid between £250 and £350 per colleague based on average hours worked (after feedback from colleagues about the fairness of giving a flat amount to all) to all colleagues who were not eligible to share in the strong performance of the business in the year through their membership of another bonus scheme.

GENDER PAY GAP REPORT

We published our fourth annual Gender Pay Gap Report on our corporate website in October 2021 as per revised timelines set by UK Government, owing to Covid-19. Our published median gender pay gap is -6.4% (April 2019: 7.6%) and our mean gender pay gap is 4.9% (April 2019: 18.0%). These figures account for less than 20% of our workforce as colleagues on furlough or reduced pay were excluded as per legislation.

Over the same period we tracked our own internal comparative median and mean gap metrics for all colleagues. These were presented to the Board and feedback from our gender pay analysis helped inform decisions during pay reviews. In common with many other retailers, around 80% of our colleagues are employed in our retail operations and, of these, over 70% of roles are filled by female colleagues. While we were pleased to see that both our internal mean and median gender pay gap measures improved, we recognise that we must continue to work towards reducing our gender pay gap further.

Based on the analysis of our ethnicity data collected to date, we see no evidence of any significant ethnicity pay gap. However, we will keep this under review as we build up a more accurate profile of our colleague diversity.

FINANCIAL SUPPORT

To support our most vulnerable colleagues and promote colleague wellbeing during the pandemic, we helped colleagues to manage their finances and draw on other support programmes, such as the Employee Assistance Programme (EAP) run by the Retail Trust, and the Salary Advance scheme which allows colleagues to obtain an advance on their monthly pay. We also supported 242 colleagues through our Colleague Support Fund (a self-funded hardship grant) which supplements third-party assistance. Information was made available on our 'Home Comforts' intranet which was used as a key resource tool for colleagues and the business during uncertain times.

Future of work

Considering the impact of our internal strategy and external trends on our colleague experience.

The impact of Covid-19 has made us evaluate the leadership skills we need to develop in the business for the changing nature of work. We want our colleagues to 'feel at home wherever they work' – in our support centres, for example, this involves introducing a hybrid work from home/office policy based on a combination of business need and personal preference, thereby embracing greater autonomy and personal freedom. Our leadership team aims to reinforce the importance of our new purpose, culture, shared values, cross-functional learning and colleague support during this transition.

COMMUNITY continued

Health and safety

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

POLICIES AND PROCEDURES

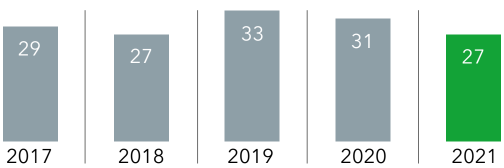
Our Board is responsible for the creation and implementation of our health and safety policy and procedures, which is available on our corporate website. Health and safety is a standard agenda item at every Board and monthly Executive Board meeting, supported by a monthly report and a formal annual presentation from the Group's Health and Safety Manager.

POLICY

COVID-SAFE PREMISES

Our priority this year was continuing to ensure that our premises are Covid-safe for our colleagues, customers and visitors. We continued to adopt at least the minimum UK Government requirements, as supplemented by the British Retail Consortium industry standard. In the year this included the implementation of workplace Covid testing across all sites. We continued to adopt a 'safety first' approach, including for example maintaining two-metre distancing requirements for colleagues despite the guidelines being relaxed. We are pleased that we consistently received good feedback from colleagues and a 95% 'How safe did you feel?' rating from our customers.

Number of reportable accidents under RIDDOR[1]



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

PERSONAL SECURITY

Another priority was to support the personal security of our store colleagues, to address the regrettable societal increase in aggressive and, sometimes, violent public behaviour. We successfully introduced body-worn cameras and a radio assistance system for colleagues in our stores and provided bespoke training for colleagues. Our CEO, Nick Wilkinson, also supported the BRC call for a statutory offence for assaulting, threatening, or abusing a retail worker to be introduced.

SUPPLIER H&S

Health and safety management responsibility in our supply chain is explained in our Ethical Code of Conduct and sets out requirements for all our suppliers. Compliance with this policy is monitored through our ethical auditing programme and ongoing due diligence which includes fully unannounced spot checks (pages 56, 72 and 73).

MONITORING AND PERFORMANCE

Details of accidents, including those which we are required to report to regulatory authorities (RIDDORs), and health and safety audit results are sent to our Executive Board and Group Board every month. In FY21, our reportable accidents under RIDDOR reduced to 27 (FY20: 31).

Modern slavery

We have a zero-tolerance approach to any form of modern slavery, fully support measures to eradicate this criminal activity and are committed to putting effective systems and controls in place to safeguard against any form of modern slavery taking place in any part of our business or supply chain.

DUNELM SITES

Our approach to modern slavery within our own business operations is managed through a working group consisting of the Company Secretary, the Head of Procurement, a People Business Partner and the Head of Quality and Sustainability, with valuable input from departments around the business. The Company Secretary reports to the Executive Board and the Dunelm Group Board on modern slavery issues, and the Dunelm Group Board approves our annual Slavery Trafficking statement (pursuant to Section 54, Part 6 of the Modern Slavery Act 2015) and formally reviews our policy and performance on ethical trading and modern slavery every year. Our full statement is available on our website.

POLICY

Following a risk assessment of our own premises and the related supply chain in 2016, our Executive Board approved an action plan which is reviewed annually. For example, we limit and – as far as possible – eliminate the use of agency workers at our customer service and manufacturing centres, and limit our usage in our warehouses, distribution centres and in our home delivery network. At our Stoke warehouse we audit our own colleague policies and practices, our use of agency workers, and provide training for our management colleagues and distribution partners. We have also added a question to our interview process to make sure that nobody has paid any amounts in order to secure a job. Our 'Speak up' whistleblowing helpline is open to all colleagues, all workers on our premises and suppliers, see page 75.

SUPPLY CHAIN

Controls to identify and eradicate modern slavery through our product supply chain are maintained through the audit activity against our Ethical Code of Conduct. All suppliers sign our Ethical Code of Conduct, and we expect them to review and implement this code, working together to achieve continuous improvement. More information about our supply chain auditing process and developments can be found in the Responsible sourcing section on pages 56 to 61. Our Ethical Code of Conduct policy is available on our website and a summary is provided in the table below.

POLICY

ETHICAL CODE OF CONDUCT POLICY: SUMMARY OF TOPICS COVERED

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

Verisio has been working with Dunelm since 2018 and provides services that include auditing, supply chain mapping, risk assessment and random unannounced spot check audits. During the year, we have held two online supplier conferences with Verisio to reinforce our ethical policy and standards.

"Dunelm has taken significant steps over the last year to ensure that its supply chain is compliant with the Modern Slavery Act 2015, with an increased focus on spot check audits. All audits were completely unannounced and carried out by qualified and experienced APSCA auditors. In some cases, unannounced spot check audits had different outcomes to the routine, semi-unannounced ones, and the results were used to strengthen the overall management of Dunelm's supply chain."

COMMUNITY continued

RAISING OUR REQUIREMENTS

We review our audit standards in our supply chains annually in line with industry best practice. The example below shows how we raised health and safety requirements through the audit grading standards in FY21.

CHANGES TO HEALTH & SAFETY AUDIT GRADINGS IN OUR SUPPLY CHAIN

Example of non-compliance	2020 grading	2021 revisions
FIRE SAFETY		
No usable fire exits in the factory or dormitory	Zero tolerance	No change
No fire fighting equipment on site	Zero tolerance	No change
Locked fire exits	Zero tolerance	No change
Insufficient fire exits	Critical	No change
No fire exit signage	Major →	Critical
Fire escape doors poorly marked and/or maintained	Major →	Critical
Blocked aisles/exits preventing use	Critical	No change
Fire fighting equipment inaccessible, insufficient, unusable or wrong type or no training	Major →	Critical
Fire extinguishers out of date	Major →	Critical
No fire alarm	Major	No change
Lack of distinctive fire alarm	Major	No change
No evacuation procedures, drills or training	Major →	Critical
No, or no adequate, functioning emergency lighting	Critical	No change
Failure to comply with requirements for electrical safety inspections	Major →	Critical
Electrical wiring not adequately encased or secured	Major	No change
No or inadequately maintained equipment or procedures to prevent explosions	Critical	No change
Missing fire assembly points	Minor	No change
Fire extinguishers installed at the incorrect height	Minor →	Major
No records of fire evacuation drills	Major →	Critical
Incomplete records of fire evacuation drills	Minor →	Major
Poor maintenance of emergency lighting	Major	No change
BUILDINGS		
Premises are not structurally safe	Zero tolerance	No change
Premises require repairs that affect personal safety	Critical	No change
Inadequate lighting in hazardous areas	Major	No change
The facility lacks the permits and certificates required	Major →	Critical
Heating and ventilation and air conditioning – systematic failures in maintenance programme	Major	No change
Heating and ventilation and air conditioning – isolated failures in maintenance programme	Minor	No change
Generally inadequate lighting in some areas	Minor →	Major

'Speak Up' whistleblowing programme

We relaunched our independent whistleblowing helpline in June 2021 which we promoted through posters, wallet cards and our colleague intranet.

Our programme is run by an independent third party, guarantees anonymity and has been promoted to report concerns about wrongdoing and unsafe or illegal working practices (rather than general grievances that we encourage colleagues to take up with line managers or our People Team in the first instance). Anonymous reports are sent directly to our H&S Manager and Company Secretary who track cases through to resolution. After investigating the 28 reports received, no unlawful activity was established. We had three reports to the helpline in respect of supplier practices, one of which revealed previously unknown breaches of our ethical Code of Conduct (use of undeclared and unaudited factories); these have been investigated and are in the course of being resolved.

Anti-corruption, anti-bribery and tax evasion

We are committed to acting legally, fairly and honestly in all our business dealings and relationships. We have a zero-tolerance approach to bribery, corruption, fraud and tax evasion. We apply our policies across all our operations and require our suppliers to commit to apply the same or equivalent policies. Risks to the business associated with non-compliance, together with the detailed procedures in place to comply with the Bribery Act 2011 are set out in our Anti-Corruption and Anti-Bribery Policy, available on our website. Review of controls in place is a standing agenda item for our Audit and Risk Committee and we measure the level of internal training every year.

POLICY

In 2021, 77% (2020: 94%) of eligible colleagues (over 1,000 people) completed initial or refresher training. We have moved to a new training platform and will renew our focus in this area in FY22. Online training is mandatory for colleagues in support sites, and our manufacturing and customer contact centres. Additionally, the following colleagues receive personal training: all new starters in the Dunelm Leadership Team, commercial and procurement reams, and selected individuals in the finance team and other departments with responsibility for awarding contracts. As mentioned above, all colleagues and suppliers are encouraged to report any potential wrongdoing via our 'Speak Up' programme.

Our tax strategy

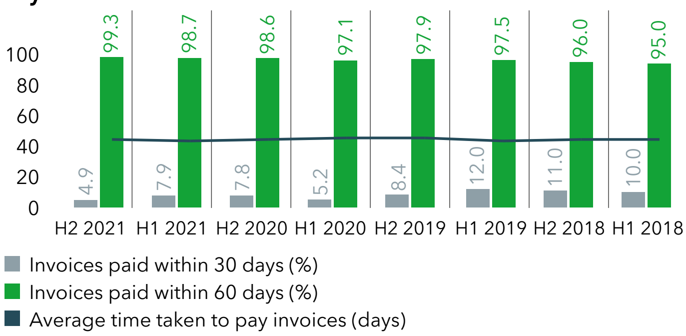
Consistent with our shared values and approach to governance, Dunelm is committed to full compliance with all statutory obligations and full disclosure to tax authorities. We do not operate in any 'tax havens' nor use any tax avoidance schemes. In FY21, our total tax contributions were £157.8m. Further information is in our Group Tax Strategy on corporate.dunelm.com and in the Financial Review on page 38.

Supplier payments

We aim to deal with our suppliers in an open and honest way and require all our suppliers to sign our standard terms and conditions in advance of commencing trade.

As a large business, our twice-yearly payment information remains in the public domain and is summarised below. The average time taken to pay suppliers in the period was 45 days (FY20: 46 days), and we consistently paid 99% of our invoices within agreed terms (FY20: 98%).

Payment statistics



Risk management

During the year we identified three risks where the potential impact has increased. Climate change and environment, cyber security and supply chain disruption are risks having both a national and global impact.

OUR APPROACH

Whilst we have formal processes for identifying, assessing and reviewing risk, as described in the table opposite, the Board as a whole takes responsibility for the management of risk throughout the business. In addition, our Audit and Risk Committee oversees the risk management process as part of its activities.

PROCESSES UNDERPINNED BY CULTURE AND SHARED VALUES

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

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

RISK MANAGEMENT FRAMEWORK

The Board confirms that:

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

“Our actions to address these risks are reflected in our strategy and the Board’s activities through the year.”

PROCESS FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements.

The key features of these systems are:

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

Overview of risk management responsibilities

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

BOARD

Collectively responsible for managing risk

- Sets the Board's risk appetite.
- Conducts formal reviews of principal risks (including emerging risks) and the risk KPIs twice a year – one of which is in connection with consideration of the viability statement (see pages 80 to 91).
- Risk topics reviewed in depth through regular timetabled presentations or papers.
- Regular discussions of 'What keeps us awake at night?'.
- Monitors KPIs which measure the effectiveness of risk mitigations through Board reports.
- Ensures strategic investment and manages risk prioritisation.
- Ensures Executive Directors have line responsibility for managing specific risks.
- Assesses the coverage and adequacy of independent assurance.

AUDIT AND RISK COMMITTEE

Oversees risk management process

- Receives a formal review of the principal risks and risk KPIs and the risk management process twice yearly.
- Conducts formal reviews of the risk management process twice a year – one of which is in connection with consideration of the viability statement (see pages 89 to 91).
- Receives a report from the Executive Risk and Resilience Committee at each meeting.
- Holds the relationship with the independent Internal Auditor, approves the rolling internal audit programme, and receives internal audit reviews of selected risks.
- Selects and proposes topics for 'key risk' reviews by the Board.

EXECUTIVE BOARD

Reviews principal risks

- Members responsible for managing risk within their areas of accountability.
- Conducts formal reviews of principal risks (including emerging risks) twice a year.
- Reviews risk topics through regular timetabled presentations or papers.
- Monitors KPIs which measure the effectiveness of risk mitigations.
- Delegates line responsibility for managing individual risks within their area of accountability to individual Executive Board members, and oversight of these to the Risk and Resilience Committee.

RISK AND RESILIENCE COMMITTEE (MEETS MONTHLY – NEW FOR FY21)

Oversight of principal and operational risks

- Oversight and review of the principal and operational risk registers and the process by which they are compiled.
- Reviews the risk landscape, ranks the principal risks and identifies emerging risks.
- Monthly review of the KPIs (including those relating to cyber security) which measure the effectiveness of the mitigations for principal risks, and requires explanation from relevant management where the indicator is outside the tolerance range.
- Regular cross-functional 'deep dive' of each of the principal risks and associated operational risks.
- Reports monthly to the Executive Board and to the Audit and Risk Committee at each meeting.
- Conducts a formal review of the principal risks (including emerging risks) twice a year in advance of submission to the Executive Board and the Group Board.

CHIEF FINANCIAL OFFICER

Ensures that risk management processes are adhered to

- Chairs the Risk and Resilience Committee.
- Presents the outcome of the risk review to the Executive Board, the Audit and Risk Committee and the Group Board twice a year.
- With the Company Secretary, ensures that principal risk topics are scheduled for regular review by the Executive Board and the Group Board.

Risk management continued

INTERNAL CONTROL AND INTERNAL AUDIT

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

BOARD

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

EXECUTIVE BOARD

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

AUDIT AND RISK COMMITTEE

- Oversees effectiveness of internal control process
- Receives reports from external auditor
- Approves independent internal audit programme
- Receives reports generated through the internal audit programme

INTERNAL AUDITOR

- Provides assurance to the Audit and Risk Committee through independent reviews of agreed risk areas

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

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

Principal risks and uncertainties

PRINCIPAL RISKS AND UNCERTAINTIES ASSESSMENT

The Board confirms that it has carried out a robust assessment of the principal risks facing the Group, including emerging risks, and those that would threaten its business model, future performance, solvency or liquidity. The Board's assessment of the principal risks and uncertainties facing the Group and the mitigation in place is set out on pages 79 to 88.

CHANGES TO PRINCIPAL RISKS IN THE YEAR

We did not identify any new or emerging risks in the year, either through our Board and Audit and Risk Committee reviews, or at the discussions of 'What keeps us awake at night?' which we held at our Board meeting in June.

The Covid-19 crisis has continued to impact our business during the year. Last year we debated whether to add 'pandemic risk' to our register of principal risks. We decided instead to add 'Resilience', defined as 'failure to withstand the impact of an event or combination of events that significantly disrupts all or a substantial part of the Group's sales or operations (e.g. pandemic)'. We considered that this was more appropriate to address a wider range of unexpected high-impact challenges, although the mitigations are broadly the same.

At our Board meeting in June 2021, we debated 'What makes Dunelm resilient?', a summary of which is set out below:

- Clear customer and sustainability-focused purpose, backed by strong shared values that are 'lived' throughout the business
- Focus on 'long-term thinking' and 'doing the right thing'
- Quality of Board and leadership team
- Conservative financial approach – strong balance sheet, cash flows and liquidity; low-cost property portfolio; 'value for money' mentality
- Clear strategy, backed by detailed and credible plans and investment
- Strong brand, focus on product design, quality, value and – increasingly – sustainability, more than one channel to market, backed by ever-improving proposition online and in-store
- Engaged, committed colleagues
- Strong relationships with key suppliers, partners and advisers
- Sound governance, controls, processes and risk management, with clear mitigations and back-up plans in place
- Stable shareholder base, with sizeable family holding and good quality institutional shareholders enables long-term focus

Although we did not identify any new principal risks, there are three risks where the potential impact has increased over the year. The first is **Climate change and environment**, including biodiversity. The work that the Board and management team have conducted to better understand this risk, together with the increased focus of government, investors, customers and colleagues, has helped us to start to assess the impact that this

is likely to have on our business, and the scale of the action that we need to take in response. The Board is keen for Dunelm to take a leading role and seize the opportunities as well as managing the risks. As described elsewhere in this report, accountability for sustainability and climate change has been assumed by our CEO, Nick Wilkinson, with members of the Executive Board taking ownership of each of the main areas of Carbon Reduction, Circular Economy and Community. Purely in terms of principal risks, although we retain Climate change and environment as a risk in its own right, there are impacts across many of the other risk areas, reflecting the impact that this will have on our strategy and operations.

The second principal risk which has heightened is **IT systems, data and cyber security**. As with all businesses, we are increasingly dependent on data and information technology; this is increasing more quickly for us than others as digital sales account for a rapidly increasing share of the total. At the same time, the threat from cyber criminals is increasing.

The third risk that has increased is **Supply chain disruption**. Changes in global supply chain capacity, labour shortages and ongoing disruption from Covid-19, as well as geo-political instability could interrupt supply of product to all businesses. The Board have mitigated some of this disruption through investment in capacity, proactive planning and building on our strong supplier relationships but this risk is developing fast and the inflationary pressures from these changes could impact profitability.

Our actions to address these risks are reflected in our strategy and the Board's activities throughout the year. Sustainability is a key part of our revised purpose, is reflected in our FY21 Focus Areas and capabilities, and has been a formal discussion topic at our Board's strategy days and four meetings during the year. Increased investment has also been approved in our FY22 budget and five-year plan. Similarly, IT is a key element of many of our FY22 Focus Areas, data is a foundational capability, and we have increased investment in both in our FY22 budget and five-year plan. At Board level, we have increased our capability in environmental, social and governance matters through the appointment of Arja Taaveniku, and are actively seeking another NED with digital and finance experience.

We did remove one principal risk from our register – **Brexit**. As a result of the plans put in place by management, and the limited amount of sales and sourcing from the European Union, the impact of Brexit on Dunelm was minimal. There are some ongoing actions but these are now being managed as part of day-to-day activities.

Principal risks and uncertainties continued

AT A GLANCE PRINCIPAL RISKS AND UNCERTAINTIES FY21

Risk	Impact compared to FY20
Competition, market and customers	No change
Resilience	No change
Brand damage	No change
Climate change and environment	Increasing
People and culture	No change
Regulatory and compliance	No change
IT systems, data and cyber security	Increasing
Supply chain disruption	Increasing
Business efficiency	No change
Finance and treasury	No change

Principal risks and uncertainties key

- Increasing
- No change
- Decreasing
- N New

Risk

COMPETITION, MARKET AND CUSTOMERS

Description
Failure to respond to changing consumer needs e.g. the shift towards online sales, personalisation, rental versus ownership, sustainability and customer experience, and to maintain a competitive offer (range, quality, value and ease of shopping) could impact profitability and limit opportunities for growth.

A downturn in consumer spending, aggressive competitor activity (especially with cost price pressures) could impact sales and profit.

Link to strategy:
All focus areas

Performance indicator:
Market share

Executive responsibility:
Chief Executive Officer

Reports to:
N/A

Impact compared to FY20:
No change

How we mitigate

- Customer strategy in place, to continue to drive our multichannel proposition, refined post Covid-19 to accelerate growth levers.
- Focus on new product development, particularly own brand, in both existing and new categories, to strengthen our offer. Continue to make our products and their packaging more sustainable.
- Investment in brand marketing, digital engineering, data and insight capability and services to raise awareness of the Dunelm brand and meet customer needs.
- Investment in supply chain capacity and capability, doubling peak volumes and reducing lead times. Improved our Click & Collect proposition enabling us to serve customers even when stores are closed.
- Monthly customer insight report tracks performance against the market, competitors and other key indicators.

Board oversight:
- Reviewed annually in depth by the Board at its strategy days and individual topics considered throughout the year.

Progress in FY21

- Dunelm continues to lead the UK homewares market with an increased estimated share of 9.1% in 2021 (2020: 7.5%) (Source: GlobalData).
- Development of our strategy includes a significant increase in our sustainability programme, and an enhanced experience.
- Improved insight on our customer base enabling us to understand who they are and how they shop with us.
- Completed the re-engineering of all foundational digital micro-services: checkout, product information management and delivery promise.
- Increased brand awareness through continued investment in brand marketing, including sponsorship of First Dates.
- Further developed Click & Collect capacity and functionality to include contactless, 'to car' and for products that are centrally fulfilled.
- Introduced more newness and choice in core ranges with products from recycled materials, home hygiene and wellbeing at home collections.
- Continued product innovation in existing categories and strengthened seasonal campaigns and promo buys to improve affordability to our customers.

Risk

RESILIENCE

Description
Failure to withstand the impact of an event or combination of events that significantly disrupts all or a substantial part of the Group's sales or operations (e.g. pandemic).

Link to strategy:
All focus areas

Performance indicator:
Sales and profit
Market share

Executive responsibility:
Chief Executive Officer

Reports to:
N/A

Impact compared to FY20:

How we mitigate

- Internal control and risk management process in place to identify and manage risks (including emerging risks) that may impact the business.
- Conservative financial approach – strong balance sheet, relatively low levels of external debt, low risk property portfolio, 'value for money' mentality.
- Strong and united Board and Management team in place, strong managers in key roles and committed colleagues.
- Strong values – emphasising 'long-term thinking' and 'acting like owners' – which Board and senior management are required to role model, embedded in the business through recruitment and appraisal, and colleague communications.
- Strong relationships maintained with key stakeholders (shareholders, colleagues, customers, suppliers, community).
- Family shareholding provides long-term stability.
- Investment in Dunelm brand and diversity of routes to market provide flexibility if one channel cannot operate.
- Business continuity plans in place and kept up-to-date for sites, operations and technology.
- Insurance cover in place to cover key risks.
- Expert third-party advisers in place (e.g. PR, corporate, banking, legal, tech) to assist.

Progress in FY21

- Significant progress made against our strategic focus areas.
- Purpose, ambitions and shared values redefined and engaged throughout the business (see page 3 for our new purpose).
- Five-year strategic plan created setting ambitious but realistic growth plans with renewed prioritisation and focus on both investment in growth activity and further improving our systems and controls.
- Actions taken to mitigate the impact of Covid-19 crisis while remaining focused on looking forward and investing in growth including :
  - Maintaining strong financial disciplines and operational grip with clear prioritisation of investment decisions and good cost control.
  - Enabling colleagues to work remotely where possible and implementing plans to close/re-open stores and facilities safely in accordance with legal requirements.
  - Continuing to prioritise safety of colleagues and customers, with further emphasis on promoting communication with colleagues and maintaining health and wellbeing.
  - Continuing to work closely with suppliers to implement alternative fulfilment routes.
  - Increasing engagement with colleagues, customers and suppliers.
- Focus on value and affordability to respond to potential recession.

Principal risks and uncertainties continued

Risk	How we mitigate	Progress in FY21
BRAND DAMAGE **Description** Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Increasingly, customers also want to know that products have been responsibly sourced and that their environmental impact is minimised. We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment. Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand. **Link to strategy:** Customer understanding Sustainability Product development **Performance indicator:** Product recalls Percentage of audits completed within policy **Executive responsibility:** Commercial Director **Reports to:** Chief Executive Officer **Impact compared to FY20:**	• We have a range of policies specifying the quality of own brand products and production processes which suppliers must adhere to. • Factories complete a profile questionnaire to obtain a more holistic assessment. • We operate a full test schedule for all new own label products and on a sample basis for ongoing lines, overseen by our Specialist Product Technology team. • Food hygiene and allergen awareness in our Pausa cafes is maintained through the adoption of clear operating guidelines and compulsory colleague training. Compliance audits are performed regularly. Monthly food safety committee meetings are in place. • All stock and food suppliers and the majority of our other suppliers are required to sign up to our Anti-Bribery Policy and Ethical Code of Conduct, which is in line with international guidelines, and also covers modern slavery. • Periodic audits on all suppliers who manufacture a finished product. Specialist partner reviews and grades audits and follows up on corrective actions. • Code of Conduct sets out standards for working conditions which all factories supplying Dunelm branded products must adhere to. **Board oversight:** • Ethical trading/modern slavery/ responsible sourcing reviewed at least annually in depth by the Board.	• Our ethical audit programme has been extended to cover all warehouses that hold stock of Dunelm branded product and selected Tier 2 sites. • Unannounced audits taken place across a number of our Tier 1 and Tier 2 suppliers outside of our period audit process to ensure factories remain in line with our expectations. • Continued to roll out processes to assess the environmental practices of Tier 1 sites including water, chemicals, emissions and energy use. • Introduced an assessment programme for the verification of recycled materials. • Developed online quality and ethical assessment for secondary branded products. • Launched supplier portal so own brand suppliers can access latest product specifications and testing requirements. • All Tier 1 and Tier 2 factories supplying Dunelm with food products are BRC and/or SALSA approved to ensure that they have suitable processes in place. Tier 1 suppliers complete an ethical/ safety risk assessment. • Trained store colleagues and updated allergen information for all Pausa products (available electronically on in-store tablets). SUSTAINABILITY SECTION FROM PAGE 40

Principal risks and uncertainties key

Increasing | No change | Decreasing | New

Risk	How we mitigate	Progress in FY21
CLIMATE CHANGE AND ENVIRONMENT **Description** Failure to anticipate and address the strategic, regulatory and reputational impact of climate change and environmental matters, and governmental, consumer and media action in response to it. **Link to strategy:** Sustainability **Performance indicator:** Prosecution and other regulatory action **Executive responsibility:** Chief Executive Officer **Reports to:** N/A **Impact compared to FY20:** Increasing	• Sustainability – 'Make sustainability accessible to all' is a key part of our revised Purpose and is reflected in our Focus Areas. • Chief Executive oversees our approach to sustainability issues, including climate change. Accountability for three working groups(Carbon Reduction, Circular Economy and Community) allocated to Executive Board members. • Route to Zero Steering Group oversees progress against environmental targets and climate change work with Carbon Trust advising on climate change matters. • Targets in place to reduce emissions, energy usage and waste to landfill, and increase recycling in our own operations (see pages 42 and 43). • Waste management contractor appointed with contractual KPIs to deliver waste minimisation and recycling targets, including audit and advice to stores. • Sustainability is part of the Product strategy and product selection process. Policies in place for high-risk product types and routes (cotton timber, palm oil and animal-derived materials, e.g leather, feathers and down). **Board oversight:** • Presentation at least twice a year, is part of our proposition and focus area. • Topic at the Board's strategy days.	• Sustainability is built into our purpose and 'Sustainability' is a strategic focus area for FY22. • Progress made and fully committed to report in accordance with the Task Force on Climate-related Financial Disclosures by 2022. • Announced 10-year Scope 1 and Scope 2 greenhouse gas emissions targets and Scope 3 target announced in September 2021. Became supporters of BRC's Climate Action Roadmap to make the industry net zero by 2040. • Model developed to measure carbon emissions and high level risk assessment completed with the help of Carbon Trust. • Joined Textiles 2030 initiative which aims to develop more sustainable textiles. • Packaging reduction policy adopted, packaging manual rolled out to suppliers and packaging technologist appointed to drive action. • Environmental assessment of own brand suppliers rolled out and assessments being compiled. • New factory environmental assessment for water, energy, waste and emissions reduction for all own brand Tier 1 manufacturing sites. • New Head of Climate Change appointed and resource added to waste management team. • 'More responsibly sourced cotton' and 'more responsibly sourced timber' policies updated and supporting verification made more robust. • More sustainable and recycled materials introduced into our product ranges.

Principal risks and uncertainties continued

Risk

PEOPLE AND CULTURE

Description
The success of the business could be impacted if it fails to attract, retain and motivate high-calibre colleagues.

Maintaining and evolving the culture of our business (embodied in our shared values) is essential to delivering our strategy and ensuring the long-term sustainability of our business.

Link to strategy:
Committed colleagues
Customer understanding
Shared values

Performance indicator:
Colleague engagement

Executive responsibility:
People and Stores Director

Reports to:
Chief Executive Officer

Impact compared to FY20:

How we mitigate

- The composition of the Executive Board is regularly reviewed by the Board to ensure that it is appropriate to deliver the growth plans of the business.
- Succession plans and appraisals are in place across the Group.
- High-calibre individuals are retained and developed through sponsored talent management and development.
- Shared values describe and embed our culture.
- The Group's Remuneration Policy detailed in this report is designed to ensure that high-calibre executives are attracted and retained. Lock-in of senior management is supported by awards under the Long-Term Incentive Plan.

Board oversight:

- People plan, talent and succession and culture reviewed at least annually by the Board.
- Monthly CEO report covers People.
- Colleague dashboard regularly reviewed by the Board.
- Nominations Committee and Remuneration Committee oversight of People policies and practice.
- Group Board engagement with colleagues through site visits, senior executive mentoring, NED attendance at annual seminar, and at National Colleague Voice meetings 8-10 times per annum.

Progress in FY21

- New purpose created, re-emphasising our shared values and foundations.
- Capability increased through resource investment in key areas notably in our digital and data teams.
- Increased Group Board focus on Board and Executive Board succession and talent management and introduced framework to aid better discussion.
- Talent Committee established, overseen by the Nominations Committee and the Group Board, to provide greater focus and a more formal talent management and succession structure throughout the business.
- New remuneration policy with Covid-specific initiatives introduced to support better retention and reward of colleagues.
- We launched our first inclusion and diversity networks, each being sponsored by an Executive Board member.
- Board of Directors attended awareness workshops, with expert guest speakers on diversity and inclusion subjects.
- Developed and rolled out diversity and inclusion training and significantly increased our focus with the 'The is Me' programme.
- Number of National Colleague Voice meetings increased to 8-10 per annum, attended by the CEO and at least one NED, with formal post Board feedback.
- We invested in training over 7,500 store colleagues in a new 'friendly and helpful' programme, keeping them engaged and motivated during the third lockdown.
- Continued the work of the Store Colleague Safety Group to oversee colleague personal safety in stores.
- Line managers have completed mental health awareness training which has been implemented by increased communication on our 'Home Comforts' intranet. Store colleagues have completed an online mental health module.

Principal risks and uncertainties key

Increasing | No change | Decreasing | N New

Risk	How we mitigate	Progress in FY21
REGULATORY AND COMPLIANCE **Description** Fines, damages claims and reputational damage could be incurred if we fail to comply with legislative or regulatory requirements, including consumer law, health and safety, employment law, GDPR and data protection, Bribery Act, or competition law. **Link to strategy:** Customer understanding Sustainability **Performance indicator:** Prosecutions and other regulatory action **Executive responsibility:** Company Secretary **Reports to:** Chief Financial Officer **Impact compared to FY20:** No change	• Policies and training in place in respect of key compliance areas. These are regularly reviewed and updated. • Operational management is responsible for liaising with the Company Secretary and external advisers to ensure that new legislation is identified and relevant action taken. • Dedicated Group health and safety function to oversee this aspect of compliance. • Training on the requirements of the Bribery Act and competition law is in place for all relevant colleagues and policies are communicated to all suppliers. • Whistleblowing procedure and independently administered helpline which enables colleagues to raise concerns in confidence. **Board oversight:** • Monthly Board report on health and safety, GDPR compliance and whistleblowing. • Health and safety reviewed in depth by the Board at least annually. • GDPR and Bribery Act are standing Audit and Risk Committee agenda items. • Non-compliances reported by the Company Secretary by exception.	• The health and safety team continue to play a leading part in our response to the Covid-19 crisis. Through each phase of the crisis we have developed and implemented safe physical measures and processes at our stores, warehouses, vehicles, manufacturing site and offices. • Installed new security locks on single knife products and refreshed our Challenge 25 training material and updated our policy. Continued programme of test audits with pass rates above industry average. • Implemented procedures and policy on use of independent contractors to comply with legislation introduced in April 2021 to ensure that appropriate tax and NI is paid by all workers. • Continued focus on compliance training for all colleagues. New learning and development system launched to enable easier digital access. • Continued to strengthen governance of food safety in Pausa cafes including refreshed hygiene and allergen training, guide available on a newly created tablet-based app in store. • Launched a new module for food safety, hygiene and allergen training in our Pausa cafes and implemented a tablet-based allergen app in store to strengthen the robustness of our allergen information.

Principal risks and uncertainties continued

Risk	How we mitigate	Progress in FY21
IT SYSTEMS, DATA AND CYBER SECURITY **Description** Operations impacted by failure to develop technology to support the strategy, lack of availability due to cyber attack or other failure, and reputational damage/fines due to loss of personal data. **Link to strategy:** All focus areas **Performance indicator:** Number of major incidents Reportable data breaches **Executive responsibility:** Chief Information Officer **Reports to:** Chief Executive Officer **Impact compared to FY20:**	• Steering Group in place to oversee the Group's approach to IT security and data protection. • Formal IT governance processes in place to cover all aspects of IT management. • Changes to IT services are managed through a combination of formal programmes for large and complex projects, or bespoke iterative development methodologies for smaller-scale changes. • A detailed IT development and security roadmap is in place, aligned to strategy. • Comprehensive third-party support in place for relevant technologies. • Business continuity in place for all major systems and applications. • Business process, authorisation controls and access to sensitive transactions are kept under review. • Point of sale end-to-end encryption in place on our payment terminals of which software is updated continuously. • Cyber insurance cover in place. **Board oversight:** • Cyber security is a standard agenda item for the Audit and Risk Committee. • Major security incidents reported by the Company Secretary.	• Refreshed our education and awareness programmes to keep colleagues informed and to reduce likelihood of an event occurring, including tailored GDPR training for colleagues across the business provided by a specialist GDPR legal practice. • Further developed our IT security governance with specific recruitment to increase capability and resource. • Implemented periodic Disaster Recovery testing with results reported to Audit & Risk Committee. • Continued to implement the GDPR risk treatment plan and have recruited a dedicated GDPR specialist. • Continued to implement security improvements. • Internal audit review of our cyber maturity completed and a number of actions completed to address its findings. • Desktop test of our readiness to manage a cyber breach completed. • Aligning to the ISO27001 framework to broaden our cyber security perspective across the enterprise, whilst retaining Cyber Essentials and NIST. • Crisis management simulation exercise conducted to test our resilience and response in a cyber security terrorism scenario. • Recruited specialist resource across various technology teams to improve capabilities and resilience.

IT SYSTEMS, DATA AND CYBER SECURITY

Information security policies and systems audit frequency

We have a number of policies in place to set out how we manage IT, cyber security and data management, including an overall Personal Information Security Policy, a Data Protection Policy, and other policies covering matters such as use of social media and personal devices to access Group systems.

We measure ourselves against the National Cyber Security Centre's (NCSC) 'Ten Steps' to cyber security and, in recent years, we have been working towards aligning our management systems to the NCSC Cyber Essentials Plus standard to provide external assurance.

This year we have decided to align to the ISO 27001 framework. We carry out formal penetration testing at least annually; this happens far more frequently when we test new areas of the commercial website and any new software developments. Vulnerability assessments are carried out continuously.

In 2020, our new Internal Auditor, KPMG, carried out a business-wide controls 'health check', as well as an audit of general IT controls and cyber security. Both resulted in several actions, and progress has been made to address these, including allocating additional resources. Further details are in the report of the Audit and Risk Committee on page 137.

Principal risks and uncertainties key

Increasing | No change | Decreasing | N New

Risk	How we mitigate	Progress in FY21
SUPPLY CHAIN DISRUPTION **Description** Changes in global supply chain capacity, labour shortages, ongoing disruption from Covid-19 and geo-political instability may cause interruption to the supply of stock to our stores and fulfilment of online orders which could impact sales. Inflationary pressures linked to these challenges could impact profitability. **Link to strategy:** Customer understanding Product development Post sales experience **Performance indicator:** Service levels **Executive responsibility:** Customer Operations Director **Reports to:** Chief Executive Officer **Impact compared to FY20:** Increasing	• Supply chain strategy in place to ensure capacity is in line with long-term financial plan. • Detailed budgeting and forecasting in place to match capacity to demand. • Business continuity plans in place for Dunelm non-store facilities. • Contracts in place with third-party logistics partners. • We seek to limit dependency on individual suppliers by actively managing key supplier relationships. • Business continuity plans for all sites reviewed including alternative suppliers in politically unstable countries. • Upgraded home delivery vehicle fleet with vehicle recycling plan in place. **Board oversight:** • Business continuity is a standard Audit and Risk Committee agenda item.	• Covid-safe processes continued across all our sites to enable operations to continue throughout the Covid crisis. This included a significant increase in 'Direct to Customer' deliveries from our suppliers. • 'Fit for Future' logistics capacity plan created with investment in a new site-to-store furniture hub and appointed a new third party to provide additional e-commerce capacity at a new site to meet customer demand. • Flexible capacity in place with third parties to support volumes and manage supply chain volatility. • Vendor system improvements made to support higher logistic volumes. • New labour sourcing agencies onboarded to add recruiting capacity and operational working hours increased to 7 x 24 hours. • Renewed long-term logistics contract for store deliveries and our 'direct to store' supplier operations. • Increased the size of our imports team to manage potential post Brexit and ongoing freight disruption. • Successfully managed post Brexit transition with no significant disruption. • Continued to strengthen relationships with key suppliers as well as creating new relationships to build capacity. • Increased stock visibility providing more insight of stock orders and enabling more effective supply chain capacity planning.

Data breach/incident response plan

Our information security incident management process is documented and tested annually. In July 2021 we also carried out an externally facilitated desktop exercise involving a major cyber security incident, and the learnings were fed back into the crisis management process and reported to the Executive Board and the Audit and Risk Committee. Our process includes definitions of what determines a major or minor incident and the steps we are required to take. Any major incident is escalated to the Cyber Security Incident Response Team (CSIRT) and significant incidents raised to the Company Secretary and Chief Information Officer (both Executive Board members), who would invoke our Crisis Management Plan, if necessary. In the event of any significant data breach, we would comply with our obligations to notify impacted individuals in a timely manner.

Responsibility for privacy and data security

The Chief Information Officer has executive responsibility for managing risks relating to IT systems, data and cyber security. Cyber security is a standard agenda item for the Audit and Risk Committee. Cyber security is also a monthly standing agenda item on our newly established Risk and Resilience Committee with a 'deep dive' scheduled at least annually. The output of this meeting is reported monthly to the Executive Board.

Principal risks and uncertainties continued

Risk	How we mitigate	Progress in FY21
BUSINESS EFFICIENCY **Description** Profitability could be impacted by failure to operate the business efficiently or to manage cost-price volatility. **Link to strategy:** All focus areas **Performance indicator:** Operating cost % **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive Officer **Impact compared to FY20:**	• Costs are managed by the Board and Executive Board through the budget and forecasting process and monthly performance reviews. • Monthly steering groups in place to review specific areas such as sourcing, stock loss and digital profitability, • Dunelm's scale, growth and increased buying power allows it to secure supply of key services and raw materials at competitive prices. Commodity price tracking covers all key materials. • Major non-stock purchase contracts regularly tendered. **Board oversight:** • Board receives monthly management accounts and regular updates on strategic focus areas. • Long-term plans and budget reviewed by the Board at least annually.	• Continued focus on cost discipline through monthly Executive Board performance review and robust investment approval process. • Deloitte appointed to undertake an assessment of our retail capabilities. Output of this has informed a three-year plan to invest in core systems and processes to provide capacity to support our growth strategy. • Productivity group focusing on delivering productivity in stores, more efficient stock processes, and supply chain including new customer proposition ways of working to maximise efficiency e.g. Click and Collect. • Negotiation of sea freight shipping rates now complete with lower than market price achieved (up to March 2022).
FINANCE AND TREASURY **Description** Growth constrained by lack of access to capital/financial resource. **Link to strategy:** All focus areas **Performance indicator:** Operating cash conversion Banking covenant compliance **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive Officer **Impact compared to FY20:**	• Dunelm works with a syndicate of long-term, committed partner banks. The Group has a £165m, five-year Revolving Credit Facility in place until March 2023. • A Group treasury policy is in place to govern levels of debt, cash management strategies, and to control foreign exchange exposures. • Hedging is in place for foreign exchange, and freight and energy prices are agreed in advance, to help mitigate volatility and aid margin management. **Board oversight:** • Board receives monthly treasury report.	• Actions continued to improve controls around stock and cash management, including controls around stock purchasing and forecasting. • Strong focus remained on cashflow with robust process created to provide dynamic forward-looking cashflows by week. • Clear plan and timetable created for refinancing of current Revolving Credit Facility (RCF) and transition from LIBOR to SONIA.

Going concern, viability and s172(1) statements

GOING CONCERN AND VIABILITY STATEMENT

At the time of approving the financial statements, the Board of Directors is required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'Going Concern' basis of accounting. The Board is also required to state that it 'has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due' (the 'Viability Statement'). To support this statement, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks. In FY20, a three-year period was chosen due to the uncertainty arising from the pandemic. However, in FY21, the Group has chosen to review viability over a five-year period reflecting the confidence the Board has in the future growth of the business. This is aligned to the 'central case' five-year plan approved by the Directors in May 2021, with two 'severe but plausible downside' scenarios and two reverse stress tests as described on page 90.

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

Key judgements and mitigating actions

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 the homewares market as the hospitality and travel industries re-open and the impact of further lockdowns as a result of the ongoing Covid-19 pandemic. In terms of future lockdowns, the Directors have considered both a 'circuit break' style lockdown in December 2021 and a more prolonged period of lockdown, as seen in early 2021, both of which could result in future store closures. In forming their conclusions, the Directors reviewed the trading performance during the three national lockdowns in the past 18 months and the trading performance when restrictions have been lifted. In forming their conclusions, the Directors also considered the potential mitigating actions that the Group could take to preserve liquidity and ensure compliance with the Group's financial covenants. In doing so, judgement has been applied in determining whether such actions would be reasonably possible to execute as well as the financial impact of taking such actions. In terms of mitigating actions, the Directors are confident that they would be able to take similar actions to those taken during the first lockdown in March 2020, which rapidly secured the financial stability of the business.

Going concern, viability and s172(1) statements continued

Modelling potential downside scenarios

In their consideration of going concern and the future viability of the Group, the Directors have reviewed future profit forecasts and cash projections, which are based on market data and reflect their experience over the last 18 months during the Covid-19 pandemic. Even in these uncertain times, the Group has grown sales and profit whilst navigating the various lockdown restrictions; the Directors have used their experience gained during this period to model two different downside scenarios.

The 'market downturn' scenario assumes a change in consumer spending away from homewares, as the hospitality and travel industries open up, with an additional five-week 'circuit break' lockdown in December 2021. The sales downside assumption is 2% lower growth in stores and 5% lower growth in online sales across all five years and the performance during the five-week lockdown period in December 2021 is based on the actual sales performance experienced in the various lockdowns over the past 18 months. However, we have assumed no upsurge in sales when the stores re-open due to pent-up demand. Throughout this scenario we have assumed no government support, no cost mitigation actions to be taken and the continuation of dividend payments in line with our current dividend policy. In this 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in any of the five years under review.

The 'three-month lockdown' scenario assumes a government enforced national lockdown over our peak trading period of December 2021 to February 2022, where the stores are closed, but similar to the lockdown in Q3 FY21, we are able to offer Click & Collect services. Similar to the 'market downturn' scenario, we have assumed no subsequent benefit from pent-up demand, no government support, no cost mitigation actions taken and the continuation of dividend payments in line with our current dividend policy. As with the 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in this 'three-month lockdown' scenario over any of the five years under review.

Reverse stress testing

To provide additional assurance around the Group's viability, two reverse stress tests have been modelled, expanding on the reverse stress testing initially carried out at the end of FY20. In both of these reverse stress tests we have assumed that variable costs would reduce as sales reduce, that we would be able to save £20m per annum of current fixed costs and that we would reduce the level of capital investment to £10m per annum and suspend the payment of dividends. In the first reverse stress test, we have modelled the sales decline required to breach either of the current covenants in the existing Revolving Credit Facility (RCF). A sales reduction of 30% from Q2 FY22 and a reduction of 36% in FY23 would be required for covenants to be breached by the end of FY23. In the second reverse stress test scenario, we have modelled the level of sales reduction required to breach the RCF limit of £165m. This would require a reduction in sales of 50% per annum from the 'central case' to effectively run out of funding by the end of FY23.

Financing

The Group's banking agreements and associated covenants are set out in the CFO's Review and include a £165m RCF (maturing in March 2023), an accordion option with a maximum facility of £75m and a £10m uncommitted overdraft. We are currently in discussions with the banks to refinance this facility and are confident that this will be achieved before the interim results in February 2022.

The Group ended the financial year with £129m cash at bank. The financial covenants are tested semi-annually in line with our December Interim reporting and June year-end reporting. These covenants are normally met with significant headroom. In both downside scenarios as explained above, the Group continues to forecast compliance with all financial covenants throughout the going concern and viability period.

"As with the 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in this 'three-month lockdown' scenario over any of the five years under review."

GOING CONCERN AND VIABILITY CONCLUSION

In both downside scenarios Dunelm has sufficient liquidity to continue trading, including maintaining the payment of dividends in line with its dividend policy and comfortably meet its financial covenants. The reverse stress modelling has demonstrated that a prolonged sales reduction of 30% from Q2 FY22 is required to breach covenants by the end of FY23 and a 50% sales reduction is required to breach the RCF limit by the end of FY23.

In such an event, management would follow a similar course of actions to those initially undertaken in March 2020, which include but are not limited to:

- Reducing discretionary spend (e.g. marketing and maintenance)
- A reduction in capital investment (e.g. new stores and refits)
- Manage stock levels closely to demand
- Suspension of ordinary dividends, and no special dividends
- Reduce operating model costs (e.g. reduced store opening hours, lower technology spend with third-party developers)
- Delay in payments, including landlords and other suppliers
- Reduction in support centre headcount.

In addition, similar to during FY20 and FY21, the government could reintroduce actions to address specific closure periods (Job Retention Scheme; rates holidays, delay in VAT payments) from which the Group could choose to benefit. As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

S172(1) COMPANIES ACT 2006 CONFIRMATION STATEMENT

The Board of Directors confirms that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006. Full details are set out on pages 14 to 17 of this report and in the Corporate Governance report on pages 100 to 113, which are incorporated into this Strategic Report by reference.

STRATEGIC REPORT

This report was reviewed and signed by order of the Board on 8 September 2021.

Nick Wilkinson
Chief Executive Officer
8 September 2021

Governance & regulatory information

“The Covid-19 crisis has demonstrated the strength of our values, our culture and our leadership, together with our determination to deliver for all our stakeholders.”

Andy Harrison
Chairman

Chairman's letter

Dear Shareholder

PURPOSE, CULTURE AND RESILIENCE

Covid-19 bought a new sharpness to the Board's discussion of 'resilience'. We concluded this stems from having a strong shared purpose, supported by our culture of doing the right thing, taking long-term decisions, prudent capital management, and maintaining good relationships with all our stakeholders, with good leadership at its nexus. In the second year dominated by the Covid-19 pandemic, the Board and management have focused on these factors and Dunelm is emerging from Covid as a stronger business, forged by overcoming adversity, not least having our stores closed for a third of the year. I am proud to be a small part of the Dunelm team and I would like to profoundly thank my Board colleagues and the Executive Board for their commitment and support over the year.

EVOLVING OUR PURPOSE AND SHARED VALUES

A strong sense of purpose has long been innate at Dunelm and we have developed our purpose, to reflect the evolving external environment and the ever-increasing digital elements of our business. Our evolved purpose is 'To help create the joy of truly feeling at home. Now and for the generations to come' and was developed following extensive consultation with customers and colleagues, to ensure that it resonates with these key stakeholders. Full details of this, including why we consider each element to be important, are on page 3. At the same time, we reviewed with our colleagues our shared values, which are based on the business principles developed by Sir Will Adderley shortly after the business was floated in 2006. We believe that the four values of Act like owners, Keep listening and learning, Long-term thinking and Stronger together encapsulate the way that we want our colleagues to behave. Our Board and the leaders in our business are accountable for role modelling our values, and we take care to ensure that we recruit and appraise our leaders against them in order to protect and enhance our culture.

BOARD MEMBER UPDATE

I was delighted to welcome Arja Taaveniku to the Board in February 2021, and I am pleased that she is already making a valuable contribution to our strategy discussions and Board deliberations. Details of the background to her appointment are in the Nominations Committee report on pages 123 to 124.

As reported last year, William Reeve was appointed as Senior Independent Director in September 2021, to fill the vacancy left by the retirement of Liz Doherty.

Paula Vennells stepped down from the Board and we thank her for the positive contribution she made to the business since her appointment in September 2019.

Since the year end we have announced the appointment of Vijay Talwar to the Board, to enhance the Board's capabilities in large-scale digital commerce, cyber security and finance. Vijay will join us on 1 October 2021. As our Board will be 30% female following Vijay's appointment, we also commenced the search for a female NED in order to meet governance requirements on gender diversity.

TALENT, DIVERSITY AND SUCCESSION

One of the important commitments stemming from our 2020 Board review was for the Board to increase its focus on succession and talent management, both to the Board and Executive Board and throughout the business. This has initially been conducted through the work of the Nominations Committee, and has now become a prime focus of the Executive Board and increasingly of our senior management. We are deeply conscious of the importance of developing the next generation of leadership with the enhanced capability to lead in an ever more complex world. The Board has also focused more of its time on diversity and inclusion through a tailored education process. Details of both of these activities are in the Nominations Committee report.

"I am proud to be a small part of the Dunelm team and I would like to profoundly thank my Board colleagues and the Executive Board for their commitment and support over the year."

Read more

Chairman's letter continued

SUSTAINABILITY AND CLIMATE CHANGE

The Board has spent a significant amount of its time this year discussing climate change and sustainability, reflecting our increased focus and ambition in this area. We have announced ambitious long-term carbon emissions reduction targets that are Paris-aligned, and are supporters of the British Retail Consortium's Climate Action Roadmap which aims to make the industry net zero by 2040. A major, ongoing, workstream is our preparation to meet the guidelines set by the Task Force on Climate-related Financial Disclosures (TCFD) by FY22. This work has led to a step-change in how we organise ourselves to understand, manage and mitigate risks associated with climate change – and to realise the considerable opportunities from doing this at a strategic level. The Board is committed to ensuring that Dunelm makes its own contribution to addressing the world's climate change and biodiversity challenge as specifically referenced in both our purpose and shared values.

GOVERNANCE AND REPORTING DEVELOPMENTS

It was another busy year in terms of governance reform, guidance and new reporting best practices. We adopted the 2018 UK Corporate Governance Code last year, and our report was received positively from our investment community. This year we have considered additional published guidance, including the Financial Reporting Council (FRC) guidelines on reporting under s172 Companies Act 2006. Our s172 report is set out on pages 103 to 113 of this Governance Report and in our Strategic Report on pages 14 to 17, with our s172 statement on page 91.

We have a pragmatic approach to planning for the evolving reporting landscape. Every year we aim to lay the groundwork for upcoming regulatory changes and important guidance. We aim to adopt the same approach for the forthcoming audit reforms and climate change reporting and you will notice these are already being considered by our Board and Committees.

> **"The Board is committed to ensuring that Dunelm makes its own contribution to addressing the world's climate change and biodiversity challenge, as specifically referenced in both our purpose and shared values."**

AGM

At our AGM this year, in line with our policy, all Directors will be seeking reappointment. In addition, in accordance with the Listing Rules, each of the Non-Executive Directors will also be subject to a vote of shareholders independent of the Adderley family. As our largest shareholder, Sir Will Adderley, reduced his shareholding slightly in the year, we are required to seek a Rule 9 waiver to allow us to buy back shares to fulfil colleague share option entitlements. We hope that shareholders will support this resolution, which is limited to this purpose only.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Andy Harrison
Chairman
8 September 2021

CODE COMPLIANCE STATEMENT

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

The Board considers that it has complied with the Corporate Governance Code during the financial year by applying the Principles and reporting against the Provisions in this Annual Report, except for the following:

Provision 12 – Senior independent Director (SID)

During the period from 28 June 2020 until the appointment of William Reeve on 10 September 2020 we did not have a Senior Independent Director (SID) in place. During this brief time, Sir Will Adderley, Deputy Chairman, carried out the SID role as required, and the Chairman's annual appraisal in 2020 was completed as part of the third-party Board review. At FY21 year-end we were compliant.

Provision 38 – Executive pensions

Although our 2020 Remuneration Policy requires that the pension entitlement of newly appointed Executive Directors should be aligned to the workforce average, the pension entitlement of the incumbent executives, Nick Wilkinson and Laura Carr, exceeded this during the year. Prior to 1 July 2020, their entitlement was 10% of base salary; on 1 July 2020 they accepted a reduction to 8%. They have now agreed to reduce their pension entitlement from 1 August 2021 to the current workforce average, which is 3%. This is two years ahead of the Remuneration Committee commitment to do so by 1 July 2023. Further details are in the Remuneration Report on page 169.

A DOWN TO EARTH APPROACH TO GOVERNANCE

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

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

- We believe that good governance – in our words 'doing things properly' – leads to stronger value creation, the building of greater understanding and trust of our business, lowering risks and creating opportunities for all stakeholders.
- It is the Board's responsibility to instil and maintain a culture of openness, integrity and transparency throughout the business, through our policies, communications and by the way in which they, and therefore Dunelm acts.
- We always intend to comply with the prevailing principles of good governance and code of best practice honestly, simply, transparently, and with clarity and integrity.
- We are pragmatic in our approach and apply corporate governance guidelines in a way that is beneficial to our business, and our stakeholders, consistent with our culture and true to our shared values.
- If we decide that the interests of the Company can be better served by doing things in a different way – without compromising our purpose, culture or shared values – we will explain our reasons why in a thoughtful, compelling way, including how we have mitigated any impacts of not following the Code.
- Our Board members believe it is more important to focus on what is right for Dunelm than be in the spotlight; we are prepared to live with our decisions for the long term, and we care about and listen to our stakeholders.

THIS YEAR'S GOVERNANCE REPORT

Our governance reporting follows the order set out in the Corporate Governance Code:

1. Board leadership and company purpose

2. Division of responsibilities

3. Composition, succession and evaluation

4. Audit, risk and internal control

5. Remuneration

PRESENTATIONS AND POLICIES RELATING TO GOVERNANCE AND SUSTAINABILITY ARE ON OUR CORPORATE WEBSITE CORPORATE.DUNELM.COM

Directors and officers

Our Board demonstrates independent challenge and has a mix of backgrounds and skills, that allow for effective decision-making.

Andy Harrison
Chairman

N R

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

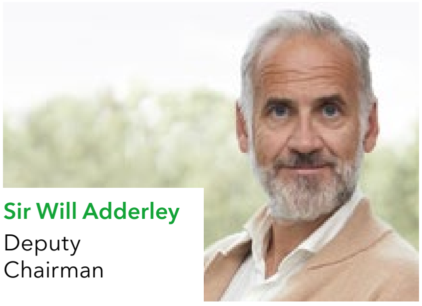
Dunelm role
Chairs the Board, which is responsible for Group strategy, performance, risk oversight and good governance. Chairs the Nominations Committee. Regularly visits the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team, and attends meetings of the National Colleague Voice by rotation. Participates in investor presentations and some shareholder meetings.

Joined Dunelm Board
September 2014.

Previous experience
Chief Executive of Whitbread plc (2010 to 2015). Chief Executive of easyJet plc (2005 to 2010). Chief Executive of RAC plc (1996 and 2005). Non-Executive Director and Chair of Audit Committee at EMAP plc (2000 to 2008).

Other commitments and relevant activities
None.

Gender and ethnicity
Male, White British.



Sir Will Adderley
Deputy Chairman

N

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

Dunelm role
Director and major shareholder, who spends his time on strategic activities which protect and enhance shareholder value and preserve the Group's culture and values. Member of the Nominations Committee. Resumed his role as Deputy Chairman in January 2016. Retains an executive role to support the business in matters agreed with the CEO, as required. Current focus is on supplier relationships, sustainability and mentoring colleagues internally.

Joined Dunelm Board
1992 and has worked for Dunelm for his whole career. He took over the day-to-day running of the Group from his father in 1996. Remained as Chief Executive through the Group's IPO in 2006. Became Deputy Chairman in February 2011 and was reappointed Chief Executive in September 2014.

Previous experience
All parts of Dunelm's business.

Other commitments and relevant activities
WA Capital Limited.

Gender and ethnicity
Male, White British.

Nick Wilkinson
Chief Executive Officer

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

Dunelm role
Leads the Group and chairs the Executive Board. Proposes the strategy to be approved by the Board, and is accountable for delivery of strategic and financial objectives; customer, colleague and investor engagement and sustainability objectives. Chairs the Pathway to Zero Steering Group. Regularly attends meetings of the National Colleague Voice. In addition to his Board responsibilities, liaises with the Remuneration Committee in respect of below Board remuneration, and attends Audit and Risk Committee meetings by invitation.

Joined Dunelm Board
February 2018.

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

Other commitments and relevant activities
Member of the British Retail Consortium's Climate Action CEO Committee since inception in November 2020.

Gender and ethnicity
Male, White British.

Committee memberships

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

Laura Carr

Chief Financial Officer

Key strengths

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

Dunelm role

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

Joined Dunelm Board

November 2018.

Previous experience

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

Other commitments and relevant activities

None.

Gender and ethnicity

Female, White British.

Ian Bull

Independent Non-Executive Director

A N R I

Key strengths

An experienced finance and strategy specialist. Fellow of the Chartered Institute of Management Accountants with over 20 years' business and financial experience with leading consumer facing businesses. Long-standing plc experience and shareholder understanding.

Dunelm role

As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team and attends meetings of the National Colleague Voice by rotation. Attends investor presentations and shareholder meetings. Chair of the Audit and Risk Committee.

Joined Dunelm Board

July 2019.

Previous experience

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

Other commitments and relevant activities

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

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

Gender and ethnicity

Male, White British.

William Reeve

Independent Non-Executive Director

A N R I

Key strengths

An entrepreneur and technology investor with deep digital experience.

Dunelm role

As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team and engages with the National Colleague Voice by rotation and annually on remuneration matters. Attends investor presentations. Senior Independent Director and Chair of the Remuneration Committee.

Joined Dunelm Board

July 2015.

Previous experience

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

Other commitments and relevant activities

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

Gender and ethnicity

Male, White British.

Directors and officers continued

Peter Ruis
Independent Non-Executive Director

A N R I

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

Dunelm role
As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team and attends meetings of the National Colleague Voice by rotation. Attends investor presentations.

Joined Dunelm Board
September 2015.

Previous experience
Managing Director of URBN Corporation (2018 to 2020), Chief Executive of Jigsaw (2013 to 2018). Senior positions at John Lewis Partnership (2005 to 2013), Levi Strauss (2001 to 2004) and Ted Baker (1997 to 2001).

Other commitments and relevant activities
President of Indigo Canada.

Gender and ethnicity
Male, White British.

Marion Sears
Non-Independent Non-Executive Director

N D

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

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

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

Previous experience
Robert Fleming, JP Morgan Investment Banking.

Other commitments and relevant activities
Non-Executive Director of Fidelity European Trust plc, Aberdeen New Dawn Investment Trust plc and Keywords Studios plc, and Director of WA Capital Limited. Member of Chapter Zero, the Directors' Climate Forum, and a regular attendee of its events. Past Chair of the Corporate Responsibility Committee at Persimmon plc.

Gender and ethnicity
Female, White British.

Arja Taaveniku
Independent Non-Executive Director

A N R I

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

Dunelm role
As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team and attends meetings of the National Colleague Voice by rotation. Attends investor presentations.

Joined Dunelm Board
February 2021.

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

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

Gender and ethnicity
Female, White Swedish.

Committee memberships

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

- **I** Independent Non-Executive Director, as per UK Corporate Governance Code interpretation
- **D** Designated Non-Executive Director for colleague matters

Notes:

Denotes Board members as at FY21 year end.

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

Arja Taaveniku was appointed to the Board on 15 February 2021.

Paula Vennells stepped down from the Board on 25 April 2021.

Vijay Talwar will join the Board on 1 October 2021. Details of his skills and background are set out in the AGM Notice.

Dawn Durrant
Company Secretary

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

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

Joined Dunelm Board
November 2011.

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

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

Gender and ethnicity
Female, White British.

Bill Adderley
Founder and Life President

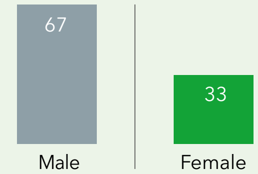
Bill, together with his wife Jean, founded the business in 1979. Although no longer on the Board or actively involved in management, Jean remains a major shareholder, and both Bill and Jean frequently visit stores and shop online at dunelm.com.

NEW NON-EXECUTIVE DIRECTOR APPOINTMENT

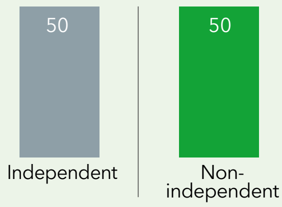
In July 2021 (and after the period under review) we announced the appointment of Vijay Talwar as a Non-Executive Director. Vijay will join the Board on 1 October 2021, and will be a member of the Audit and Risk, Remuneration and Nominations Committees. Vijay is an Executive Committee member at Foot Locker, Inc., the New York-based specialty athletic retailer, where he is Executive Vice President and Chief Executive Officer of Europe, Middle East and Africa. During his tenure at the company, he has supported global digital development in varying leadership roles. Prior to his current role, Vijay served as the company's Global President of Digital where he was charged with driving successful transformation of the direct to consumer platform. Overall, he holds a wide range of commercial experience from companies such as Sears Holdings and Blue Nile, Inc, The William J. Clinton Foundation, India and E.L. Rothschild.

BOARD ANALYSIS

By gender
%

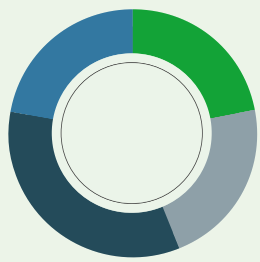


By independence*
%



* Numbers exclude Chairman who was independent on appointment.

Non-executive Directors
By tenure



- 0-2 years 1
- 3-5 years 1
- 6-8 years 2
- 9 years + 1

MORE INFORMATION PAGE 114

Board leadership and company purpose

PRESERVING LONG-TERM VALUE

We have a relatively small Board whose members continue to work effectively together and are committed to promoting the long-term sustainable success of the Company, generating value for all stakeholders, including the wider contribution to the economy and society. The Board believes that good governance supports Dunelm's purpose, shared values and strategy and is satisfied that these elements and Dunelm's culture are aligned. For ease of reference and to avoid repetition, strategic elements, evidenced throughout our Strategic Report and in this Governance Report, are listed below:

- **Purpose:** In 2021, we launched our new purpose 'To help create the joy of truly feeling at home. Now and for the generations to come'. Pages 2 to 3.
- Our **shared values** and how they align with our purpose, ambition and strategy are detailed opposite and on page 11. In the Strategic Report on pages 28 to 31 we explain our **strategy**, focus areas and objectives.
- Our **sustainable business model**, with an overview of the resources and relationships in place to meet our objectives (and how we share value, contribute to wider society and balance the interests of different stakeholders), is described on pages 28 to 29 and in our report under s172 Companies Act 2006 on pages 103 to 113.
- Key performance indicators, which are used to measure **performance** against objectives, including those used to determine bonus and long-term remuneration, can be found on pages 32 and 33.
- On page 95 in this report, we reiterate how our practical approach to governance supports our strategy and long-term business model.
- **Opportunities and risks** to the future success of the business have been considered and addressed and are set out on pages 76 to 88. Details of the Group's risk management framework, systems and controls and internal control framework are also set out in the same section. This year risks and opportunities related to climate change were discussed in detail, leading to a new climate change governance structure, which is set out in our first report under the Task Force on Climate-related Financial Disclosures (TCFD) on pages 48 to 51.

OUR PURPOSE, STRATEGY, CULTURE AND SHARED VALUES

Our purpose, which we rearticulated this year, is 'To help create the joy of truly feeling at home. Now and for the generations to come', was formally adopted in July 2021.

Our purpose explains why we do what we do (i.e. why we exist within the UK homewares market, our long-lasting/sustainable approach and what we seek to achieve). On page 3 we explain the different elements of our new purpose, and on page 2 our CEO, Nick explains how and why it came about – including extensive research and engagement with our colleagues and other stakeholders – and how we intend to communicate it. Our new purpose has already been integrated into the presentation of our strategic plan (page 11) and business model (pages 28 to 29), demonstrating how our purpose, proposition, foundations, strategic focus areas and shared values interlink and are being communicated to internal and external stakeholders. Our purpose also sits at the heart of our sustainability reporting (pages 40 to 75).

Our purpose, ambitions, proposition and foundations are all underpinned by our shared values. These describe how all colleagues in the Company are expected to act and influence our culture. Our Board and senior leadership team role model our shared values which have evolved over time from the business principles formulated by Sir Will Adderley, our Deputy Chairman, over a decade ago, and continue to encapsulate the values of the Company's founders, the Adderley family. We have been pleased that the evolution of our shared values has never required wholesale alterations – an indication of their strength and importance to the business.

At our Board's strategy days, our five-year plan and the strategic elements which will deliver the objectives described in it, were debated and challenged in the context of our purpose and shared values.

Our shared values are: Act like owners, Keep listening and learning, Long-term thinking, and Stronger together. They shape how we think, how we respect and treat our stakeholders and how we work together. Our shared values are also reflected in our Code of Business Conduct, our Anti-Bribery Policy, our Ethical Code of Conduct and other policies and such as our Tax Strategy. They are also an important expression of how we look after our colleagues – from employee representation through our National Colleague Voice (NCV) (see pages 111 and 112) to further initiatives in health and wellbeing, and diversity and inclusion. All colleagues learn about our purpose and shared values on induction, they form part of our communications, and colleagues are appraised against them. This year, our revised purpose and shared values were a focus topic for colleague engagement with the National Colleague Voice and more widely throughout the organisation, and colleague feedback was incorporated into our work to ensure that they truly reflect our culture.

How the Board oversees our culture

OVERVIEW

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

PURPOSE AND SHARED VALUES

The Board has been involved in shaping and, ultimately, approving in July 2021 the Group's new 'purpose', namely 'To help create the joy of truly feeling at home. Now and for the generations to come'. This is underpinned by our shared values which define how we act towards others. Members of the Board and the leadership team act as role models for our shared values, and all colleagues are appraised against them. Further details of this are set out opposite and in the Strategic Report on pages 2 and 11.

COLLEAGUES, PEOPLE AND CULTURE

We aim to inspire, engage and develop all of our colleagues to reach their full potential, without any form of discrimination. The Board engages directly with our colleagues in a number of ways as set out below. By training, hearing, respecting and responding to our colleagues, we inspire them to deliver the best experience to our customers and deliver our strategy. People and culture is one of our principal risks considered formally by the Executive Board and Board twice a year.

CODE OF BUSINESS CONDUCT

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

SUPPLIERS

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

Board leadership and company purpose continued

HOW THE BOARD MONITORS OUR CULTURE

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

- Through interaction with Executives, members of the leadership team, and other colleagues in Board meetings and on visits to stores and other Company locations. Colleagues are able to (and do!) speak openly to all Board members and Executives and to feed back ideas of how we can do better.
- Through regular Board agenda items and supporting papers, covering 'culture indicators' such as risk management, internal audit reports and follow-up actions, customer engagement, health and safety, colleague engagement and retention, Glassdoor scores, whistleblowing and regulatory breaches.
- We review a colleague scorecard at least twice a year, looking at a range of colleague indicators, including engagement, retention, absence, gender pay, diversity, workforce composition and demographics. These inform Board and Committee decisions on talent management, share incentives and executive pay, and form part of the assessment of the performance of the Executives.
- Our Chief Executive, Nick Wilkinson, and at least one of our Non-Executive Directors (by rotation) engages formally at monthly meetings with the colleague representative body, the National Colleague Voice, as well as informally through site visits. Marion Sears, as designated NED for colleague matters, provides a direct, regular and formal route of contact with colleagues. Each meeting includes a 'Big Topic' where members are encouraged to feed back views and ideas, and Marion reports back to the Board after each meeting. Further details are set out on page 111.
- We engage with other stakeholders, as described in the s172 Companies Act section of this Corporate Governance Report.
- We review a set of 'culture' KPIs once a year alongside our risk register. These are set out below:

– Customer	NPS, recommendation, satisfaction
– Colleague	eNPS, home-grown talent, labour turnover, gender pay gap
– Product	Ethical audits completed, ethical audit scores, ethical policy breaches, product recalls
– Safety	RIDDORs, accident/footfall rate
– Compliance	Prosecutions, reportable data breaches, Bribery Act training completed, whistleblowing reports

- As an overall proxy for measuring 'culture' we use our colleague engagement (eNPS) – a Group KPI, which is also a remuneration measure (annual bonus) for our CEO and CFO and all members of the Executive Board.

GROUP KPI BONUS

During the year, and at the formal reviews in September 2020 and September 2021, the Board was satisfied that the policy, practices and behaviour of the Board and Dunelm colleagues aligned with the Company's purpose, values and strategy and that no correction was required by management.

Section 172 Companies Act 2006

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

SECTION 172(1) COMPANIES ACT

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

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

SUMMARY: KEEPING SECTION 172 HIGH ON THE AGENDA

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

- The Board sets the Company's purpose, ambitions and strategy and carries out an annual strategy review which assesses the long-term sustainable success of the Group and our impact on key stakeholders. Agenda items for the following year are set based on the decisions and next steps agreed at these meetings.
- The Board's risk management procedures identify the principal risks facing the Group, and the mitigations in place to manage the impact of these risks. Many of these relate specifically to our stakeholder groups.
- The Company Secretary sets out the text of section 172(1) Companies Act 2006 on every Board agenda by way of a reminder, and notes the relevant factors to be considered against each agenda item, which is reflected in the minutes.
- Standing agenda points and papers are presented at each Board meeting as detailed on page 116 for example, the Chief Executive Officer presents a Customer report, a Health and Safety report and an update on People matters at each meeting; the Company Secretary reports on sustainability matters in each meeting.
- There are regularly scheduled in-depth Board presentations and reports: for example, investor feedback twice a year from our brokers and corporate PR advisers; an update on People matters and a 'Colleague Dashboard' twice a year; an annual presentation on health and safety; and annual updates on ethical trading, modern slavery and climate change/sustainability.
- There is a formal review of many of these topics through standard Audit and Risk Committee and Remuneration Committee agenda items, as described later in this report.
- Where a particular matter or decision requires a balance of stakeholder interests, a summary of the relevant factors is set out by stakeholder in the supporting papers that are submitted to the Board and are minuted.
- Board members regularly attend seminars organised by external parties which provide updates on investor and governance concerns, including climate change and sustainability. The Company Secretary also regularly attends these events, and circulates a summary of relevant issues and presentations/papers with Board papers.
- This year, to improve the Board's awareness of issues relating to diversity and inclusion, the Board attended five training events hosted by Dunelm's partner, Unleashed. Details are in the Nominations Committee report.
- The Board regularly reviews the KPIs which it receives in relation to each stakeholder group and requests additional or different information which it finds relevant. For example, at the Board's request we have developed a 'customer lifetime value' measure.

Board leadership and company purpose continued

OUR APPROACH TO S172 REPORTING IN FY21

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

Although we have taken the matters set out in s172 into consideration for many years, the Code requires us to provide specific information about how the Group and the Directors have considered them, with recent guidance encouraging greater insight into the outcome of stakeholder engagement rather than the process itself. The areas encompassed in s172 touch on everything we do, and, in reality, most of the day-to-day decision-making and stakeholder engagement is carried out at the business level by members of our Executive Board, and our senior leadership team. However, more material matters require the attention of the Board and wider discussion, and we describe on pages 14 to 17 and through case studies on pages 108 to 113 how these are considered and challenged through formal Board processes, how the Board engages with stakeholders and how it oversees how the business does so. We include cross references to other sections of this report where more information and examples can be found. The Non-Financial Information Statement on page 175 should be used to identify information relevant to s172 factors, as should the numerous operational actions and outcomes described in our Sustainability section on pages 40 to 75, resulting from significant engagement with various stakeholder groups.

To explain how our Directors carried out their duties we have set out our narrative using the headings 1-7 below.

1 Identification of stakeholders and why they are important

We set out our key stakeholders, what matters to them and why we engage with them on pages 14 to 17 of our Strategic Report. Our actions and decisions are highly likely to impact these stakeholders (and vice versa) and we cannot follow our purpose, live up to our ambitions nor deliver our strategy without them. Our relationships with them are paramount to the long-term success of our business as we have mutual beneficial interests.

We engage with these stakeholders through regular dialogue at an operational level. Our Directors are formally and regularly informed about our stakeholders and their interests, and engage with them formally as well as on a more ad hoc basis. In addition to the Group's key stakeholders, there are others with whom our Board and/or senior management interact regularly and these are listed on page 17 in the Strategic Report.

How key stakeholders are relevant to our ambitions

Our key stakeholders are important to each strategic element of our 'plan on a page' as set out on page 11. However, the importance that we place on each stakeholder group in relation to our longer-term thinking is best demonstrated through our three Group ambitions, as illustrated in the table below. Each key stakeholder has a direct influence on (and interest in) our ability to work towards these ambitions. Our ambitions are aspirational and will still be relevant in the medium to long term, and each ambition is supported by Group KPIs (pages 32 and 33) which indicate the effectiveness of our engagement.

AMBITIOUS ABOUT *Our brand*	AMBITIOUS ABOUT *Being a good company*	AMBITIOUS ABOUT *Profitable growth*
growing as the #1 destination for home, with more customers shopping more frequently for homewares, furniture & more	a great place to work – making a positive social impact and operating sustainably in all of our communities	focusing on quality of growth and long-term value creation by using our resources wisely and efficiently
Relevance to key stakeholder groups		
Customers, Suppliers	Store communities, Colleagues, Suppliers, Shareholders	Shareholders, Colleagues

ENGAGING WITH OUR KEY STAKEHOLDERS – FROM OPERATIONAL MANAGEMENT TO BOARD OVERSIGHT

Key stakeholder group	Core operational engagement channels	How our Board engages directly	How our Board is informed/ keeps oversight
CUSTOMERS **Key management responsibility** Customer Director	Customer focus groups/panels; 'How did we do?' questionnaire *.	Formal annual store visits (impacted by Covid-19 in FY21); ad hoc as customers; CEO/Deputy Chairman reply personally to customers.	Every Board meeting: Customer insight report, including customer satisfaction scores and other customer KPIs.
	Customer hotline* available seven days a week; Customer engagement centre*/ individual store managers.		
STORE COMMUNITIES **Key management responsibility** Customer Director	Daily interaction with local store communities via individual store Facebook groups* (organised by locally appointed Community champions).	–	Every Board meeting: Update on charitable and community activities.
	Company Charity representative normally invited to attend annual colleague conference (see below).	Annual conference attended by Chairman, CEO, CFO and Company Secretary.	
COLLEAGUES **Key management responsibility** People and Stores Director	Twice-yearly colleague engagement survey*, followed up by targeted pulse survey, if needed.	–	Every Board meeting: Colleague matters, including any concerns picked up from intranet comments. Matters discussed circulated after each NCV meeting. Whistleblowing hotline issues analysed by Company Secretary and reported monthly to Board. Twice a year: – Colleague engagement survey results. – Colleague scorecard results. Ad hoc by CEO report. Formal annual store visits (impacted by Covid-19 in FY21); ad hoc visits as customers.
	National Colleague Voice* (NCV) meetings (online and monthly for most of FY21). See pages 111 and 112 for further details.	CEO, elected NCV colleagues and designated Non-Executive Director for employee matters (Marion Sears) attend; NEDs by rotation.	
	Annual conference for store managers and senior support colleagues.	Deputy Chairman, CEO, CFO and Company Secretary attend.	
	'Always on' 'Home Comforts' intranet is main platform for all-colleague communications, including CEO video updates. Colleagues can add comments/questions* which are answered by our People team.	CEO records video updates. Board members can view 'live' colleague comments/questions on intranet.	
	Weekly/monthly colleague 'huddles' (at every store); led by departmental head for other business areas.	Weekly CEO communication for all colleagues.	
	24/7 independent whistleblowing hotline*.	–	
SUPPLIERS **Key management responsibility** Commercial Director	Annual supplier conference.	Chairman and Executive management attend.	Annually at Board meetings: – Presentation on ethical trading/ modern slavery. – Supplier payment terms reported and published. Ongoing: – Supplier interests championed by Deputy Chairman. – Whistleblowing hotline issues analysed by Company Secretary and reported monthly to Board.
	Ad hoc supplier meetings with Board members.	CEO and Deputy Chairman meet regularly with suppliers.	
	Annual colleague conference (key suppliers normally attend).	Chairman, CEO, CFO and Company Secretary attend annual conference.	
	24/7 independent whistleblowing hotline*.	–	
SHAREHOLDERS **Key management responsibility** CEO, CFO, Company Secretary	Results announcements/presentations at least six times a year (with feedback follow-up* by financial PR adviser/broker).	CEO, CFO and NEDs attend.	Every Board meeting: Analysis of share price and share register movements. NED attendance at results presentations. Feedback from results presentations and investor meetings twice a year. Ad hoc presentations from brokers. AGM voting and proxy reports presented.
	Individual shareholder meetings/roadshows typically twice a year.	CEO, and CFO attend; Chairman and Committee Chairs available on request.	
	Annual General Meeting.	Whole Board attends.	
	Governance presentation every two years.	Company Secretary, Deputy Chairman and NEDs attend.	
	Capital markets presentation every two to three years.	CEO, CFO and Chairman attend.	
	Meetings with shareholder/pension representative groups ad hoc and at least annually.	CEO and CFO attend.	
	Annual reports, corporate website, with regular RNS updates and press releases.	–	

* Denotes key independent stakeholder reporting mechanisms

Board leadership and company purpose continued

2 Engaging with stakeholders and Board oversight

Taking on board recommendations from the Financial Reporting Council (FRC) and other guidance, this year we provide more detail about how our Executive Board, senior management team and colleagues engage with stakeholders, and explain more clearly how and when our Board members have opportunities to engage directly with stakeholders.

Additionally, we share how and how often important stakeholder feedback is presented to the Board for debate and discussion, and we indicate where stakeholders have access to independent reporting mechanisms. A summary of different types of engagement and frequency of engagement is set out in the table on page 105. Further information about how we manage our stakeholder relationships at the operational level can be found in our Sustainability section from pages 40 to 75.

3 Identifying and understanding key stakeholder issues

On pages 15 to 17 in our Strategic Report, we list matters that we know are important to our key stakeholders as a result of our various engagement methods. We do not formally ask our stakeholders to rank the list by importance, as this varies and we consider that our open communication and various engagement channels (as described in the table on page 105) enable us to assess this effectively enough at present.

4 Effectiveness of engagement

On pages 32 to 33 in our Strategic Report, we share Group KPIs, sustainability KPIs and other measures relating to the effectiveness of our engagement that are routinely reviewed by management and the Board. Narrative on performance against Group KPIs and targets for each measure (where available) are reported in detail on pages 32 and 33. Sustainability metrics are presented on pages 42 to 43, with commentary on pages 44 to 75. For some measures, performance is not published owing to commercial sensitivity, or simply owing to their recent adoption.

GROUP KPI

5 Impact of decisions on climate change and our environment

As a result of our engagement, we know that matters relating to climate change and the environment are considered important to all our key stakeholder groups. In the table below we summarise important climate change and other environmental issues and how these are managed and communicated to our Directors. Details of actions we are taking to understand the impact of climate change and biodiversity on our business, and to monitor and reduce our environmental impact can be found in the Carbon Reduction and TCFD section of our Sustainability section on pages 44 to 49. A case study example of how the Board has taken environmental matters into decision-making can be found on page 109.

Key management responsibility	• CEO (as Chair of Pathway to Zero Working Group, from July 2021). • All other members of the Executive Board have specific responsibilities within their functional areas.
What matters to our stakeholders	• Reducing energy usage. • Reducing emissions from company vehicles. • Reducing overall GHG emissions. • Promoting circular solutions, reducing impact on biodiversity and scarce natural resources, through product design, closed loop products, options to reuse, repair, take-back and recycle. • Minimising waste, packaging materials and single-use plastics (across supply chain). • Responsible sourcing – both ethical and environmental standards (for example, cotton, timber, palm oil, coffee). • Responsible waste management across our own operations (in-store, delivery network distribution and support centres). • Engaging with customers, colleagues, suppliers and industry groups to promote and share solutions and best practice.
How Board is informed	• Regular presentations on sustainability topics. • Strategy Day discussion topic. • Monthly Board report from the Company Secretary. • Energy, waste and emissions KPIs reviewed by the Board regularly. • Tracking of KPIs against Group sustainability targets quarterly.

6 Reputation for high standards of business conduct

On pages 100 to 102 in this governance report, we explain how the Board oversees and monitors our culture, including how our colleagues are expected to comply with our Code of Business Conduct, and how both colleagues and suppliers must comply with our Anti-Corruption and Anti-Bribery Policy. More importantly, we explain how our shared values and culture guide what we do and how we do things.

7 Actions/change resulting from Board engagement and discussions

When making decisions which require balance across different stakeholder interests, the Board is careful to consider each stakeholder group separately and in the context of the long-term interests of the Company. We also carefully consider whether a decision is consistent with our culture and shared values, and to ensure that we maintain the Group's reputation.

Principal decisions made by the Board during the period where different stakeholder interests were discussed and considered include:

- Payment of a one-off 'thank you' bonus of £250 to all colleagues.
- Decision to declare an interim dividend in February 2021.
- Decision to pay rent and service charges due to landlords (albeit monthly in advance rather than quarterly for part of FY20).
- Decisions about repayment of amounts received in FY20 and FY21 by way of government support through Covid crisis.
- Payment of some element of bonus and LTIP relating to FY20 to Executives.
- Decision to increase warehousing capacity and appoint a new partner to provide fulfilment services for our one-man home delivery service.
- Increased investment to support our sustainability objectives.

On pages 108 to 110 we share three case studies that show how principal decisions made by the Board involved considerable debate and discussion and the balancing of competing interests of key stakeholders.

Board leadership and company purpose continued

Payment of a one-off 'thank you' bonus to all colleagues

In July 2020, the Board agreed to pay a 'one-off' thank you bonus to all colleagues in recognition of their exceptional commitment, resilience and adaptability during the first phase of the Covid-19 crisis in 2020.

Through our colleagues' efforts we were able to maintain a safe service for our customers, which benefited other stakeholders: shareholders, communities, suppliers and other people and communities further down our supply chain. We knew that many colleagues had suffered financially as a result of Covid-19, and they told us that they valued pay above other benefits. By demonstrating to our colleagues that we had listened to them and appreciated their efforts during this extraordinary year we also aimed to boost morale and increase colleague engagement and retention. We had very positive feedback from colleagues.

Conversely, the cost of this payment reduced our profits in FY20 and impacted profit-related incentives for some of our colleagues as well as diverting funds from other potential investments. At the time of agreeing the bonus we had not yet made the decision to repay funds received in FY20 from the government's Job Retention Scheme (JRS), although we had already decided not to make any claims in respect of FY21. This posed a potential external reputational risk in terms of payments and timings. The Board decided that the benefits of rewarding the commitment of our colleagues as early as possible outweighed these other concerns. Proving that we were living up to our shared values benefits our reputation and is in the longer-term interests of our shareholders, customers, colleagues and communities.

RISKS TO DUNELM

Short-term impact on profit and shareholder returns; diversion from other investments.

OPPORTUNITIES FOR DUNELM

Enhanced engagement and commitment of colleagues; reputation for adhering to shared values; potential longer-term cost-savings due to increased colleague engagement and retention; long-term benefit to shareholders, customers, colleagues and communities.

KEY STAKEHOLDER TRADE-OFFS

Colleagues v Shareholders.

Investment in new warehouse capacity with a new partner

to support the growth of our home delivery business

In May 2021, we entered into an agreement with a new partner, GXO, to provide increased capacity for our home delivery fulfilment operations, together with a lease of a new site close to our existing warehouse operation in Stoke.

With existing operations at full capacity, a new operation to support our future growth ambitions is essential. Our new partner's improved systems and processes will enhance our competitive position and allow us to offer better service to our customers, for example faster delivery, later order cut-offs, and more combined deliveries; the latter will also reduce our environmental impact, as we will need to make fewer deliveries. In making its decision, the Board considered the risk to profit of increasing our fixed cost base (offset by lower variable costs) and of disruption as we transfer to a new partner – potentially impacting shareholders and any colleagues whose pay included performance-related incentives. The investment is significant and funds could have been allocated elsewhere.

The Board noted that although no Dunelm colleagues would be impacted, the permanent employees of the incumbent partner (currently operating at our Stoke site) would transfer to GXO under legislation, and GXO was also likely to engage agency workers. Dunelm will meet its commitments in respect of termination of the contact with the incumbent supplier and there is no impact on product suppliers. The Board decided that the long-term benefits of investing in capacity to meet our growth and improved customer proposition with a proven service provider outweighed the disadvantages.

RISKS TO DUNELM

Short-term impact on profit; increased fixed cost base; diversion from other investments.

OPPORTUNITIES FOR DUNELM

Improved customer proposition; additional capacity for growth of the home delivery business; reduced carbon emissions; long-term benefit to shareholders, customers, suppliers and communities.

KEY STAKEHOLDER TRADE-OFFS

Customers v Shareholders

Board leadership and company purpose continued

Decision to repay UK Government support provided through the Covid-19 crisis

The financial and operational performance of the Group was severely impacted by the Covid-19 pandemic in both FY20 and FY21.

In both years we had to close our stores for extended periods and therefore lost sales, profit and market share to stores who were permitted to stay open. Once we were able to re-open our stores, our sales performed strongly owing to investments in our customer proposition, our focus on making our stores, deliveries and workplaces safe for colleagues and customers, our accelerated digital innovation and the dedication of our colleagues. During this time we proved the strength and resilience of our business model.

In making decisions around UK Government Covid support, the Board has carefully considered both the respective interests of all of our stakeholders and a range of other factors, including the strong recovery of the business, the fact that our stores were closed to customers for a third of the financial year and the competitive imbalances arising from the boundaries between essential and non-essential retail.

From March to June 2020, Dunelm received support of £14.5m under the UK Government's Job Retention Scheme (JRS) to help fund the pay of our colleagues who were unable to work as a result of our stores being closed, and/or because they were vulnerable or a carer for a vulnerable individual. In June 2020, having proved the resilience of the Group's business model we decided not to claim further amounts under the JRS, and in December 2020 the Board considered and decided to repay the £14.5m received under the JRS. A key trade-off discussed was the potential impact on FY21 profit and shareholder returns in the event of potential further lockdowns and store closures. However, it was noted that were these to happen, and if Click & Collect would be permitted (unlike the first lockdown in March and April 2020), then our business would still likely break even and be profitable and cash generative in FY21, even after repayment. From a colleague perspective, the Board agreed that the repayment would have little bearing on our colleagues' wellbeing; many colleagues would be employed in store to support our Click & Collect operations and to prepare for store re-openings and the time could also be used constructively to train our colleagues and keep them motivated. Additionally, any colleague not required or unable to work would receive at least 80% of their contractual pay under our own Company-funded furlough equivalent scheme. There would, however, be some potential disadvantage for those colleagues in a performance-related bonus or share incentive scheme. The Board also discussed that the ability of the Group to pay suppliers, landlords and HMRC in full and in accordance with agreed terms would not be adversely impacted by repayment. Having taken the above stakeholder matters into consideration, it was agreed that in the long-term interests of the Company, its reputation and its adherence to its shared values, the repayment of the JRS received in FY20 outweighed other considerations.

In June 2021, the Board considered whether to repay support received by way of business rates relief to all retailers in FY20 and FY21, and Covid-related grants received in FY21 targeted at retailers who had been forced to close their stores. Again, a wide range of stakeholder interests were considered, including the strong financial performance of the business, that sales and market share had been lost during periods of forced store closures, that the Company had operated a self-funded furlough scheme for colleagues during FY21, any potential impact on suppliers and colleagues as noted above, the fact that repayment would reduce the potential returns to shareholders who had not received a dividend in FY20 (although dividend payments have been reinstated in FY21), the stated policies of shareholders and their representatives in relation to repayment of Covid-related relief, the potential competitive imbalances as a result of the boundaries between essential and non-essential retail, and the potential reputational impact of a decision not to repay. After carefully balancing the respective stakeholder interests, the Board decided that for the same reasons noted above in relation to the JRS, the Covid-related grants should be repaid. However, the Board considered that the balance was in favour of not repaying business rates relief in addition to the JRS and Covid-related grants.

RISKS TO DUNELM

Short-term impact on profit and shareholder returns/colleague incentives.

OPPORTUNITIES FOR DUNELM

Enhanced reputation for adhering to shared values; potential to pay dividends and colleague bonus without damaging reputation; long-term benefit to shareholders, customers, colleagues and communities.

KEY STAKEHOLDER TRADE-OFFS

Reputation v Shareholders

COLLEAGUE ENGAGEMENT IN MORE DETAIL

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

During the pandemic, our CEO Nick Wilkinson, our People and Stores Director Amanda Cox, and the senior management team elevated Group-wide colleague communications by increasing frequency and holding authentic, real-time and urgent communication with the workforce about operations. Our 'Home Comforts' internal portal worked very well for this purpose and over time the communications style was refined to separate and differentiate between subject matters. Regular operational updates by Nick were complemented by genuine two-way communication blog/chat-style discussions to provide support across the 'Dunelm family'. These included fun activities and competitions alongside serious topics such as mental health, Pride and personal finance.

Over the last three years we have reorganised the way we collect colleague feedback to ensure we hear from all parts of the workforce and business operations in a representative way, alongside discharging our governance duties.

During FY21 we held seven National Colleague Voice (NCV) meetings. Each was attended by Nick Wilkinson, supported by the People Team and Marion Sears who is our designated Non-Executive Director (NED) for People matters. Other NEDs often attended, together with Executive Board members who led discussions around specialist topics. In April 2021, William Reeve attended to lead engagement on remuneration during which we discussed our approach to Fair Reward at all colleague levels, explained CEO and CFO compensation and asked for feedback. A description of this engagement and feedback received is included in the Remuneration Report on page 168.

We balanced listening and informing and had honest, open and useful conversations on many important topics, using our standard format for each meeting, with three main parts: an update from Nick, a 'What's on your mind?' item where members feed back comments and concerns, and one 'Big Topic' where we communicate and seek feedback on important matters. These topics and NED attendees are set out in the table below. After each meeting feedback was summarised and presented at the next Board meeting for noting or discussion. We have elevated the importance of colleague feedback in Board decision-making and our NCV reps know that their engagement is worthwhile and can make a difference. We also continued to work with NCV representatives to refocus regional and area representative structures across the business to improve our two-way information flow. Alongside training, this has made the body more effective. New membership has also improved our representation of different colleague groups, with a good range of age, ethnicity, location, length of service and level of seniority.

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

Month	'Big Topic' discussed	NED attendee	What we did as a result
October 2020	Diversity and inclusion	Andy Harrison Marion Sears	Rolled out Diversity and Inclusion training to: – Ensure leaders in the business understand the issues and the implications for managing their teams; and – Ensure colleagues are comfortable to approach and speak about the matter, as it affects them, with their leaders.
November 2020	Sustainability	Ian Bull Marion Sears	Improved how we communicate our sustainability plans to colleagues. Developed and rolled out sustainability training.
January 2021	Wellbeing	Marion Sears	Maintained awareness and dialogue to ensure colleagues feel able to raise issues. Improved communication of the support offered by Retail Trust. Continued to provide support via the Colleague Hardship Fund.
February 2021	Dunelm's purpose	Marion Sears	Comments fed into the process for the development of our refreshed 'purpose'.
March 2021	Shared values	Peter Ruis Marion Sears	Feedback built into the communication plan for our shared values.
April 2021	Fair Reward, including Board Pay	William Reeve Marion Sears	Feedback was considered by the Remuneration Committee when setting pay for the Executive Directors and the Executive Board. Comments on FY20 all-colleague 'thank you' bonus factored into the decision to pay a similar bonus in FY21 and how it was communicated.
June 2021	Engagement survey results Investment priorities in the five-year plan	Andy Harrison Marion Sears	The suggestion that the investment priorities be communicated more widely was adopted by the CIO. Concerns about engagement scores in some business areas prompted specific management action.

Board leadership and company purpose continued

Peter Rees
Sales team leader,
Dunelm Bridgend, Wales

National Colleague Voice (NCV) from a representative's point of view

Peter joined Dunelm in 2012 in the delivery team and got his first in-store job in the made to measure department. He is a skilled theatrical costume designer and was snapped up quickly, knowing that he would be able to confidently sell blinds and curtains, and has been in his current role for around five years. In parallel, he has experienced all aspects of Dunelm's colleague voice body – as a store rep, regional rep for the South Wales area and now as one of the 14 representatives at the National Colleague Voice (NCV) level.

Can you remember your very first NCV meeting?

The Board members gave a very short introduction about how they hoped the NCV could evolve and then said, 'Over to you'. And that's been my experience at our meetings ever since – Nick, Marion, Amanda really encourage us do the talking and want to listen to and learn from us. At each meeting we discuss a particular topic (often picked up from previous meetings) and we are asked our thoughts on what the business is getting right, doing wrong and how it can improve. Some of us were a little hesitant to speak out at first but we learned that our input is genuinely valued. We know we can, and should, voice our opinions freely.

What have you helped change? What things haven't changed?

As a group, we've helped introduce a few new things that – on the surface may sound small – but mean a lot to colleagues. For example, the NCV was instrumental in bringing about paid days off for birthdays, moving days and 'first day at school' days and we are currently working to upgrade store uniforms. Recently, we had an interesting and open debate about working extended hours on Saturdays, which is not popular with everyone – the Board listened to us and later rationalised the business case for keeping it as is. This makes it far easier for us, as reps, to explain the bigger picture to colleagues back at base.

What happened to NCV meetings during the pandemic?

They moved online, became more frequent and definitely improved. We get answers back far more quickly and the new format is working really well. We've also set up WhatsApp groups to collect questions and share information. However, we miss face-to-face interaction and I think it would be advantageous to kick start the regional meetings now that we can travel again, and maybe have an annual get-together.

What do you get from being a NCV rep?

In addition to getting a personal insight into the way Dunelm is being run, I meet people from other store regions and different parts of the business – IT, distribution, and customer services for example – and guest speakers such as our charity partners and the Retail Trust. We have the opportunity to learn from each other and be more appreciative of issues and concerns that sometimes impact us – it stops us being stuck in our own little bubbles. It also makes you realise we are one big family. At our store we had some tough times during the pandemic and received so many supportive messages from reps in other regions – we really look out for each other.

And what do the Board members get from you?

They get straight talk from colleagues who love their jobs and want the business to succeed, and an extra and important channel of communication. There is no 'them and us' – we are able to discuss ideas together in an open atmosphere, which leads to better communication, relationships and business. The NCV is in a really good place, and I feel honoured to be part of it and do my bit to improve working practices for our colleagues across the business.

TOPICS DISCUSSED IN FY21
PAGE 111

Q&A

SHAREHOLDER ENGAGEMENT IN MORE DETAIL

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

- The Chief Executive Officer and the Chief Financial Officer report back to the Board after the investor roadshows.
- The Group's brokers and financial PR advisers also provide a written feedback report after the full-year and half-year results announcements and investor roadshows to inform the Board about investor views, and in addition Non-Executive Directors attend a selection of investor presentations.
- Our Chair and Committee Chairs are available to shareholders and respond on matters relating to their responsibilities where requested.
- Corporate Governance meetings with our major institutional shareholders, attended by the Deputy Chairman, Sir Will Adderley, the Non-Executive Directors and Company Secretary. All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.
- The Company Secretary reviews corporate governance guidelines prepared by our major institutional investors and their representatives and proxy advisers, and attends updates from professional advisers summarising shareholder expectations and voting actions. A summary of recent developments is provided to the Board at each meeting,
- Attendance and voting at the AGM.

Feedback received is considered in relation to our strategy, capital and dividend policy, and governance priorities. For example, feedback received at investor roadshows in September 2020 was considered in respect of the decision to repay funds received from the Job Retention Scheme; and the latest approach to executive pay was considered by the Remuneration Committee when setting Board pay. Shareholder priorities have also influenced the Board's approach to climate change and diversity and inclusion.

We last held our regular Corporate Governance meeting in January 2020. This gives the corporate governance representatives of our shareholders an opportunity to discuss a range of governance topics with the Chairman, Deputy Chairman, Non-Executive Directors and the Company Secretary. Attendees have told us that they find it a useful way to exchange views, and we agreed that the ideal frequency for these meetings is once every two years. Matters typically discussed include: overview of our purpose, strategy, shared values and culture; our corporate governance approach; how we are engaging with stakeholders; Board composition and succession planning; the work of the Audit and Risk Committee, Remuneration Committee, and Nominations Committee; and an overview of our sustainability focus areas and progress. We are planning to hold another meeting in January 2022.

COPIES OF OUR ANNUAL GOVERNANCE PRESENTATIONS ARE AVAILABLE IN THE 'REPORTS AND PRESENTATIONS' SECTION OF OUR WEBSITE, CORPORATE.DUNELM.COM

MANAGING CONFLICTS OF INTEREST AND RELATED-PARTY MATTERS

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

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

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

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

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

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

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

Division of responsibilities

ABOUT OUR BOARD

Board structure

The Board has agreed that our optimum Board size is between nine and eleven Directors, with a Chair, four Executives/Non-Independent Directors, and between four and six independent Non-Executive Directors. We consider this structure gives the right level of independent challenge, and mix of backgrounds and skills, and is one that allows for effective decision-making. We maintain a clear division of responsibilities between the leadership of the Board and the executive leadership of the business. Our current structure (as at FY21 year-end) is set out in the table opposite.

Independent Non-Executive Directors

As required by the Corporate Governance Code and the Listing Rules of the United Kingdom Listing Authority, the Board considers annually whether all independent Non-Executive Directors continue to exhibit independence of character and judgement prior to putting them forward for reappointment at the AGM. This was last considered in September 2021 and we confirmed that Andy Harrison was independent on appointment to the Board and subsequently as Chairman, and that Ian Bull, William Reeve, Peter Ruis, and Arja Taaveniku are independent.

Non-Independent Director

The Board has treated Marion Sears as a Non-Independent Non-Executive Director since September 2015 in view of her tenure of more than nine years on the Board, and her subsequent appointment as a Director of WA Capital Limited in March 2016. WA Capital Limited is a private limited company established by Sir Will Adderley (the Deputy Chairman, and major shareholder) to act as a long-term holding company for his beneficial interest in the Company and various other investments. The Dunelm Board has determined that this appointment does not affect her judgement as a Director of Dunelm, and that any potential conflict of interest has been cleared on the basis that WA Capital Limited and Sir Will Adderley are parties to a Relationship Agreement (referred to in the section headed 'Managing conflicts of interest') which regulates their conduct. Marion will put herself forward for reappointment at the AGM by shareholders, independent of the Adderley family, as well as a full shareholder vote.

Board tenure and diversity

Board refreshment is a continued area of focus. Both tenure and diversity are considered in our succession planning and covered in more detail in the report of the Nominations Committee on pages 120 to 124.

Current Board composition and independence

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

BOARD RESPONSIBILITIES

THE BOARD AS A WHOLE IS RESPONSIBLE FOR:

Purpose, values and strategy

- Setting and role modelling our corporate purpose and shared values.
- Setting the strategy to deliver our purpose, and secure the continued growth of the Group over the long term in the interests of our shareholders, taking account of our responsibilities to colleagues, customers, the communities in which we operate and the interests of our other stakeholders.
- Ensuring that resources are in place to deliver the strategy.

Governance

- Instilling and maintaining a culture of openness, integrity and transparency.
- Oversight of succession planning and talent management.
- Ensuring that financial and other controls and processes for risk management are in place and working effectively.
- Setting an effective remuneration policy.
- Ensuring that a process for assessing stakeholder balance is embedded in key decision-making and maintaining good relationships with shareholders and all of our stakeholders.

Performance

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

CLEAR AND FORMAL BOARD RESPONSIBILITIES

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

<table>
<tr><th>Member</th><th>Position</th><th>Responsible for:</th></tr>
<tr><td>Andy Harrison</td><td>Chairman</td><td>• The leadership, effectiveness and governance of the Board.
• Setting the agenda, style and tone of Board discussions with a particular focus on strategic matters.
• Ensuring each Non-Executive Director makes an effective contribution to the Board.
• Ensuring that the Directors receive accurate, timely and clear information.
• Chairing the Nominations Committee.
• Promoting a culture of openness and debate.
• Facilitating constructive Board relations.</td></tr>
<tr><td>Sir Will Adderley</td><td>Deputy Chairman</td><td>• Maintaining a close dialogue with the Chairman and the CEO.
• Contributing to the development of the Group's purpose, culture and values by promoting and visibly demonstrating the Company's long-established shared values.
• Assisting the CEO in strategic and operational activities as requested.
• Supporting and deputising for the Chairman as required.
• Member of the Nominations Committee.</td></tr>
<tr><td>William Reeve</td><td>Senior Independent Non-Executive Director</td><td>• Acting as a 'sounding board' for the Chairman and an intermediary for the other Directors.
• Leading the Non-Executive Directors in their annual assessment of the Chairman's performance.
• Making oneself available to shareholders, particularly if they have concerns that the normal channels have failed to resolve, or for which such contact would be inappropriate.
• Leading the Chair succession process.</td></tr>
<tr><td>Nick Wilkinson</td><td>Chief Executive Officer</td><td>• Proposing the strategic objectives of the Group for approval by the Board, and delivering the strategic and financial objectives in line with the agreed purpose and strategy.
• Leading the Executive Board and senior management in managing the operational requirements of the business.
• Leading the climate change and sustainability objectives of the Group.
• Providing clear and visible leadership of our shared values.
• Effective and ongoing communication with colleagues and shareholders.</td></tr>
<tr><td>Laura Carr</td><td>Chief Financial Officer</td><td>• Working with the CEO to develop and implement the Group's purpose and strategic objectives.
• The financial delivery and performance of the Group.
• Ensuring that the Group remains appropriately funded to pursue the strategic objectives.
• Ensuring proper financial controls and risk management of the Group and compliance with associated regulation.
• Investor relations activities, and communications with shareholders.</td></tr>
<tr><td>Ian Bull</td><td>Non-Executive Director</td><td rowspan="5">• Constructive contribution and challenge to the development of strategy and ensuring that decisions are taken so as to promote the success of the Company in the interests of all stakeholders.
• Monitoring operational and financial performance and scrutiny of management performance in the delivery of strategic objectives.
• Oversight of financial and other controls and processes for risk management.
• William Reeve chairs the Remuneration Committee and is the Senior Independent Director; Ian Bull chairs the Audit and Risk Committee.
• Marion Sears is the Designated Non-Executive Director for colleague matters.
• With the exception of Andy Harrison and Marion Sears, all Non-Executive Directors chair or sit on all Board Committees.</td></tr>
<tr><td>William Reeve</td><td>Non-Executive Director</td></tr>
<tr><td>Peter Ruis</td><td>Non-Executive Director</td></tr>
<tr><td>Arja Taaveniku</td><td>Non-Executive Director</td></tr>
<tr><td>Marion Sears</td><td>Non-Executive Director</td></tr>
<tr><td>Dawn Durrant</td><td>Company Secretary</td><td>• Supporting the Chairman and the Non-Executive Directors with their responsibilities.
• Advising on regulatory compliance, corporate governance, climate change and sustainability.
• Facilitating individual induction programmes for Directors and assisting with their development as required.
• Communications with shareholders and organisation of the AGM.</td></tr>
</table>

Division of responsibilities continued

BOARD COMMITTEES

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

Details of the membership of the Committees and of their activities during the past financial year can be found in the reports from the Chair of each of the Committees on pages 120, 130 and 138.

BOARD MEETINGS

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

At each meeting, the Chief Executive Officer reports on strategic progress and operational performance (including customers, colleagues and health and safety), and the Chief Financial Officer reports on financial performance. There is a rolling agenda of other operational, strategic, sustainability and risk topics which is regularly refreshed to reflect the most up-to-date strategy and 'live' issues in the business. The principal areas of focus discussed by the Board in FY21 are set out on page 117.

NON-EXECUTIVE DIRECTOR MEETINGS

There is a scheduled 'Non-Executive Only' meeting at the end of each Board meeting, attended by the Chairman and the Non-Executive Directors. This is a useful way of exchanging views and dealing with any concerns or questions. In addition to this, the Chairman and the other Non-Executive Directors regularly have informal, individual meetings with the Executive Directors and other senior managers in the business, usually at a store location (most meetings have been held remotely in the year due to the Covid-19 pandemic).

BOARD ATTENDANCE

The Board held 13 meetings in the course of the year, one of which was dedicated to a formal review of strategy. All but three of these meetings were held remotely due to government restrictions. Attendance at meetings was as follows:

Director	Meetings attended
Andy Harrison (Chairman)	13/13
Sir Will Adderley (Deputy Chairman)	13/13
Nick Wilkinson (CEO)	13/13
Laura Carr (Chief Financial Officer)	13/13
Ian Bull	13/13
William Reeve	13/13
Peter Ruis	13/13
Marion Sears	13/13
Arja Taaveniku[1]	3/4
Paula Vennells[2]	10/11

1. Arja Taaveniku joined the Board on 15 February 2021. She attended all but one of the meetings following her appointment, which she was unable to attend due to pre-existing commitments.
2. Paula Vennells stepped down from the Board on 25 April 2021. She attended all but one of the meetings during FY21, which she was unable to attend due to pre-existing commitments.
When unable to attend a meeting, a Director receives papers and feeds back comments in advance to Andy Harrison, the Board Chair.

HOW THE BOARD SPENT ITS TIME

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

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

Areas of Board focus

Purpose and strategy	• Purpose, ambitions and strategy • Culture and values • Budget and future financial plan • Competitor reviews	• Climate change and sustainability • Capital structure and dividend policy • Tax strategy
Governance and risk	• Board succession • Board independence, composition and diversity • Investor feedback via advisers • AGM voting and feedback • Repayment of Covid-related government support • Stakeholder engagement • Feedback from National Colleague Voice • Colleague reward and fair pay	• Gender pay statement • Diversity and inclusion • Health and safety • Ethical sourcing and modern slavery • Cyber security and data protection • Corporate governance and audit reform
Operational	• Technology roadmap • Plan to grow and deepen customer base • Plan to accelerate growth • Customer operations and post-sale service • Product strategy	• Talent, succession and capability • Brilliant stores • Smarter operations and stock flows

Division of responsibilities continued

SHAREHOLDER VOTING RIGHTS

The holder of each ordinary share of the Company is entitled to cast one vote (in person or by proxy) on each resolution at a meeting of shareholders. There are no special voting rights attached to any of the Company's shares. In order to be passed, an ordinary resolution of the Company must be supported by at least 50% of the votes cast at a shareholders' meeting, and a special resolution by at least 75% of votes cast.

APPOINTMENT AND REMOVAL OF DIRECTORS AND ANNUAL RE-ELECTION

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers him or herself for election at the next Annual General Meeting of the Company.

The Board's policy is that all Directors are subject to annual re-election and therefore should stand down and offer themselves for re-election at each Annual General Meeting. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years.

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

For each Director, reasons are provided in the Notice of Annual General Meeting stating why their contribution is, and continues to be, important to Dunelm's long-term success. Non-Executive Directors will also be subject to a separate vote by shareholders independent of the Adderley family as required by the Listing Rules of the United Kingdom Listing Authority.

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

POWERS OF DIRECTORS

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

SHARE BUYBACK AND RULE 9 WAIVER

Since the time of flotation of the Company, the members of the Adderley family, including Bill and Jean Adderley and Sir Will Adderley, have been considered to be acting in concert ('a Concert Party') for the purposes of Rule 9 of the City Code on Takeovers and Mergers (the 'City Code'). At the date of this report, Sir Will Adderley controls 37.7% of the issued share capital of the Company, and the Concert Party controls 42.6%. Bill and Jean are no longer directors of the Company or actively involved, although Sir Will Adderley is a Director and Deputy Chairman.

As usual we will be requesting authority to buy back up to 5 million shares (2.5% of our share capital) at the AGM. This authority is to allow the Company to purchase shares in order to satisfy future share option entitlements for Executives, excluding Sir Will Adderley. Given that it is expected that shares bought by Dunelm in the market will be reissued, then no dilution or change of control should occur either for the Concert Party or for other shareholders. As Sir Will Adderley has a beneficial interest of above 30% of our share capital, and the interest of the Concert Party is less than 50%, for the Company to exercise the authority to buy back shares we have to ask shareholders to approve a waiver of Rule 9 of the Takeover Code, as otherwise Sir Will would be required by law to make an offer to buy all of the shares in the Company. We understand that a number of shareholders have concerns about Rule 9 waivers in general, as they can lead to major shareholders gaining 'creeping control'; as a result they may be bound by their voting policy to vote against the resolution.

We would like to reassure shareholders that:

- Shares bought back by the Company would be held in treasury and used only to satisfy share option entitlements, and not cancelled.
- Since 2012, Sir Will Adderley no longer participates in the Long-Term Incentive Plan or any other share-based incentive plan, and therefore his shareholding will not increase through that mechanism.
- Since flotation of the Company in 2006, the Adderley family has reduced its holding (from 67% to 42.6% currently).
- There has been a Relationship Agreement in place since flotation which provides safeguards to other shareholders – for details please see the Directors' Report on page 172.

We therefore request that shareholders take into account our specific circumstances when making their voting decision in relation to the waiver resolution, and we hope that shareholders will support the Board's recommendation.

The Board has reviewed whether our policy to purchase shares in the market to satisfy share option entitlements (as opposed to issuing shares) is still appropriate; we believe that it is in the interests of our shareholder base as a whole as it avoids dilution of shareholdings, and it is supported by the majority of our institutional shareholders. We would like to reiterate that shares bought back by the Company will be held in treasury and used only to satisfy share option entitlements, and not cancelled. The Company did not purchase any of its own shares during the financial year. See page 37 for an overview of our capital and dividend policy.

ADVICE AND INSURANCE

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

ARTICLES OF ASSOCIATION

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

INDUCTION AND TRAINING

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

The Company Secretary reports to the Board at each meeting on new legal, regulatory and governance developments that affect the Group and actions are agreed where needed. Directors attend seminars provided by independent organisations which cover a wide range of governance topics. As part of the annual Board evaluation, any additional training or development needs are addressed by the Chairman with each Director. Please see the Directors' biographies on pages 96 to 99 for details of the specific skills and experience of each Director. Please see the Nominations Committee report for more insight into the induction of Arja Taaveniku.

Composition, succession and evaluation

Nominations Committee report

Andy Harrison
Chair of Nominations Committee

Nominations Committee membership

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

Member	From	To	Meetings attended
Andy Harrison (Chair)	1 September 2014	To date	4/4
Sir Will Adderley	17 February 2011	To date	4/4
Ian Bull	10 July 2019	To date	4/4
William Reeve	1 July 2015	To date	4/4
Peter Ruis	10 September 2015	To date	4/4
Marion Sears	18 January 2005	To date	4/4
Arja Taaveniku[1]	15 February 2021	To date	1/1
Paula Vennells[2]	4 September 2019	25 April 2021	3/3

1. Arja Taaveniku was appointed to the Board during the financial year, and joined the Nominations Committee on appointment.
2. Paula Vennells stepped down from the Board on 25 April 2021.

The Company Secretary acts as secretary to the Committee. Additionally, the independent consultant referred to below under 'Succession and Talent' and the People and Stores Director attended two Board discussions on succession and talent management in the business. No Director attended that part of a meeting during which his or her own position was discussed.

Dear Shareholder

The Covid-19 crisis has underlined the importance of a talented, committed and cohesive leadership team. Throughout the crisis both my Executive and Non-Executive colleagues have risen to the new challenges, with creativity, sheer hard work and good judgement. I thank them all for their commitment and support over the past year, and particularly to my Non-Executive colleagues for committing additional time in this busy year for all their other commitments, alongside the ever-increasing demands of regular Board and Committee business. When we appoint a Non-Executive Director (NED) to the Board we always assess their other commitments to ensure that they have sufficient time to dedicate to Dunelm, including during periods of unanticipated additional activity.

BOARD SUCCESSION

We are a cohesive, engaged Board and have endeavoured to manage our succession plan to ensure we have the appropriate and diverse range of skills needed to deliver our strategy for the benefit of our stakeholders. We also take care to ensure that all new members of our Board are aligned to our purpose and culture, and share our values, whatever their skills and background.

In recent years, we have been strengthening our Board; primarily to support our ambitious growth plans and mindful of best governance practices. In September 2020 William Reeve, who already chaired the Remuneration Committee, was appointed Senior Independent Director. Ian Bull continues to chair our Audit and Risk Committee very well.

The rapid growth of our digital operations over the last few years has bought new challenges for our international fulfilment capability. This stimulated us to add a relevant NED with leadership experience in this area. In February 2021, we were delighted to welcome Arja Taaveniku, who has a background in international home retail businesses, with specific expertise in the strategic and operational development of customer value propositions and product range development, and supply chain management, alongside environmental, social and governance (ESG) initiatives.

Additionally, as our digital participation grows we decided that we would like to add more NED experience of large scale digital commerce, including cyber security and multichannel supply chains. I was delighted to announce that Vijay Talwar will be joining the Board on 1 October 2021. Vijay will help us to broaden our digital business discussions, enhance our ability to navigate the growing importance of cyber security as our digital business accelerates, and address the increasing regulation around audit, risk governance and reporting. I look forward to working with him in the coming years.

Paula Vennells stepped down from the Board in April 2021, and we thank Paula for her contribution. We have the required number of independent Directors on the Board, and the minimum number of female Directors required by the Corporate Governance Code and the majority of our shareholders and their representatives. However with 30% of our Board being female from October 2021, we will no longer meet the gender balance requirements of all proxy agencies and therefore we have started to look for an additional female Director to ensure that we meet their requirements.

> **“The quality of our leadership team has never been more important. We continue to balance required skills and experience, build individual calibre, and enhance teamwork.”**

The importance of carefully planned succession applies equally to the role of Chair. My term as Chairman is due to end by September 2023, and we have started the process to identify my successor, led by William Reeve, our Senior Independent Director. We are at the early stages of this process, allowing sufficient time for a seamless transition. Dunelm remains my first priority and my timing is flexible to suit the wishes of the Board.

DIVERSITY AND INCLUSION

We fully support diversity and inclusion in all its dimensions as an important contribution to high quality decision-making and innovative thinking. In the past year, the Board and Executive Board have significantly increased our focus on this, developing and rolling out a full programme across the business under the theme ‘This is Me’. Further details are in the Sustainability section on page 68 and page 128. At the Board level we have received stimulating presentations from a number of speakers on a range of topics, which have built our awareness and understanding of how our business can take active steps to promote diversity and inclusion, see page 128. When making our Board appointments our policy is that our Board should always be of mixed gender, and in all recent appointments we have requested that a range of candidates from diverse social and ethnic backgrounds be brought forward for consideration. Further details are in our report on page 129.

SUCCESSION AND TALENT

As I mention above, having a talented and cohesive leadership team is a key capability for our business, and this year the Committee has overseen a step change in our focus on succession and talent management. With the support of a specialist external consultant, we have built a tailored structure that is being rolled out throughout the business and which is being well received. Our investment in this process and our diversity and inclusion programme will ensure that we have the capabilities that we need to deliver our growth ambitions.

BOARD EFFECTIVENESS

This year we held an internal Board review, as usual focused on increasing the Board’s effectiveness for the future, as we accelerate our growth strategy and develop our stakeholder relationships. The review concluded that the Board is performing effectively, capturing new ways of working during the pandemic. As always, we challenge ourselves to continue to improve, and the actions which we have agreed are set out on page 127.

I look forward to meeting shareholders at the AGM.

Yours faithfully,

Andy Harrison
Chair of the Nominations Committee
8 September 2021

SUMMARY OF THE NOMINATIONS COMMITTEE’S PRINCIPAL ACTIVITIES

- Appointment of Arja Taaveniku as an Independent Non-Executive Director.
- Appointment of William Reeve as Senior Independent Director.
- Welcomed our newest Board member Arja into the business through a comprehensive induction programme, co-ordinated by the Company Secretary.
- Announced the appointment of Vijay Talwar, who can bring experience of large scale digital commerce.
- Commenced the search for an additional female NED.
- Prepared specification for Chair succession in September 2023.
- Played an active role in the increased focus on succession and talent management throughout the business.
- Oversight of the Board and the Group’s ‘This is Me’ programme to increase inclusion and diversity of gender, ethnicity, background, thought and skills throughout the business.
- Oversight of Annual Board review to ensure that the Board is working as effectively as possible.
- Ongoing review of the Board’s composition, to ensure it follows best practice and meets the strategic needs of the business, taking into account the main trends and factors affecting the long-term success and future viability of the Company.

Composition, succession and evaluation continued

OUR NOMINATIONS COMMITTEE'S ACTIVITIES IN MORE DETAIL FY21

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

PRINCIPAL DUTIES

The purpose of our Nominations Committee is: to assist the Board by keeping the composition of the Board under review; to conduct a rigorous and transparent process against objective criteria – with due regard for the benefits of the Board's diversity – when new appointments to the Board are made; to oversee the succession plans for the Board and senior management; and to ensure that there are processes in place to secure a diverse pipeline of potential candidates for succession to key management positions and to the Board. The full terms of reference for the Committee can be found on the Company's website, corporate.dunelm.com. These terms were last reviewed by the Committee in June 2020.

BOARD CHANGES IN FY21

Last year I described how we were continuing to search for an additional Non-Executive Director (NED), to enhance the digital skills on the Board and to support the development of our strategy, and promote diversity of thought. In October 2020 we reviewed the specification in the light of the current and future needs of the business, and agreed that the remit should be widened to include international supply chain experience in a multichannel environment. Consideration would also be given to the Committee's desire to increase ethnic and other diversity on the Board.

In the light of this, we recommended to the Board that Arja Taaveniku be appointed as an Independent Non-Executive Director on 15 February 2021. Arja is an experienced business leader, having spent over 30 years in leadership positions with a number of international retail organisations including Ikea Group, Ikano Group (an international franchisee of Ikea which also develops, owns and manages companies in consumer banking, insurance, residential and shopping centres), and Kingfisher plc. Details of the process followed for Arja's appointment and her induction are set out on page 124.

Additionally, we identified a need for a further NED with experience in digital businesses, including digital risk management and to meet the increasing regulatory requirements of an Audit and Risk Committee member – financial expertise and a deeper ability to understand cyber risk. On 14 July 2021 we announced the appointment of Vijay Talwar to the Board, with effect from 1 October 2021.

Vijay brings excellent and highly relevant business leadership experience with international consumer brands, and has been at the centre of driving multichannel digital transformation at Foot Locker, Inc., where he is currently Executive Vice President and Chief Executive of Europe, Middle East and Africa, having held previous responsibilities for global digital development. Vijay is a Certified Public Accountant and holds an MBA from the University of Chicago. His international background and experience will also bring a different dimension to our Board discussions and I look forward to working with him.

Ongoing activity

Following the decision of Paula Vennells to step down from the Board in April 2021 and Vijay's appointment, we have a vacancy for a female Director to ensure that we meet all external best practice requirements of gender balance. We thank Paula for her contribution to our Board and have started to look for an additional female Non-Executive Director.

As I mentioned in my report last year, on 10 September 2020 William Reeve was appointed Senior Independent Director. As well as conducting the evaluation of my own performance, William has started the process to appoint my successor by September 2023. Although this is two years away, as with all appointments we take great care, and the Board Chair is a particularly important appointment. Ideally we would like the successful candidate to serve some months on the Board before becoming Chair, to enable them to get to know the Board and business, and build relationships with key stakeholders.

Overview of FY21 and future Board succession planning

Actions/rationale	Notes	Timings
NED with international digital and commerce experience	Arja successfully appointed after a process which started in FY20 and was delayed by Covid-19	Completed
Additional female NED to replace Paula Vennells	New action following Paula stepping down in April 2021 before the end of her term and Vijay joining the Board on 1 October 2021	Ongoing since July 2021
NED with current digital experience, deeper understanding of digital/ cyber risk and additional financial expertise specifically to enhance the capability of the Audit and Risk Committee	Original process commenced in FY20 but paused due to the preferred candidate being unavailable and the Covid-19 pandemic	Completed with the appointment of Vijay Talwar
Chairman	Longer-term planning ahead of end of tenure in September 2023	Preliminary process started with specialist search agency

Search process FY21

Our search process to fill Board vacancies is pragmatic, well-rehearsed, and supports our approach to diversity and inclusion. The Nominations Committee runs the process and makes the final recommendation but it is important to note that any Board appointment is regarded as a 'whole-Board' matter, and no appointment is made without unanimous Board support.

We adopted a similar search process for the recent appointment of both Arja and Vijay which is summarised in the box below. Although Arja was already known to some Board members and not identified through the usual search process, she was considered to be the most appropriate appointment when compared to other candidates put forward by the search consultant or who applied through Nurole.

For the Chair appointment we have appointed an independent search agent but not advertised via the Nurole platform in view of the special requirements of this role.

BOARD APPOINTMENT PROCESS

For NED appointments and our ongoing succession plans we generally follow this well-rehearsed process, adapting where necessary to account for specific skills required and circumstances.

- Detailed role and person specification drawn up by Nominations Committee.
- Independent external search consultant appointed to conduct the process. Vacancies usually also advertised on the Nurole platform, to open the search to a potentially wider and more diverse range of applicants.
- Equal number of male and female candidates feature on the 'long list' as standard practice. Search consultant also asked to bring forward candidates from a diverse background.
- Initial candidates meet with Chairman and at least one other Board member; short list candidates meet with other Board members.
- Extensive references taken and assessment of candidate's other commitments made to ensure they have sufficient time to dedicate to Board member duties.
- Nominations Committee makes final recommendation, subject to unanimous Board support.

Our purpose, culture and shared values

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

Board induction process

Each new Board Director receives a full and tailored induction, led by the Chairman and the Company Secretary. The Company Secretary provides a full set of relevant documents and access to past Board and Committee papers, as well as a briefing on Directors' duties and responsibilities. Induction meetings are held with all Board members and members of the Executive Board, as well as other senior management and external advisers relevant to that Director's interests and any specific Board responsibilities. For example, Arja Taaveniku met with a number of senior members of the commercial team, as this is one of her particular areas of interest. A programme of site visits is also arranged.

Board succession

We have always had a formal, long-range plan for how Board membership should develop. This aims to balance continuity of service with a regular refreshment of skills and experience needed to deliver our evolving strategy. In general, and as discussed during our Board evaluation, we aim to maintain a Board of between nine and eleven Directors (current membership is nine), with ideally no more than one new appointee in any year.

We regularly review the balance of skills on the Board as a whole, taking account of the future needs of the business, and the knowledge, experience, length of service and performance of the Directors. In accordance with our Board Diversity and Inclusion Policy, and mindful of the Guidelines set out in the Parker Review that 'all FTSE 250 companies should have a Board member of colour by 2024', we also have regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members, as well as ethnicity and gender. All Board appointments irrespective of background must satisfy the high standards Dunelm requires. Candidates must have the competence to contribute to wide-ranging debates and cope with the demands of a stretching future focused agenda, and share our values.

Composition, succession and evaluation continued

Arja Taaveniku

Non-Executive Director induction

On joining the Group, Arja was offered a comprehensive induction programme, meeting all of the Board and Executive Board, and other members of senior management across various teams. Following the relaxation of government restrictions, Arja also visited a number of Dunelm stores and reflects on her induction.

"Before I formally joined the Board I met with all Board members and Dawn Durrant, the Company Secretary, received a briefing on regulatory matters and my duties as a director of a UK plc, and had access to prior Board papers and other relevant information.

After this, my introduction to Dunelm took place over a number of weeks, totalling more than 25 hours. Guided by Dawn, I met 15 colleagues in online meetings, including the Executive Board and some of their direct reports and spanning a cross-section of teams – People, Finance, Commercial and Retail operations. Before my appointment and in the spring when restrictions were lifted I visited six Dunelm stores in Greenford, Croydon, Collier's Wood, Beckton, Leicester and Truro and personally bought some spring cushions and throws online.

The Dunelm Chairman, Andy, followed up continuously with me to check how my induction was going and to see if there was anything else I needed: I could not be happier with the induction that was organised for me.

My impression of the Dunelm culture is that it is very straightforward, honest and inclusive. Colleagues speak up and voice their opinion openly, and do not seem to be restricted by their managers. So far I have experienced a business with very few internal politics and a far greater focus on problem-solving and increasing competitiveness.

Dunelm has a great team of colleagues that is future-proofing the Company: they are modernising products, their online proposition and stores and I believe they are well set for growing the business. I look forward to supporting the Dunelm Board through my business development, commercial and buying background, and my experience in developing environmental, social and governance (ESG) practices."

We also take into account the corporate governance guidance on Chairman and Non-Executive Director tenure; for reference their tenure and re-election cycle is summarised in the table on page 129. Our updates on recent and planned Board appointments are described on page 122.

As described above, this year we welcomed one new Independent Non-Executive Director, Arja Taaveniku, to our Board, and one of our Independent Non-Executive Directors stepped down from the Board in the year. We have announced the appointment of Vijay Talwar to join the Board in October 2021, are actively seeking a further Director to improve gender balance on the Board. We have also drawn up a specification for Andy Harrison's successor as Chair, due in September 2023, and appointed an external search consultancy to lead the process. Although this is two years away, as with all appointments we take great care, and the Board Chair is a particularly important appointment. Ideally we would like the successful candidate to serve some months on the Board before becoming Chair, to enable them to get to know the Board and business, and build relationships with key stakeholders.

Executive Board succession

For some years, the Board has regularly reviewed the composition and succession plans in place for members of the Executive Board and their direct reports. During the past year this has been refreshed as described in the section headed 'Our refreshed approach to succession and talent'. In addition, the CEO discusses with the Non-Executive Directors the performance of individual Executive Board members and any changes that he proposes to make to this team. Whilst this activity does not take place formally within the meetings of the Nominations Committee, it does form part of its work in overseeing Executive Board development and succession process, and the pipeline of talent available for succession to the Board.

Dunelm Board members have regular contact with members of the Executive Board and the wider Dunelm Leadership Team, through formal Board presentations, attendance of the Executive Board at the annual Strategy Days, and in regular visits to stores and other Company sites, when Non-Executive Directors meet members of the Executive Board or Dunelm leadership team on a less formal basis. Each Non-Executive Director also mentors at least one of the members of the Executive Board.

OUR REFRESHED APPROACH TO SUCCESSION AND TALENT

Succession and talent management

The Committee is responsible for Board succession planning and monitoring Executive Board succession to ensure that the respective composition of these leadership bodies enables us to embed and deliver our purpose 'To help create the joy of truly feeling at home. Now and for the generations to come'; and that we have the capability to progress our ambitious growth strategy. We maintain a consistent recruitment approach across the business; our Board and Nominations Committee members have oversight of, and follow, Dunelm's People Strategy (see pages 66 to 71) and its management of succession and talent.

One of the actions from our FY20 external Board evaluation was to renew and increase the Board's focus on succession and talent management throughout the business, to ensure that we have a continuing pipeline of colleagues with diverse backgrounds, skills and knowledge that we need to deliver our strategy.

Under the guidance of the Committee, the Board appointed a specialist external consultant to help us develop and deliver a more structured approach. We have identified the following challenges:

- Successful management of succession and talent is needed to deliver transformation and growth as the business transitions to become a leading multichannel retailer.
- Following a planned programme of people and role changes at the Executive Board level, including a number of internal promotions, we need to embed these changes and rebuild the succession pipeline.
- The rapidly evolving external environment and shifts in societal values present both challenges and opportunities for the attraction, retention and development of talent.
- Building a more diverse and inclusive workforce is becoming more critical to our business success.

Talent Committee

Under the guidance of the Committee, the Talent Committee comprising Executive Board members was established in September 2020, led by the Chief Executive, Nick Wilkinson, and supported by our external consultant. Its members include the People and Stores Director and other members of the Executive Board. Its purpose is to develop and implement a more structured 'Home of Talent' process, to ensure that there is a strong succession pipeline for our Executive Directors, members of the Executive Board and throughout the business. This is a two- to three-year project designed to embed a mechanism that will become part of the regular People processes. The process incorporates our 'This is Me' inclusion and diversity programme, which is referred to on page 128 in this Annual Report.

The Talent Committee reports at least twice a year to the Committee or the Board (in respect of colleagues), in relation to governance and the Executive Board, and the Chief Executive updates the Board through his monthly report in respect of the wider colleague population. We agreed that this is an appropriate balance, given that matters relating to our workforce are whole-Board topics.

Composition, succession and evaluation continued

BOARD EFFECTIVENESS

Each Director receives a formal evaluation of their performance during the year, which is conducted by the Chairman. The Senior Independent Director reviews the performance of the Chairman and feeds back to the other Board members.

The performance of our Board and Committees is also formally evaluated as a whole. In 2020, in line with best practice, we evaluated the whole Board using an external provider. In 2021, the review was led by the Chairman. The results of this and the actions taken as a result of the 2020 review are described on the following pages.

Five-year Board evaluation cycle summary

2017	External	External evaluation led by Lorna Parker
2018	Internal	Chair-led evaluation with individual members
2019	Internal	Chair-led evaluation with individual members
2020	External	External evaluation led by Lorna Parker
2021	Internal	Chair-led evaluation with individual members

FY20 Board evaluation summary

The recommendations arising from our FY20 external Board evaluation, conducted by Lorna Parker, and the actions implemented in response are set out below:

Outcomes and recommendations from FY20 evaluation	Actions implemented
Conclude the appointment of a Non-Executive Director with digital experience.	Specification expanded, and Arja Taaveniku appointed. Search commenced for a further Non-Executive Director with digital/financial expertise and was completed with Vijay Talwar's appointment.
Schedule time for more discussion of Board and Executive Board succession.	Specialist external consultant appointed and new succession and talent management process adopted see above. Five presentations on talent and succession made to the Nominations Committee or Board during the year.
Revise Board schedule to include virtual meetings focused on performance, and face-to-face meetings covering strategy and more discursive topics.	The majority of meetings in the year were held virtually due to national restrictions. The FY22 agenda has been revised in this way.
Schedule more discussions of our approach to sustainability, and develop long-term objectives on priority topics.	Agenda items at four of the ten meetings in the year (including the Strategy Days). Regular progress updates from the Company Secretary. Initial climate change risk assessment completed, long-term Scope 1, 2 and 3 greenhouse gas reduction targets set. Became supporters of the British Retail Consortium's Climate Action Roadmap. Long-term objectives also set on key materials (cotton, timber, packaging); became signatories to Textiles 2030. Supporters of the BRC Diversity and Inclusion Charter.
Refine a formal 'risk appetite' and conduct a horizon scanning exercise.	Risk appetite agreed in June 2021. Horizon scan forms part of twice-yearly reviews by the Audit and Risk Committee/Board. Risk and Resilience Committee formed to create greater focus on risk by management and stimulate cross-functional challenge, see page 136.
Agree how best for the Board to keep up to date with, and responsive to, competitors.	Competitor updates included in Board packs.

OVERVIEW OF FY21 BOARD EVALUATION PROCESS

CONFIDENTIAL QUESTIONNAIRE
Completed by each Director and Company Secretary

INDIVIDUAL MEETINGS WITH DIRECTORS AND COMPANY SECRETARY
Focus on specific topics, informed by questionnaire results

PRESENTATION OF RESULTS TO BOARD
Discussion

Agreed actions

FY21 Board evaluation

The Chairman led the internal Board evaluation in May and June 2021. The process involved each Director and the Company Secretary completing a confidential questionnaire, which included questions on a number of relevant, forward-looking topics as well as a number of regular 'standard' questions, for example about committee performance, stakeholder engagement, agenda topics and meeting management. All Board members actively engaged in the process and provided open and constructive comments. The Company Secretary collated the comments and the Chairman summarised the outcomes and suggested actions, including those likely to influence Board composition, which were discussed and agreed by the Board.

Overall there was satisfaction with the way that the Board is performing, and there was agreement about the areas which we need to focus on to improve our effectiveness.

FY21 Board evaluation summary

A summary of conclusions and actions from our latest evaluation is set out below:

Topic	Conclusions	Action
Learnings from the last 12 months	Board relationships have been strong and collegiate, with a good level of support for the Executive Board. The Board faced a number of difficult decisions and some suggestions were made as to how the process could be improved. The Board felt that it should continue to focus on the factors that make us resilient to future shocks. We should continue to refine the KPIs to measure business performance.	Chairman and Company Secretary to manage agenda carefully. Ensure that there are regular discussions of 'What keeps us awake at night?'. Continue to develop the work of the Risk and Resilience Committee. Board members to feed back suggestions to Nick and Laura on additional KPIs which they would find useful.
Governance and strategy	Given the increasing burden of governance requirements, the Board agreed to continue to address these pragmatically, and not allow the time spent on these to impact our focus on strategy. The Board should increase its focus on looking at the changing competitive landscape, changing consumer trends, technology changes and evolving social trends.	Chairman, Committee Chairs and Company Secretary continue to manage this. Keep Committee membership and agendas under review.
Composition	Agreement that we should aim for a Board size of between nine and eleven Directors.	Continue search for an additional female NED, being mindful of the need to comply with regulatory and investor requirements on diversity.
Talent and succession	Continue to build on succession plans for the Executive Board, and to oversee the talent management activity throughout the Group.	The Board should consciously focus on building on the progress made in the year. Aim to develop formal emergency and planned succession plans for Nick, Laura and members of the Executive Board.

Composition, succession and valuation continued

DIVERSITY AND INCLUSION

The Board's ambition to secure the best talent in Dunelm includes being known for our inclusive, diverse and tolerant culture, as encapsulated in our 'stronger together' shared value. For Dunelm to continually improve as a business, it is crucial that we select and recruit the best people in the industry. This involves calling on the widest possible pool of candidates and selecting them based on their ability to do the job regardless of their gender, marital status, sexual orientation, disability, race, religion, colour, nationality, ethnic origin, age or gender reassignment. The Board agrees that diversity of input helps to promote better decision-making and is focused on three broad activities:

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

'This is Me' programme

In FY21, a significant programme – overseen by the Board – was launched to promote inclusion and diversity throughout the Group under the theme 'This is Me' with the support of a specialist consultancy. In the past year, the focus has been on 'educating' and 'starting the conversation'. Over 300 leaders in the business participated in 'Leading in an Inclusive World' training and the Group Board and Executive Board attending awareness-raising workshops on specific topics, designed to educate and stimulate discussion (see below).

FY21 BOARD AND EXECUTIVE BOARD INCLUSION AND DIVERSITY PRESENTATIONS

Topic	Presenter
Diversity	Amanda Cox, People and Stores Director
Diversity – 'This is Me' proposal	Amanda Cox, People and Stores Director
Black Lives Matter Discussion	Raph Richards, Chair of Governors, Djangoly Strelley Academy, Mentor
LGBT+	Martin Mason and Leng Montgomery (Unleashed)
Social mobility	Tunde Banjoko, OBE

Gender, age and ethnicity

Gender diversity has been discussed for many years and we have made progress in balancing our gender ratios in the workforce and seen a shift towards female representation on our senior leadership team: 55% of our Executive Board and 38% of our senior leadership roles are held by women and 33% of Board members are female, as is the Company Secretary. Full details of the gender balance on our Board and in our senior management population are set out on page 68 in our Sustainability section. Dunelm published its fourth gender pay report later than usual in October 2021, as per revised UK Government timings and guidelines (which exclude any colleague on furlough or receiving reduced pay). As this represented a considerable percentage of the Dunelm population the Board also received a more comparable summary. An overview is provided on page 68 in our Sustainability section.

As part of its oversight of colleague policies and practices across the Group, the Board also receives a full breakdown of our colleague population by age, and for the last 12 months we have been collecting ethnicity data on new joiners. In 2021 we also trialled our first colleague 'census'. Through our planned census roll out we aim to provide the Board with more robust ethnicity data, to enable us to develop further our strategy and action plan. Further commentary on our colleague population and findings is made in our Sustainability section, page 68.

Policies

Our Board Diversity Policy, which has been in place for more than a decade, is set out on page 129.

OUR BOARD DIVERSITY POLICY

Our overriding concern is to ensure that the Board and Group comprise outstanding individuals who can lead the business effectively in a manner aligned to our purpose and shared values. We believe the Group's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives. Our Company culture must be inclusive and it is our policy that the Board should always be at least one third female – and ideally higher to meet higher increasing expectations. We also aim to ensure that we have at least one Board Director from an ethnically diverse background.

- We support the objective of promoting diversity in all of its forms on our Board and throughout the Group.
- We shall continue to ensure that specific effort is made to bring forward diverse candidates for senior management and Board appointments.
- We will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, regardless of gender, marital status, sexual orientation, disability, race, religion, colour, nationality, ethnic origin, age or gender reassignment, to enjoy career progression within Dunelm.

OUR GROUP EQUALITY AND DIVERSITY POLICY IS AVAILABLE ON OUR CORPORATE WEBSITE, CORPORATE.DUNELM.COM AND IS REVIEWED PERIODICALLY, GIVING DUE CONSIDERATION TO LEGISLATIVE CHANGES.

POLICY

TENURE AND RE-ELECTION OF DIRECTORS

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

Member	Appointment	Current term (years)	Next renewal	Additional Board role
Andy Harrison	September 2014	7	September 2023	Chairman and Nominations Chair
Ian Bull	July 2019	2	July 2022	Audit and Risk Chair
William Reeve	July 2015	6	July 2024	Remuneration Chair and Senior Independent Director
Peter Ruis	September 2015	6	September 2024	
Marion Sears	July 2004	17	July 2022	Designated NED for engaging with colleagues
Arja Taaveniku	February 2021	0	February 2024	

Marion Sears has served 17 years on the Board. Marion is now considered by the Board to be non-independent in view of her tenure. See page 114 for more details.

In accordance with our policy and the UK Corporate Governance Code, all Directors will seek election or re-election at the 2021 AGM, and as now required by the Listing Rules, all Non-Executive Directors will be subject to an additional vote by shareholders independent of the Adderley family.

Approved by the Board on 8 September 2021.

Andy Harrison
Chair of the Nominations Committee
8 September 2021

Audit, risk and internal control

Audit and Risk Committee report

Ian Bull
Chair of Audit and Risk Committee

Audit and Risk Committee membership

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

Member	From	To	Meetings attended	Skill area
Ian Bull (Chair)	10 July 2019	To date	3/3	Financial
William Reeve	1 July 2015	To date	3/3	Operational
Peter Ruis	10 September 2015	To date	3/3	Operational
Arja Taaveniku[1]	15 February 2021	To date	1/1	Operational
Paula Vennells[2]	4 September 2019	25 April 2021	2/2	Operational

1. Arja Taaveniku was appointed to the Board during the financial year and joined the Committee on appointment.
2. Paula Vennells stepped down from the Board during the financial year.

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

The Committee also met in September 2021.

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

The Board considers that Ian Bull has recent and relevant financial experience to chair the Committee, by virtue of his professional qualification and his previous executive roles, including as Chief Financial Officer of Parkdean Resorts Group, Ladbrokes plc and Greene King plc. Members of the Committee also demonstrate a breadth of experience across the retail and consumer goods sector through their current and previous roles – please see the Directors' biographies on pages 96 to 99 for full details.

Dear Shareholder

This year has continued to be impacted by the Covid-19 pandemic and the substantial impact on our customers, colleagues and operations. It is notable therefore that the Group has maintained a robust financial position and continued to maintain and improve its internal controls and risk management, despite being significantly impacted by ongoing challenges due to government restrictions resulting in store and support centre closures and revised ways of working, and industry-wide international supply disruption, including Brexit. The full- and half-year audit processes, though more complex due to the pandemic, were completed within the planned timetable. I would like to thank the Finance team and PwC for the additional planning and commitment that contributed to this.

Last year, we agreed a set of objectives and targets for the Committee to improve our effectiveness over the next three financial years. You will read below that this has also been a busy and productive year around the reviews of financial and operational controls and processes, many of which have been readily agreed and adopted by the management into plans for the coming years. The Committee has regularly reviewed these and is pleased to report that good progress has been made against the objectives and plans despite the need to balance ongoing and continuous improvements with recovery and re-planning around the substantial disruption that everyone has felt from the crisis. More details are set out in this report. I am satisfied that overall the Group is achieving good practice.

KPMG completed their first full year as our Internal Auditor. During the year they completed reports on payroll, core controls in finance and supporting IT controls and cyber security, and scoped out their next planned review of supplier payments. These topics were identified through the initial controls 'health check' that they completed just after they were appointed in FY20, and by the risk management process. Management has already accepted the majority of the recommendations and put in place plans and resource to address them. Good progress has been made during the year against the agreed actions. KPMG also completed a risk assurance map which shows the assurance that the Committee and the Board receive that the principal risk mitigations are working effectively; this will also inform the topics in the Internal Audit plan.

The Board also commissioned Deloitte to conduct an assessment of our operating capabilities, processes and technologies to assess their robustness as the business continues to grow in scale and complexity. Further details are in the report below. The output of this assessment has been built into a three-year plan to upgrade our core systems and processes. While overall progress is being monitored by the Board, the Committee has oversight of any aspects that impact internal controls.

Our Executive Board has continued to build on our risk management by establishing a Risk and Resilience Committee, which meets regularly to carry out a 'deep dive' peer review of each of our principal risks by rotation. While this is not a formal Board committee, the conclusions and actions are circulated to the Board and the Audit and Risk Committee, and feed into the Board risk review process. The Committee has also adopted a formal 'Risk Appetite Statement', linked to our corporate purpose and strategic ambitions, and this is embedded into our risk management process through a monthly review of KPIs by the Risk and Resilience Committee.

The Group has maintained a robust financial position and continued to maintain and improve its internal controls and risk management, despite being significantly impacted by ongoing challenges due to government restrictions.”

The Audit and Risk Committee's twice-yearly review of risk management and internal controls has continued; in February 2021 we were able to remove 'Brexit' from our principal risk register, reflecting the successful management by the business of the transition, and the fact that any ongoing impact is not material. As part of the Group's increasing focus on climate change and sustainability, management has worked with Carbon Trust to carry out an assessment of the risks and opportunities presented by climate change. The output of this review informed the Board's strategy discussions in May, and have been fed into the principal risk register. Further details are in the Risks and Risk Management section on pages 76 to 78, the Principal Risks and Uncertainties section on pages 79 to 88, and in the preliminary report on page 48 prepared in line with the Task Force on Climate-related Financial Disclosures (TCFD).

Regulators and shareholders continue to raise the bar on the content and quality of narrative disclosures in the annual report, particularly on how the Directors have discharged their duties under s172 Companies Act, and on environmental, social and governance matters, particularly climate change. The Committee has reviewed management plans to further improve and enhance our reporting, as well as the preparations to fully report under TCFD from next year. I am confident that we will continue to develop the transparency of our reporting in this area.

The Committee has considered the proposals for the reform of audit and corporate governance set out in the consultation paper issued by Department for Business, Energy and Industrial Strategy (BEIS) in March 2021. The Board and the Committee support measures that increase the quality of governance, audit and transparency for the benefit of our shareholders and other stakeholders. We are already assessing what actions we would need to take to introduce an attestation statement surrounding the Internal Control Financial Review process and would expect to be well prepared if new regulations are introduced as a result of the consultation.

Yours faithfully,

Ian Bull
Chair of Audit and Risk Committee
8 September 2021

AUDIT AND RISK COMMITTEE DUTIES

The principal duties of the Committee are to:

- Oversee the integrity of the Group's financial statements and public announcements relating to financial performance.
- Hold the relationship with the external auditor, agree the audit fee and oversee the external audit process.
- Establish formal and transparent arrangements for considering how the Company should apply the corporate reporting, risk management and internal control principles.
- Oversee the internal audit process.
- Monitor the effectiveness of financial controls and the process for identifying and managing risk throughout the Group.
- Monitor the financial reporting process and submit recommendations.
- Monitor the statutory audit of the Annual Report and financial statements.
- Review and monitor the external auditor's effectiveness, independence and the provision of additional services.

THE FULL TERMS OF REFERENCE FOR THE COMMITTEE CAN BE FOUND ON THE GROUP'S WEBSITE, CORPORATE.DUNELM.COM. THESE TERMS WERE LAST REVIEWED BY THE COMMITTEE IN JUNE 2021.

Audit, risk and internal control continued

SUMMARY OF PRINCIPAL ACTIVITIES AND FOCUS FY21

Routine items

- Approval of the FY20 full-year results issued in September 2020 and the approval of the FY21 half-year results issued in February 2021 and full-year results issued in September 2021
- Assessment of the key estimates and adjustments used in respect of the half- and full-year results
- Review of the process for identifying and managing risk and a full review of the principal risks and how they are managed in September 2020, a mid-year review in February 2021, and a further review in September 2021
- Review of business continuity and crisis management planning
- Verification of the independence of the external auditor, approval of the scope of the audit plan and the audit fee, and review of the external auditor's audit findings
- Review of fraud and Bribery Act controls and cyber security, which are standing agenda items for each meeting
- Review of supplier payment practices
- Receipt of internal audit reports
- Approval of the annual Audit and Risk Committee Report
- Review of whether the FY20 and FY21 Annual Reports are 'fair, balanced and understandable'
- Annual review of committee terms of reference, Tax Strategy, policy on use of auditors for non-audit services, and auditor rotation policy
- Formal review of external auditor performance
- Formal review of committee effectiveness

Specific topics and items reviewed

- Enhanced Going Concern and Viability Statement in the light of Covid-19
- Establishment of the Risk and Resilience Committee
- Board 'What keeps us awake at night?' discussion held.
- Development of a formal Risk Appetite Statement and consideration of how this is embedded into core risk management processes
- Review of an Assurance Map in relation to the principal risks
- New reporting requirements for FY20 and FY21, including the Corporate Governance Statement against the 2018 Corporate Governance Code, enhanced disclosure under s172 Companies Act and new executive pay reporting requirements
- Approach to climate change risk assessment and reporting, and preparation for reporting under the Task Force on Climate-related Financial Disclosures
- Assessment of our environmental, social and governance reporting against the recommendations issued by the World Economic Forum (WEF) and the Sustainability Accounting Standards Board (SASB)
- Understanding and considering our approach to proposed audit and corporate governance reforms as set out in the BEIS consultation issued in March 2021

FOCUS AREAS FOR FY21 AND BEYOND

- Preparing for implementation of audit and corporate governance reforms anticipated following the BEIS consultation
- Continuing to evolve our approach to risk and resilience through oversight of the Risk and Resilience Committee
- Ensuring risk management is instrumental in driving the internal audit and assurance plan
- Continuing close oversight by the Board of development of our cyber security capabilities
- New reporting requirements for FY21, FY22 and beyond.
- First full report under the Task Force on Climate-related Financial Disclosures
- Continuing to evolve our environmental, social and governance reporting and the quality of supporting data, in line with emerging regulation and investor requirements
- Maintaining high standards in relation to material estimates, judgements and rationale

AUDIT AND RISK COMMITTEE ACTIVITIES IN MORE DETAIL FY21

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year and at its meeting in September 2021 when this Annual Report and financial statements were approved.

COMMITTEE EFFECTIVENESS

The effectiveness of the Committee was reviewed through the formal Board review process in June 2021.

This concluded that the Committee is well chaired, properly constituted, effectively performs its delegated role and reports back clearly and fully to the Board. The review also considered the practice that we welcome of regular attendance by all Board members at Committee meetings, and it was concluded that this remains an effective way for all Board members to understand the finances and internal control and risk management for which the Board is accountable.

SIGNIFICANT ISSUES AND JUDGEMENTS RELATING TO THE FINANCIAL STATEMENTS

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

At its meetings in September 2020, February 2021 and September 2021, the Committee reviewed a comprehensive paper prepared by the Chief Financial Officer, which analysed the Group's results for the financial year; highlighted matters arising in the preparation of the Group financial statements; and provided information to support the Directors' viability and going concern statements. The Committee also considered a paper prepared by the external auditor, which included significant reporting and accounting matters. There were no material matters requiring the Committee to make amendments to the reports.

VIABILITY STATEMENT AND RISK MANAGEMENT

In line with regulatory guidance and consideration of the Covid pandemic, the Going Concern and Viability Statement in the FY20 annual report was significantly expanded in the light of the uncertainty caused by the Covid-19 pandemic, and the supporting analysis was increased accordingly. In FY20 it included both a 'severe but plausible' downside scenario and a 'reverse stress test'. This exercise was considered to provide a useful level of assurance and was repeated in relation to the FY21 financial statements. In line with the Group's most recent financial plan, and anticipating the BEIS reforms, in FY21 the Board reverted to a five-year time horizon for the Viability Statement. At the Committee's meeting in September 2021, the Committee reviewed the Viability Statement given by the Board in this report and the process in place to support the assurance given and confirmed that it is appropriate and in compliance with regulatory requirements. This review took into account the principal risks facing the Group, the impact of Covid-19 and the process by which they are managed by the Board and management and were able to support the adoption by the Board. The Going Concern and Viability Statement can be found on pages 89 to 91.

REVIEW OF NARRATIVE REPORTING

Last year the narrative sections of the Annual Report were updated to comply with a number of new reporting requirements, including the first report against the 2018 Corporate Governance Code, an enhanced statement of how the Board has complied with s172 Companies Act, and the inclusion of the CEO pay ratio. This year, the Committee reviewed the enhancements made to the corporate governance disclosures and other parts of the annual report to address the findings of the Financial Reporting Council (FRC) in its Annual Review of Financial Reporting issued in November 2020, its Review of Corporate Governance Reporting issued in November 2020, its updated guidance on Corporate Governance and Reporting issued in December 2020, and its Year End letter to CEOs, CFOs and Audit Committee Chairs. As a result of this review, a number of improvements have been made to the disclosures in this report, including those which relate to the Corporate Governance Code, s172 Companies Act, the Viability Statement and alternative performance measures (APMs).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

Last year the Committee reported on the increased focus of the Board and management on environmental, social and governance matters, including climate change, reflecting the growing importance of these topics in society.

In January 2019 we committed to report in accordance with the Task Force on Climate-related Financial Disclosures by FY22, ahead of the introduction of the regulatory requirement to do so. We have published an initial short form statement in this Annual Report on pages 48 to 51. During the year, the Board and Executive Board have continued our work with Carbon Trust, to model our Scope 1, 2 and 3 carbon emissions, and set a target to reduce our Scope 1 and 2 emissions by 2030 against a 2019 baseline, which are aligned to science-based targets, and to carry out the first stage of a climate change risk assessment. This work was circulated to the Board in advance of its strategy discussions in May 2021 and informed the debates on our 2030 ambitions and sustainability targets and the five-year plan. It was also incorporated into the review of principal risks by the Committee and the Board in September 2021.
In September 2021, the Board has approved our 2030 target to reduce Scope 3 emissions. In FY22, the Board will oversee development of the climate change risk assessment and ensure that processes are in place to deliver the targets and measure progress. This work will be reviewed by the Committee throughout the year.

The Committee has also reviewed the Group's environmental, social and governance (ESG) reporting as a whole against the recommendations of the World Economic Forum (WEF) in its 'Measuring Stakeholder Capitalism' paper issued in September 2020, against the relevant parts of the guidance issued by the Value Reporting Foundation (formerly the Sustainability Accounting Standards Board) (SASB), and alongside information scrutinised by the largest of our ESG investment ratings agencies. The Committee considered management's proposals to enhance our disclosures in this and the FY22 annual reports to include relevant narrative and associated KPIs, and the outcome is reflected throughout this report, particularly in the Sustainability section. The KPIs and assurance provided in support were also reviewed by the Committee.

References to data required in these guidelines will be made available in ESG data sheets on our corporate website.

Audit, risk and internal control continued

DISCUSSING AND ADDRESSING SIGNIFICANT ISSUES

The major accounting issues discussed by the Committee in September 2021 in relation to the FY21 Annual Report and Accounts were as follows:

Provisions for inventory

The Committee considered the approach taken by management and assessed available evidence. Particular attention was given to reviewing the provision for obsolete, slow-moving or discontinued inventories including the utilisation of provisions reported in prior periods. The Committee noted that management has refined the calculation to be more mechanical and less judgemental, with specific items such as the Ever Given impact assessed. The Committee concluded that the values recorded in the financial statements are appropriate.

Impairment review

While a full store impairment trigger did not exist in FY21 due to the strong financial performance across the estate, management have tested the least profitable stores. In line with IAS36, we have reviewed the future cashflows of each 'cash generating unit' compared to their value in use. Of these stores, two are considered by management to be impaired at an expense of £1.2m. The Committee has analysed the results of this review and is satisfied that management has appropriately identified all individual 'cash generating units' where an individual impairment test is required and the cashflows and assumptions used in calculating the associated impairment charge is reasonable.

FAIR, BALANCED AND UNDERSTANDABLE

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

- Does the narrative of the CEO Review and CFO Review fairly reflect the performance of the Group over the period reported on?
- Are the narrative sections consistent with each other, and with the financial statements?
- Is the connection between strategy and remuneration clearly described?
- Can readers easily identify key events that happened during the year?
- Is the language and tone of voice used commensurate with the spirit of 'fair, balanced and understandable'?

Committee members received the draft Annual Report and Accounts in advance and had the opportunity to make comments in advance of the formal meeting at which the report was tabled for approval.

Following its review, the Committee confirmed to the Board that in its view the FY21 Annual Report was 'fair, balanced and understandable' and provided the information necessary for our shareholders to assess the Company's position, performance, business model and strategy.

EXTERNAL AUDIT

External auditor

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

As reported last year, our audit partner from the FY19 audit onwards is Mark Skedgel.

PricewaterhouseCoopers LLP attended the Committee meetings in September 2020, and February, June and September 2021. The Committee also met privately with the auditor during each meeting and, as Chair of the Committee, I had regular dialogue with the audit partner.

EXTERNAL AUDIT EFFECTIVENESS AND INDEPENDENCE

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

The Chief Financial Officer and her team presented their review of the FY20 audit in February 2021. This covered a number of aspects including:

- The quality of the audit work and the reports provided to the Committee and the Board and the quality of advice given.
- The level of understanding demonstrated by the audit team of the Group's businesses and the retail sector.
- The objectivity of the external auditor's views on the controls around the Group, the robustness of challenge to management and appropriate scepticism and findings on areas which required management judgement.
- The findings from the FRC's annual inspection of auditors published in May 2020.

The Committee reviewed the effectiveness of the audit, taking into account the Chief Financial Officer's paper. Its conclusion was that the audit had been effective and carried out with the necessary objectivity and challenge to demonstrate independence and that there were no significant issues to highlight. In its review of the FY21 audit the Committee will use the Audit Quality Indicators (AQIs) being developed by PwC, in line with the focus areas set out in FRC's letter to audit firms of November 2019 (risk assessment, resourcing, timeliness, challenge, reporting and continuous improvement), to inform its review.

EXTERNAL AUDITOR APPOINTMENT FOR FY21

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

In February 2021, the external auditor presented their strategy for the FY21 audit to the Committee. The Committee reviewed and agreed with the external auditor's assessment of risk. The Committee also reviewed and agreed the audit approach and the approach to assessing materiality for the Group.

The fee proposed by PricewaterhouseCoopers LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £254,000.

Taking into account the review of the FY20 audit and the proposed plan and fee, the Committee agreed that PricewaterhouseCoopers LLP be reappointed as auditor for the FY21 audit for the fee proposed. Resolutions to reappoint PricewaterhouseCoopers LLP as auditor and to authorise the Directors to agree their remuneration will be put to shareholders at the AGM.

SAFEGUARDING AUDITOR INDEPENDENCE AND OBJECTIVITY

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

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

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

POLICY

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

During the period we paid PricewaterhouseCoopers LLP £40,000 for their review of the interim financial statements (considered to be a non-audit service). No other non-audit services were provided by the external auditor. Fees paid to PricewaterhouseCoopers LLP for audit work were £254,000.

AUDITOR ROTATION

A competitive tender is in the best interests of shareholders, and our auditor rotation policy is that we will tender the audit at least once every ten years; we will change auditor at least every 20 years; and we will invite at least one firm outside the 'Big Four' to participate. This is in line with the current EU Audit Directive. The latest date for the next tender will therefore be for the FY24 audit, which we are likely to conduct in FY23. The Committee is aware of the government proposal for shared audits of FTSE350 companies; if this becomes law we will take this into account in the tender process.

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

RISK MANAGEMENT AND INTERNAL CONTROL

Effectiveness of risk management and internal control systems

The Committee is responsible for assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks, and to consider the level of assurance. The effectiveness of our risk management and internal control systems are reviewed annually and this was carried out in September 2020 and September 2021. The conclusion of this review was that:

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

Audit, risk and internal control continued

RISK MANAGEMENT AND RISK AND RESILIENCE COMMITTEE

The Committee considers that the processes in place to manage risk by the Board are robust and working effectively.

In FY21, management proposed to enhance this process by establishing a 'Risk and Resilience Committee' – this is an Executive Committee, not a formal Board Committee. It is chaired by Laura Carr, the Chief Financial Officer, and attended by Dawn Durrant, Company Secretary, as well as the Chief Information Officer, the Group Finance Director, the Head of Health and Safety and other senior representatives from other functions. This Committee meets monthly to carry out a 'deep dive' into one of the principal risks with the relevant Executive owner. At each meeting, a detailed cross-functional internal peer review of the risk and mitigations is conducted to provide challenge and to identify any cross-functional dependencies or impacts, and any emerging risks. Standing agenda items for each meeting also include a review of cyber security, and of KPIs associated with each principal risk that are used to identify any failures in risk mitigation which would require management action. The intention is to review each principal risk at least once a year, with the highest-impact risks (measured by likelihood and severity) reviewed at least twice a year. In FY21 the principal risks reviewed were: IT systems, data and cyber security; Competition, market and customers; Supply chain disruption; People and culture; and Climate change and environment. A summary of the conclusions and actions is circulated to the Executive Board after each meeting and the Audit and Risk Committee is updated at each meeting.

The Audit and Risk Committee carried out a formal risk review in September 2020, February 2021 and September 2021. In each case the Committee noted that specific consideration was given through the risk review process with management and by the Executive Board, Audit and Risk Committee and Board discussions to any 'emerging risks', or risks which have increased in severity, for example, this included in the year the increasing importance of climate change.

The Board held one of its regular discussions of 'What keeps us awake at night?' in June 2021, coupled with a review of the factors which make Dunelm able to withstand the impact of a low probability, high impact risk, or more than one risk impacting simultaneously. This was fed into the review of principal risks in September 2021. In February 2021 we removed 'Brexit' from our principal risk register, reflecting the fact that potential disruption from leaving the European Union had been successfully mitigated and its ongoing impact is not material. We also noted that individual principal risk topics are reviewed by the Board through the rolling agenda, as well as consideration of the output of the executive Risk and Resilience Committee, see above.

In June 2021, the Committee adopted a formal Risk Appetite Statement, which can be found on our website at corporate.dunelm.com. This is brought to life in a practical way by the KPIs which we use to measure the effectiveness of the mitigations in place in respect of our principal risks. These are reviewed monthly by the Risk and Resilience Committee; if measures go into the 'red' tolerance zone, this is highlighted to the Executive Board so that action can be taken if needed. The KPI measures are also reviewed by the Committee and the Board as part of the twice-yearly review of principal risks.

We also asked KPMG, our Internal Auditor, to carry out a risk assurance exercise, and this was presented to the Committee in June 2021. This was designed to assess the internal and external assurance measures in place to measure the effectiveness of the risk mitigations. The review concluded that:

- There is a significant level of assurance activity across all three 'lines of defence', with compensating controls where no assurance activity has been identified
- All principal risks are subject to the explicit oversight of the Executive and the Group Board
- There is a degree of overlapping activity, for example at the Risk and Resilience Committee and the Performance Executive meeting
- Management has identified a number of gaps or additional activity it would like to introduce, and these will be progressed

During the year, the Committee also reviewed our business continuity planning, including IT continuity, noting the continued progress being made to keep these up to date and improve them; and our insurance programme which it considered to be satisfactory.

INTERNAL CONTROL FRAMEWORK

In 2015 the Committee adopted a formal internal control framework, covering the following areas: business ethics including anti-bribery controls; accountabilities; people management, including succession planning; development and alignment of incentives; risk management processes; internal financial control; crisis management; monitoring and reporting. Since that date, the business has grown significantly and its complexity has increased.

As reported last year, in 2019 we appointed KPMG as our Internal Auditor, and their first project was to complete an independent internal controls 'health check' which was presented to the Committee in June 2020. A number of areas for improvement were identified, the first phase of which the Committee, Board and Executive Board supported and built into a detailed and costed programme for FY21 onwards. The initial focus of the plan has been in the areas of: payroll; core controls in finance and supporting IT controls. Good progress has been made during the year against the agreed actions. The report has also informed the priorities in the Internal Audit plan described below.

In December 2020, the Board appointed Deloitte to carry out an end-to-end assessment of our operating capabilities, processes and technologies to ensure that we have the foundations in place to support our ambitious strategic growth plans. The output of this assessment has been built into a three-year plan to update our core systems and processes. While progress is being monitored by the Board, the Committee has oversight of any aspects that impact internal controls and risk management.

INTERNAL AUDIT

KPMG completed its first full year as Internal Auditor in FY21.

Reviews completed in the year are set out below:

Payroll
Core financial controls and IT general controls
Cyber security maturity assessment

As noted above, KPMG also conducted a risk assurance mapping exercise in the year. Reports were discussed by the Committee and the Board and a number of recommendations made; these have been reviewed by management and actions have been and are being taken to address them, with appropriate resource and investment allocated. The Committee monitored progress against actions agreed following these reports, as well as the reports received in FY20. The majority of these have been completed in the agreed timescale, and the actions have been incorporated into the rolling internal audit plan.

KPMG completed internal audit reviews of payroll, core financial controls and IT general controls and a cyber security maturity assessment in the year, and a number of recommendations were made. Additional resource was allocated by management to implement priority improvements, a number of which have been completed. In response to the cyber risk materiality assessment management also decided to adopt the more mature and formal framework of ISO27001.

CYBER SECURITY AND DATA PROTECTION/GDPR

Cyber and data security remains one of the most important risk areas and it is a standing Committee agenda item, as well as being one of the Board's principal risks, as outlined in the 'Risks and Uncertainties' section on page 86 of this Annual Report.

At its 'What keeps us awake at night?' discussion in June, cyber and data security was highlighted as a risk that is increasing in both likelihood and severity as cyber criminals become more sophisticated, and the Board has supported the Chief Information Officer, who joined the business in April, on his plans to increase the capability and resource of Dunelm's internal cyber and data security team. A Head of Information Security has been appointed, and the resource in the team will be further increased in FY22. In the meantime planned improvements will continue. An externally facilitated 'desktop' simulation involving a cyber breach scenario was conducted in July 2021, and the learnings implemented into our crisis plan.

There were no reportable data breaches in the year.

AUDIT AND CORPORATE GOVERNANCE REFORM

The Committee has considered and continues to monitor the proposed audit and corporate governance reforms set out in the consultation paper issued by Department for Business, Energy and Industrial Strategy (BEIS) in March 2021. The Board and the Committee support measures that increase the quality of governance, audit and transparency for the benefit of our shareholders and other stakeholders. As usual, we will aim to apply any changes that are implemented in a pragmatic way, which adds value to our business.

Approved by the Board on 8 September 2021.

Ian Bull
Chair of the Audit and Risk Committee
8 September 2021

Remuneration

Remuneration Committee report

William Reeve
Chair of Remuneration Committee

Remuneration Committee membership

The table below sets out the membership and attendance of Directors on the Remuneration Committee during the year:

Member	From	To	Meetings attended
William Reeve (Chair)	1 July 2015	To date	5/5
Ian Bull	10 July 2019	To date	5/5
Andy Harrison	1 September 2014	To date	5/5
Peter Ruis	10 September 2015	To date	5/5
Arja Taaveniku[1]	15 February 2021	To date	2/3
Paula Vennells[2]	4 September 2019	25 April 2021	3/3

1. Arja Taaveniku was appointed to the Board during the financial year, and joined the Committee on appointment. She was unable to attend one meeting during the year due to a prior commitment.
2. Paula Vennells stepped down from the Board on 25 April 2021.

The Company Secretary acts as secretary to the Committee. No Director ever participates when his or her own remuneration is discussed.

Dear Shareholder

INTRODUCTION

The financial year under review has been significantly impacted by Covid-19, with government restrictions requiring the closure of the Group's stores to customers for a third of the financial year, and imposing social distancing measures for the remainder. Despite this, our Executive Board has continued to perform strongly, delivering record PBT of £157.8m, against £109.1m last year and £125.9m in 2019, due to the strength of our recently enhanced online proposition and our new contactless Click & Collect service, driven by continued strategic investments. Good strategic progress has continued, with particular focus on building our customer proposition, digital capability and our approach to climate change and sustainability. We have also continued to focus on supporting the financial and emotional wellbeing of our colleagues, and of our communities. These efforts resulted in improved customer and colleague satisfaction metrics.

FY21 EXECUTIVE PAY OUTCOME

All of our senior management team performed very strongly in a difficult year in which we achieved record profits for the Company, even after repayment of £14.5m claimed under the Job Retention Scheme in FY20 and Covid-related grants of £4.0m, and operating a Company-funded furlough scheme for colleagues during periods of government-imposed store closures in FY21. A high proportion of our executive remuneration is in performance-related variable pay so as to incentivise and reward strong performance, and so this has resulted in a high bonus outcome for FY21. Our strong performance over the last three years has delivered both a full LTIP vesting and a significant growth in our share price. These are reflected in the reported single figure remuneration earned by our Chief Executive, Nick Wilkinson, of £4.04m (2020: £0.96m), and by our Chief Financial Officer, Laura Carr, of £2.47m (2020: £0.50m). The significant year-on-year increase is as a result of the strong performance of the business, both in FY21 and over the last three years; the resulting growth in share price which has enhanced the value earned under the LTIP; and the voluntary pay reduction taken by Nick (90%) and Laura (20%) during April to June 2020. Note also that this is the first year in which an award under the Long-Term Incentive Plan has vested to Laura. Over 80% of FY21 pay will vest in shares, and at least two thirds of these (after payment of tax and National Insurance contributions) must be retained. The Committee considers that this pay outcome is fair and reasonable, and reflects the overall shareholder and stakeholder experience of the Group, as well as the strong performance of the Executives.

VESTING OF INCENTIVES IN FY21

FY21 Bonus

In November 2020, our shareholders approved our revised Remuneration Policy, with over 99% of votes in favour. Our new Policy includes specific temporary incentive arrangements for the FY21 annual bonus to recognise the challenge of setting lasting, robust and meaningful quantified targets in the midst of the Covid crisis. In addition, the normal cash bonus was temporarily replaced with a deferred share bonus scheme to increase alignment and extend the bonus horizon. The Committee set bonus targets related to financial performance and delivery of a Recovery Plan (weighting 50%), strategic progress including environmental, social and governance performance (weighting 25%) and personal

"The Committee determined that the executive, led by the CEO Nick Wilkinson, have performed excellently in very challenging circumstances, and this has been an important driver of the strong financial performance of the Company and the wider stakeholder experience."

goals (weighting 25%). The intention was that the targets set would be no less stretching than the 'usual' targets that are 80% financial and 20% strategic and personal; and that 'on target' performance would still deliver 40% of the maximum opportunity.

In this Covid-impacted year we operated the business with a rolling quarterly forecast rather than our normal annual budget because we felt that an annual budget would soon become meaningless because of the unpredictability caused by the Covid-19 pandemic. Accordingly, financial targets were set quarterly, and aligned to our internal forecasts and the external forecasts current at that time. The strategic and personal targets were set at the beginning of the financial year. Once set, the quarterly and annual targets were not adjusted, although the Q2 performance was assessed after taking into account the Board's decision to repay amounts claimed under the JRS in FY20, which was not in the original forecast for that quarter. At the end of the year, the Committee applied an overall assessment of the outcome as described below.

The Committee applied discretion to adjust formulaic outcomes as follows: to adjust the Q2 PBT performance target as referred to above, and to reduce the score for Q3 PBT performance to nil, because although the PBT target was met the Committee considered that it was not appropriate to pay bonus in a quarter when profit was negative. As noted above, the targets for the FY21 annual bonus also contained a larger than usual weighting to non-financial measures (50%), which required the Committee to apply a degree of judgement in considering the extent to which they had been met. Apart from the above, no discretion was applied to adjust the formulaic outcome of the FY21 annual bonus.

The Committee has determined that 81.22% of the maximum bonus has been earned for Nick Wilkinson and 80.47% for Laura Carr. The FY21 bonus was granted by way of a conditional share bonus award, 50% of which vests in September 2021 and the remainder in September 2022. This means that 24,012 shares will vest to Nick and 16,211 to Laura in 2021, and 24,013 to Nick and 16,211 to Laura in September 2022. After share sales to cover tax and National Insurance liabilities, at least two thirds of these must be retained for at least the duration of employment, in accordance with the shareholding guidelines which are set out on page 146.

FY19-21 LTIP

For the LTIP covering the performance period July 2018-June 2021, 100% of the awards granted in 2018 will vest in October 2021 (to Nick Wilkinson) and November 2021 (to Laura Carr) representing 180,802 shares and 105,893 shares respectively. During the performance period for this LTIP award Dunelm's EPS grew at a compound annual rate of 19.6%. After sale to cover tax and National Insurance liabilities, at least two thirds of these shares must be retained for at least the duration of employment, in accordance with the shareholding guidelines which are set out on page 146. The Board believes these LTIP payments are well deserved given the way our leadership team adapted our digital and distribution infrastructure to serve customers and strengthen the business during a three-year performance period which included many months of government-imposed store closures. Note that the Dunelm share price increased from 505p to 1,367p over the three-year performance period of this LTIP award, which is reflected in the value attributed to this award in the 'single figure' table. No adjustment was made to the targets or the vesting outcome in respect of our decision to repay funds received from the Job Retention Scheme, to reflect FY20 financial performance which was significantly impacted by Covid-19, or any other reason.

Stakeholder alignment

After considering the experience of each of our stakeholder groups during FY21 the Committee determined that this is a fair and reasonable outcome and no discretion was exercised by the Committee to adjust the outturn as a result of this. In making this determination, the Committee considered the following factors:

- The financial performance of the Group has been strong, delivering record sales and profit, despite the ongoing Covid-19 crisis which has impacted operations and the external environment throughout the financial year.
- Significant progress has been made to advance the strategic objectives designed to accelerate future growth and advance the Company's long-term ambitions.
- The business performed strongly on customer and colleague engagement scores, including the customer 'How safe was your experience?' measure, which was consistently 95% or above.
- All colleagues received a pay increase during the year; colleagues in a bonus scheme will receive a similar outcome to that of Nick and Laura, and a second discretionary 'thank you' payment has been made to all other colleagues, of between £250 and £350 (dependent on average hours worked).
- Continued support was given to local communities and charitable activity, as described elsewhere in this report.
- Feedback from the National Colleague Voice on Executive pay has been that colleagues are satisfied with pay awarded provided that it reflects the performance of the business.
- The Group was able to resume payment of dividends to shareholders (no dividends were paid in 2020), with an interim dividend of 12p per share paid on 10 April 2021, and a final dividend of 23p per share, and a special dividend of 65p per share.

Remuneration continued

- The Board decision to repay the £14.5m claimed from the government's Job Retention Scheme in FY20, and the fact that no claims have been made in FY21. Colleagues who were placed on furlough in FY21 received the same payments that they would have received via the government scheme, funded by the Group.
- The Board's decision to repay £4.0m in Covid-related grants received in FY21.
- The fact that the Board has decided not to repay to the government business rates relief made available to all retailers in FY20 and FY21. The Committee noted that in making this decision the Board has carefully considered both the respective interests of all of our stakeholders and a range of other factors, including the repayment of other government support as noted above, the strong recovery of the business, the fact that our stores were closed to customers for a third of the financial year and the competitive imbalances arising from the boundaries between essential and non-essential retail. Further details relating to the Board's decisions in relation to repayment of government support are in the case study on page 110.
- Shares earned by Executive Directors are to be retained in accordance with the Company's Shareholding Guidelines.

FY22 REMUNERATION

Base Salary

At our annual review of the Executive Directors' remuneration, the Committee determined that both Nick and Laura have continued to perform strongly throughout the year, and this has been reflected in the financial performance of the Company. We decided to award each of them a 3.5% increase in base salary, which is in line with the increases given to colleagues across the Group. After these increases, the base pay for Nick of £582,125 and Laura of £396,663 will still be slightly below the external benchmark median for our peers.

In awarding these pay increases, the Committee took into account the FY22 pay awards made to the wider colleague population as follows:

- The one-off 'thank you' payment to colleagues not in a bonus scheme referred to above
- The median pay increase for all colleagues of 3.5%

The Committee also considered a wider range of stakeholder considerations, including the feedback on Executive Director pay given by the National Colleague Voice referred to above.

Annual Bonus and FY22-24 LTIP

We will revert to our usual policy of paying our FY22 annual bonus in cash, two thirds of which, for the Executive Directors, (after payment of tax and National Insurance liability) must be invested in Dunelm shares to be retained during employment. Targets will be based on our annual budget and are in the more usual balance of 75% financial and 25% strategic and personal, including environmental, social and governance measures linked to delivery of our strategy. Further details are set out in the Implementation Report. We will also return to our usual practice of setting targets for awards to be made under our Long-Term Incentive Plan upon grant of the awards, expected to be in October 2021.

EXECUTIVE PENSIONS

In FY21 we committed to reduce the pension entitlement of our incumbent executives, Nick Wilkinson (CEO) and Laura Carr (CFO), then 10% of contractual base salary for each of them, to the rate available for the wider workforce, currently 3%, by 1 July 2023. The Committee is pleased that Nick and Laura have offered to bring forward this reduction, and to reduce their pensions to the level of the wider workforce, and therefore with effect from 1 August 2021 their pension entitlement will be 3% of base salary.

CONCLUSION

The Committee considers that the single figure remuneration received by Nick and Laura in FY21 is appropriate to provide reward, motivation and retention, with over 80% of their single figure received being paid in shares subject to deferral and/or holding requirements. I hope that shareholders will agree that we flexed our approach to remuneration during FY21 in the best interests of the Group so that all stakeholders continue to be aligned, and that you will support the resolution in relation to the Implementation Report.

Yours faithfully,

William Reeve

Chair of the Remuneration Committee

8 September 2021

HOW OUR REMUNERATION POLICY IS LINKED TO OUR STRATEGY

GROUP STRATEGY

Deliver value for our shareholders and other stakeholders through long-term, sustainable, profitable growth

Remuneration strategy

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

Remuneration structure

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

Our binding Remuneration Policy was last updated in 2020, and approved by shareholders at the AGM on 17 November 2020 with over 99% of votes in favour of it.

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

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

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

It is our intention to maintain a simple and transparent remuneration structure for the benefit of all parties. This comprises fixed pay, an annual performance-related incentive, the majority of which must be retained in shares, and a performance-related long-term incentive share plan. The majority of the Executive Directors' potential remuneration is variable and performance-related in order to encourage and reward superior business performance and shareholder return. The majority of performance-related pay must be retained in shares, which encourages long-term thinking, wise risk management and alignment with shareholders and other stakeholders. Overall levels of pay are analysed carefully each year.

The financial performance criteria for annual and long-term plans are linked to reported figures, usually PBT for the annual incentive, and earnings per share for the long-term incentive. Hence they are transparent and predictable. A percentage of the performance criteria for the annual bonus, and from 2021 the long-term incentive plan, is linked to delivery of strategic objectives, which include measurement via numerical KPIs such as colleague and customer satisfaction. The Remuneration Committee has the ability to apply discretion to adjust formulaic outcomes where appropriate, and malus and clawback mechanisms apply to the annual bonus and long-term incentive plan. This is coupled with our 'Life-time Lock-in' which requires our Executive Directors to build a meaningful personal shareholding, and to retain the majority of performance-related pay in shares for the duration of employment, with a two-year post-employment retention period for a significant portion of these (see the Policy for details).

This policy is consistent with the creation of long-term, sustainable growth in shareholder value through delivery of the objectives set out in our corporate purpose and ambitions, which are all long term in nature. It is also consistent with our shared values, which include 'long-term thinking' and to 'act like owners'. Our approach is also in keeping with the family origin of the business, and is important to the Adderley family who remain our majority shareholders.

The Remuneration Committee considers that the policy and practices have operated as intended. The Company has attracted and retained high quality Executives; overall levels of pay over recent years have been in line with the value delivered to shareholders and other stakeholders; positive feedback has been received from shareholders via AGM voting and other engagement mechanisms such as the engagement process conducted in connection with the 2020 Policy renewal; and from colleagues through our consultation with the National Colleague Voice.

Remuneration continued

Directors' Remuneration Policy 2020

THE POLICY REPORT

Future policy table

The following table sets out the structure of remuneration for Directors of the Company under the Policy which was approved by shareholders at the AGM on 17 November 2020 with over 99% of votes in favour of it. This Policy will remain in force until the AGM in 2023. The Policy can be viewed in the 2020 Annual Report which is available on the Company's website at https://corporate.dunelm.com/investors/reports-and-presentations/

BASE SALARY	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• Fixed remuneration for the role. • To attract and retain the high-calibre talent necessary to develop and deliver the business strategy. • Reflects the size and scope of the Executive Director's responsibilities.
OPERATION	• Normally paid monthly. • Base level set in the context of: – Pay for similar roles in companies of similar size and complexity in the relevant market. – Scale and complexity of the role. • Should comprise a minority of potential remuneration.
MAXIMUM OPPORTUNITY	• Reviewed annually, with percentage increases in line with the Company-wide review unless other circumstances apply, such as: – A significant change in the size, scale or complexity of the role or of the Company's business. – Development and performance in role (for example, on a new appointment, base salary might be initially set at a lower level with the intention of increasing over time). • The Committee does not consider it to be appropriate to set a monetary limit on the maximum base salary that may be paid to an Executive Director within the terms of this policy.
PERFORMANCE METRICS	• None, although performance of the individual is considered at the annual salary review. • No recovery provisions apply to base salary.

RETIREMENT BENEFITS	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• To provide a competitive post-retirement benefit. • To attract and retain the high-calibre talent necessary to develop and deliver the business strategy.
OPERATION	• Contribution equivalent to a percentage of base salary made to a defined contribution plan or paid as a cash allowance. • No element other than base salary is pensionable.
MAXIMUM OPPORTUNITY	• For any Executive Director appointed before 1 July 2020, 8% of salary. • For any Executive Director appointed on or after 1 July 2020, an amount as a percentage of base salary not exceeding the average paid in respect of the wider workforce (currently 3%). – Please note that from FY22 the incumbent Executive Directors have agreed to reduce their entitlement to the workforce average.
PERFORMANCE METRICS	• None. • No recovery provisions apply to retirement benefits.

BENEFITS	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• To provide a competitive benefits package. • To attract and retain the high-calibre talent necessary to develop and deliver the business strategy.
OPERATION	• A range of benefits are provided, which may include car or car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; use of a car and driver in connection with the role or an appropriate travel allowance; and colleague discount. • Additional benefits, such as relocation expenses, housing allowance and school fees may also be provided in certain circumstances if considered reasonable and appropriate by the Committee. • For non-UK Executives (none at present) the Committee may consider additional allowances in accordance with standard practice.
MAXIMUM OPPORTUNITY	• Current benefits provided are described in the Implementation Report from page 154. • The Committee reserves the right to provide such benefits as it considers necessary to support the strategy of the Company. • The Committee does not consider it to be appropriate to set a maximum cost to the Company of benefits to be paid.
PERFORMANCE METRICS	• None. • No recovery provisions apply to benefits.

ANNUAL BONUS	Awards to be made to Executive Directors other than Sir Will Adderley, who has requested that he not be considered for annual bonus
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• Rewards and incentivises delivery of annual financial, strategic and personal targets.
OPERATION Annual bonus specifically for FY20 to address Covid-19 situation	• Delivered as soon as reasonably practicable after the approval of this Policy as a conditional award of: – 11,594 shares in Dunelm in the case of Nick Wilkinson; and – 7,675 shares in Dunelm in the case of Laura Carr. • Each award will vest, subject to closed periods: – As regards 50% of the shares subject to it, rounded down to the nearest whole share where necessary, on the first dealing day after the announcement of Dunelm's results for FY21; and – As regards the balance of the shares subject to it, on the first dealing day after the announcement of Dunelm's results for FY22. • At least two thirds of the shares acquired (after sale of shares to cover tax and National Insurance obligations) must be retained for the duration of employment and are then subject to post-departure holding requirements as set out in the 'Shareholding requirements' section below.
OPERATION Annual bonus specifically for FY21 to address Covid-19 situation	• Granted as soon as reasonably practicable after the approval of this Policy as a conditional award of: – 59,130 shares in Dunelm in the case of Nick Wilkinson; and – 40,291 shares in Dunelm in the case of Laura Carr. • Subject to the satisfaction of the performance targets and closed periods, each award will vest: – As regards 50% of the shares subject to it rounded down to the nearest whole share where necessary on the first dealing day after the announcement of Dunelm's results for FY21; and – As regards the balance of the shares subject to it on the first dealing day after the announcement of Dunelm's results for financial year FY22. • The Committee has discretion to adjust the number of shares in respect of which an award vests, either upwards or downwards, if it considers that the formulaic output does not reflect its assessment of overall financial or non-financial performance of the participant or the Group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at the start of the relevant year, or is inappropriate for any other reason. • At least two thirds of the shares acquired (after sale of shares to cover tax and National Insurance obligations) must be retained for the duration of employment and are then subject to post-departure holding requirements as set out in the 'Shareholding requirements' section below.

Remuneration continued

ANNUAL BONUS	Awards to be made to Executive Directors other than Sir Will Adderley, who has requested that he not be considered for annual bonus
OPERATION Annual bonus for FY22 and subsequent years to which this Policy applies	• Ordinarily paid in cash, after the results for the financial year have been audited, subject to performance targets having been met, with two thirds of the bonus earned required to be invested in Dunelm shares, which must be retained for the duration of employment and are then subject to post-departure holding requirements as set out in the 'Shareholding requirements' section below. • Alternatively, if the Committee considers that FY22 or any later year to which this Policy applies is substantially impacted by the Covid-19 pandemic, the award may be delivered as a conditional award of Dunelm shares granted shortly after the start of the year over shares with a market value equal to the maximum bonus opportunity and with vesting subject to satisfaction of performance targets, as with the bonuses for FY20 and FY21. For these purposes the market value of a share will be the average share price over June and July of that year (consistent with the approach for the bonuses in respect of FY20 and FY21) unless the Remuneration Committee determines otherwise. Subject to the satisfaction of the performance targets, each award will vest: – As regards 50% of the shares subject to it, on the first dealing day after the announcement of Dunelm's results for the financial year in respect of which the bonus is earned; and – As regards the balance of the shares subject to it, on the first dealing day after the announcement of Dunelm's results for the following financial year. • At least two thirds of the shares acquired (after sale of shares to cover tax and National Insurance obligations) must be retained for the duration of employment and are then subject to post-departure shareholding requirements as set out in the 'Shareholding requirements' section on page 146. • The Committee has discretion to adjust the bonus payout upwards or downwards if it considers that the formulaic outturn does not reflect its assessment of overall financial or non-financial performance of the participant or the Group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at the start of the relevant year, or is inappropriate for any other reason.
MAXIMUM OPPORTUNITY Annual bonus specifically for FY20 due to Covid-19 situation	• In the case of Nick Wilkinson, a conditional award of 11,594 shares in Dunelm. • In the case of Laura Carr, a conditional award of 7,675 shares in Dunelm. • Dividend accruals may be made in respect of special dividends paid during the vesting period applicable to an award. • Subject to the Committee's discretion to override formulaic outturns, these awards will not be subject to further performance targets as they reflect the outcome of the performance targets for FY20, as set out on pages 144 to 146 of the FY20 annual report.
MAXIMUM OPPORTUNITY Annual bonus specifically for FY21 due to Covid-19 situation	• In the case of Nick Wilkinson, a conditional award of 59,130 shares in Dunelm. • In the case of Laura Carr, a conditional award of 40,291 shares in Dunelm. • Dividend accruals may be made in respect of special dividends paid during the vesting period applicable to an award. Payment would only be made in respect of shares vesting after applying performance criteria. • Subject to the Committee's discretion to override formulaic outturns, for financial measures threshold performance 5% of the shares will vest and for on-target performance 40% of the maximum opportunity will be earned. Bonuses will typically be earned between threshold and on-target and between on-target and maximum on a straight-line basis. • For strategic measures and personal goals, vesting of the bonus will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant metrics or objectives have been met.
MAXIMUM OPPORTUNITY Annual bonus for FY22 and subsequent years to which this Policy applies	• Maximum opportunity – 125% of base salary per annum. • Where bonus awards are granted as share awards, dividend accruals may be made in respect of special dividends paid during the vesting period applicable to an award. Payment would only be made in respect of shares vesting after applying performance criteria. • Subject to the Committee's discretion to override formulaic outturns, for threshold performance, for financial measures 5% of the maximum opportunity will be earned and for on-target performance 40% of the maximum opportunity will be earned. Bonuses will typically be earned between threshold and on-target and between on-target and maximum on a straight-line basis. • For strategic measures and personal goals, vesting of the bonus will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant metrics or objectives have been met.

PERFORMANCE METRICS	• No further performance targets will apply to the share awards granted in respect of the bonuses for FY20 as those awards reflect the outcome of the performance targets for that year, as set out on pages 144 to 146 of the FY20 Annual Report. • Stretching performance targets are set each year. Performance targets for the Executive Directors may be based on financial objectives and/or strategic objectives and/or personal goals set by the Remuneration Committee annually. • Financial objectives may include, but are not limited to, budgeted PBT for the financial year taking into account market consensus and individual broker expectations. • The strategic objectives will vary depending on the specific business priorities in a particular year. • Ordinarily, at least 50% of the annual bonus for Executives will be subject to financial objectives. • For the avoidance of doubt, share awards in respect of the bonuses for FY20 will not be subject to further performance targets as they reflect the outcome of the performance targets for that year, as set out on pages 144 to 146 of the FY20 Annual Report. • Awards are subject to recovery provisions (malus and clawback) as set out on page 146.

LONG-TERM INCENTIVE PLAN	Awards to be made to Executive Directors other than Sir Will Adderley, who has requested that he not be considered for LTIP awards
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• Supports delivery of strategy by requiring the achievement of financial targets which include EPS, which the Committee believes to be the most appropriate measure for medium-term performance, aligned with our growth ambitions and continuing to win market share. EPS growth is also a prime driver of shareholder value creation. Flexibility will be retained to base part of the award on other financial or strategic measures in order that targets can be tailored to the circumstances of each grant. • Rewards strong financial performance and sustained increase in shareholder value over the long term. • Aligns with shareholder interests through the delivery of shares, the majority of which (after payment of tax liabilities) are retained.
OPERATION	• Awards are made annually (which can take the form of a conditional award, nil-cost option or nominal value option), with vesting subject to performance over three financial years. • A majority of shares must be retained as set out in the 'Shareholding requirements' section below. • The Committee has discretion to adjust the LTIP vesting outturn upwards or downwards if it considers that the formulaic output does not reflect its assessment of overall financial or non-financial performance of the participant or the Group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at grant, or is inappropriate for any other reason.
MAXIMUM OPPORTUNITY	• The maximum annual award for Executive Directors is 200% of salary. • Dividend accruals may be made in respect of special dividends paid during the performance period applicable to an award and up to the vesting date. Payment would only be made in respect of shares vesting after applying performance criteria.
PERFORMANCE METRICS	• For at least 75% of an award, one or more financial measures, which will include a measure based on EPS, assessed over the three-year performance period. The balance of the award will be based on one or more other financial, strategic, environmental, social and governance measures. • The Remuneration Committee considers the targets annually taking into account a range of factors which will include the Company's plans, external forecasts and the overall business environment. • Subject to the Committee's discretion to override formulaic outturns, for financial measures 10% of an award will vest for threshold performance (the lowest level of performance at which awards will vest), rising to up to 50% for achieving a stretching level of 'on-target' performance and to 100% for achieving or exceeding a stretch level of performance. Vesting between threshold and on-target and between on-target and maximum will typically be on a straight-line basis. • For strategic, environmental, social or governance measures, vesting will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant measures have been met. • Awards are subject to recovery provisions (malus and clawback) as set out on page 146.

Remuneration continued

ALL EMPLOYEE SHARE PLAN (SHARESAVE)	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• Promotes share ownership by all eligible colleagues (including Executive Directors).
OPERATION	• All UK employees with a minimum service requirement are eligible to join the UK tax-approved Dunelm Group Savings Related Share Option Plan (the Sharesave). • Monthly savings are made over a period of three years linked to the grant of an option over Dunelm shares at a discount of up to 20% of the market price (or such other amount as permitted by law) at the date of invitation to join the plan. • Invitations are normally issued annually at the discretion of the Remuneration Committee, which also has discretion to set the minimum service requirement, maximum discount, maximum monthly savings and any other limits (such as scaling back) within the terms of the scheme rules.
MAXIMUM OPPORTUNITY	• Maximum participation limits are set by the UK tax authorities. Currently the maximum limit is savings of £500 per month.
PERFORMANCE METRICS	• None.

SHAREHOLDING REQUIREMENTS

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

SHAREHOLDING REQUIREMENTS DURING EMPLOYMENT

- Executive Directors are expected to make a personal investment in Dunelm shares on appointment as an Executive Director (subject to closed periods).
- Executive Directors are required to build a beneficial holding of shares equal to 100% of salary after three years and 200% of salary after five years from appointment.
- At least two thirds of shares acquired pursuant to the vesting of share awards in respect of FY20, FY21 and any other year in respect of which the bonus is satisfied by a share award as referred to on pages 143 to 145 (after sale of shares to cover tax and National Insurance obligations) must be retained during employment.
- Two thirds of any cash bonus earned (after tax and National Insurance obligations have been met) must be invested in Dunelm shares, which must then be retained during employment.
- All of the shares acquired pursuant to the vesting of any LTIP award granted after 1 July 2020 (after sale of shares to cover tax and National Insurance obligations) must be retained for two years, and two thirds of those shares must then be retained during employment.
- The relevant shares must be retained regardless of whether the Executive Director has achieved the required 100% or 200% of salary shareholding, therefore building to a higher personal shareholding level over time.

SHAREHOLDING REQUIREMENTS FOLLOWING TERMINATION OF EMPLOYMENT

Following termination of their employment for any reason, an Executive Director must retain for two years shares equal to the lower of the shareholding requirement applicable immediately prior to departure (100% of salary if they leave within five years of appointment or 200% of salary if they leave five years or more after appointment) as appropriate or their actual shareholding on departure. This is a contractual requirement set out in each Director's service contract. The Company also reserves the right to require share certificates to be lodged in its custody.

RECOVERY PROVISIONS (MALUS AND CLAWBACK)

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

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

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

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

- A material misstatement of any Group company's financial results;
- A material error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or vests;

- A material failure of risk management in any Group company or a relevant business unit;
- Serious reputational damage to any Group company or a relevant business unit;
- Serious misconduct or material error on the part of the Participant;
- A material corporate failure as determined by the Board;
- Fraud; or
- Any other circumstances which the Committee in its discretion considers to be similar in their nature or effect to those set out above.

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

NON-EXECUTIVE DIRECTORS

FEES	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• To attract and retain a high-calibre Chairman and Non-Executive Directors by offering competitive fee levels.
OPERATION	• Fees for the Chairman and Non-Executive Directors are set by the Board. No Director participates in any decision relating to his or her own remuneration. • The Chairman is paid an all-inclusive fee for all Board responsibilities. • The Non-Executive Directors receive a basic fee, with supplemental fees for additional Board responsibilities. • The level of fee reflects the size and complexity of the role and the time commitment. • Fees are reviewed annually and increased in line with the Company-wide increase. In addition, there will be a periodic review against market rates and taking into account time commitment and any change in size, scale or complexity of the business. • Flexibility is retained to increase fee levels in certain circumstances, for example, if required to recruit a new Chairman or Non-Executive Director of the appropriate calibre. • With the exception of colleague discount, no benefits are paid to the Chairman or the Non-Executive Directors, and they do not participate in any incentive scheme.
MAXIMUM OPPORTUNITY	• Maximum fees to be paid by way of fees to the Non-Executive Directors are set out in the Company's Articles of Association. • Fees paid to each Director are disclosed in the Annual Report on Implementation.
PERFORMANCE METRICS	• None.

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

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

PERFORMANCE MEASURES AND HOW TARGETS ARE SET

The Remuneration Committee selects performance measures that it believes are:

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

ANNUAL BONUS

Specifically for FY21 due to the Covid-19 situation:

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

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

For FY22 and subsequent years (if applicable), the Committee will determine the financial measures and the weighting of financial and non-financial measures based on specific business priorities in a particular year. Financial measures will ordinarily represent a majority.

Remuneration continued

LTIP

For the LTIP, at least 75% of the award will be based on one or more financial measures, which will include EPS.

GROUP KPI

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

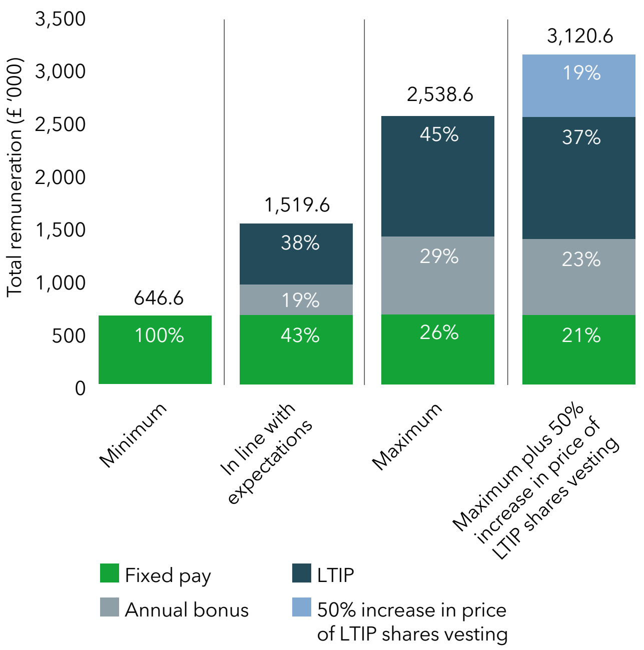
Any part of the award not based on financial measures will be based on strategic measures, which may include environmental, social and governance measures.

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

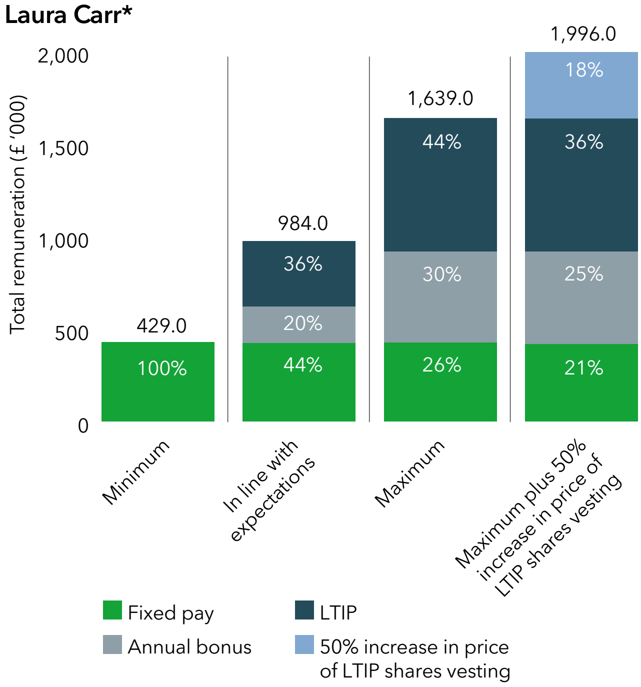
ILLUSTRATIVE PERFORMANCE SCENARIOS

The following graphs set out what Nick Wilkinson and Laura Carr, the other Executive Directors in office at the date of this report, could earn in FY22 under the following scenarios:

Nick Wilkinson*



Laura Carr*



* Please note some % in graphs above have been manually amended to resolve rounding errors (i.e. so that they add up exactly to 100%).

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

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

	Base (last known salary) £'000	Benefits £'000	Pension (3% of salary) £'000
Nick Wilkinson	582	48	17
Laura Carr	397	20	12

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

Performance level	Fixed pay	Annual bonus	LTIP
Minimum (performance below threshold)	As above	Nil	Nil
In line with expectations	As above	40% of annual bonus will vest	50% of the LTIP award (i.e. 100% of salary for Nick Wilkinson and 90% of salary for Laura Carr), based on face value of the award at the date of grant.
Maximum performance	As above	100% of annual bonus will vest	100% of the LTIP award (i.e. 200% of salary for Nick Wilkinson and 180% of salary for Laura Carr), based on face value of the award at the date of grant.
Maximum performance, plus share price increase	As above	100% of annual bonus will vest	100% of the LTIP award (i.e. 200% of salary for Nick Wilkinson and 180% of salary for Laura Carr), plus an increase in the value of the LTIP of 50% across the relevant performance period to reflect possible share price appreciation.

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

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

SERVICE CONTRACTS AND LOSS OF OFFICE PAYMENTS

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

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

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

The limited circumstances in which unexercised LTIP awards might be exercised following termination of an Executive Director's service contract are set out on page 150.

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

Details of the likely duration of the service contracts for Executive Directors and the letters of appointment for the Non-Executive Directors are set out in Table 8 on page 164 of the Implementation Report.

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

Remuneration continued

EXERCISE OF LTIP AND SHARESAVE OPTIONS FOLLOWING TERMINATION OF EMPLOYMENT

LTIP

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

- Options that have vested but have not yet been exercised may be exercised within six months of cessation of employment (12 months in the case of death).
- Except in the case of dismissal for gross misconduct, options which have not yet vested, but where the performance period has elapsed, may be exercised within six months of the relevant vesting date (or 12 months in the case of death), to the extent that the performance condition has been met. The Remuneration Committee has discretion to allow earlier exercise but would only use this in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver.
- If the participant leaves the Group before an option has vested and before the performance period has elapsed, the option will usually lapse. Except in the case of dismissal for gross misconduct, the Remuneration Committee has the discretion to allow the exercise of options for which the performance period has not elapsed at the date of cessation of employment, within six months of the relevant vesting date (or 12 months in the case of death). The Remuneration Committee also has discretion to allow earlier exercise. The Remuneration Committee would only use this discretion in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver.
- Any exercise would be subject to assessment of the performance condition (and the exercise of any discretion to vary formulaic outturns in line with the policy table) and, unless the Committee determined otherwise, a reduction to reflect the proportion of the performance period that had elapsed at cessation.
- If early exercise is permitted, the Remuneration Committee may apply an adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met.

In all cases, LTIP awards would be subject to the applicable malus and clawback provisions.

Sharesave

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

Other payments

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

CHANGE OF CONTROL AND OTHER CORPORATE EVENTS

Share bonus awards

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

LTIP

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

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

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

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

Sharesave

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

OPERATION OF SHARE PLANS

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

EXECUTIVE PAY AND THE PAY OF OTHER COLLEAGUES

The principles set out in the remuneration strategy on page 123 are applied consistently to pay throughout the Group.

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

The remuneration of Executive Directors is more heavily weighted towards variable pay than other colleagues, so that a greater part of their pay is linked to successful delivery of strategy and aligned with shareholders. They are also required to build and maintain a shareholding in the Company as set out on page 146.

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

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

In setting the policy for the Executive Directors' remuneration, the Committee takes note of the overall approach to remuneration in the Group. In previous years, the Committee had formal oversight of the remuneration of Executive Board members. In line with the 2018 Corporate Governance Code:

- The Committee formally approves the remuneration of the Company Secretary and all members of the Executive Board.
- At least annually, the People and Stores Director provides information to the Board about workforce policies and practices.
- The Board receives a 'Colleague Dashboard' twice a year, which contains a number of colleague measures, including gender, and age split, gender and ethnicity pay (ethnicity pay based on preliminary data) reward, Sharesave participation, colleague engagement, voluntary turnover and internal promotion.

DETAILS OF HOW WE ENGAGE WITH OUR COLLEAGUES ON PAY ARE SET OUT IN THE IMPLEMENTATION REPORT ON PAGE 168

SHAREHOLDER VIEWS

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

In addition to this, the Company holds a Corporate Governance Day, usually every two years, hosted by the Chairman, the Deputy Chairman and the other Non-Executive Directors, to which all major shareholders are invited. This enables all parties to discuss governance topics informally, including remuneration. In addition, the Chairman and Non-Executive Directors usually attend results presentations and a selection of shareholder meetings. The last Corporate Governance Day was in January 2020, and a copy of the presentation is on our website, corporate.dunelm.com.

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

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

We consulted with shareholders in relation to the new 2020 Policy including, in particular, our approach to share bonus awards proposed specifically due to the Covid-19 situation for FY20 and FY21, our approach to LTIP awards for FY21, pensions and salary increases. We were pleased with the level of engagement from shareholders and for the support shown for our proposals, which we have finalised having regard to feedback received.

Remuneration continued

APPROACH TO RECRUITMENT REMUNERATION

The Remuneration Committee will apply the principles set out below when agreeing a remuneration package for a new Director (whether an external candidate or an internal promotion). The package must be sufficient to attract and retain the high-calibre talent necessary to develop and deliver the Company's strategy:

- No more should be paid than is necessary.
- Pension provision will be in line with the policy.
- The Committee reserves the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual needs of the recruitment provided the Committee believes the relevant decisions are in the best interests of the Company.

Circumstances in which the Committee might apply this discretion include:

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

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

- It may be appropriate to offer a lower salary initially, with a series of increases to reach the desired salary over a period of time, subject to performance.
- The Committee may also alter the performance criteria applicable to the initial annual bonus or LTIP award so that they are more applicable to the circumstances of the recruitment.
- An internal candidate would be able to retain any outstanding variable pay awarded in respect of their previous role that pays out in accordance with its terms of grant.
- Appropriate costs and support will be provided if the recruitment requires the relocation of the individual.

The maximum level of variable pay that could be awarded to a new Executive Director in the first year of employment, excluding any buyout arrangements, would normally be in line with the policy table set out from page 142. The Committee would explain the rationale for the remuneration package in the next Annual Report of the Company.

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

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

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

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

LEGACY REMUNERATION ARRANGEMENTS

The Committee reserves the right to make remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with any such payment) notwithstanding that they are not in line with the Policy set out above where the terms of payments were agreed:

- Before the Policy came into effect (provided that, in the case of any payments agreed on or after 11 November 2014 they are in line with any applicable shareholder approved Directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders); or
- At a time when the relevant individual was not a Director of the Company (or other person to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or other such person).

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.

Implementation Report

This section of the report sets out how the Directors' Remuneration Policy which was approved by shareholders on 17 November 2020 has been applied in FY21.

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

Remuneration Committee membership

The table below sets out the membership and attendance of Directors on the Remuneration Committee during the year:

Member	From	To	Meetings attended
William Reeve (Chair)	1 July 2015	To date	5/5
Ian Bull	10 July 2019	To date	5/5
Andy Harrison	1 September 2014	To date	5/5
Peter Ruis	10 September 2015	To date	5/5
Arja Taaveniku[1]	15 February 2021	To date	2/3
Paula Vennells[2]	4 September 2019	25 April 2021	3/3

1. Arja Taaveniku was appointed to the Board during the financial year, and joined the Committee on appointment. She was unable to attend one meeting during the year due to a prior commitment.
2. Paula Vennells stepped down from the Board on 25 April 2021.

The Company Secretary acts as secretary to the Committee. No Director ever participates when his or her own remuneration is discussed.

ADVISERS

The Committee has appointed Deloitte to provide general advice in relation to executive remuneration on an ad hoc basis. Total fees paid to Deloitte for remuneration-related work in the year were £16,550 (FY20: £21,650).

Deloitte also provided non-remuneration-related consultancy services in the year to conduct a 'retail maturity' review of processes and systems in the business. This appointment was made based on Deloitte's expertise on an arm's length basis and for one-off pieces of work, without reference to the fact that Deloitte also provides remuneration advice.

Having reviewed the fees paid to Deloitte for non-remuneration-related work as specified above, the Committee noted that Deloitte provides remuneration advice through a team which is separate to the other consultancy teams. Also, Deloitte is a member of the Remuneration Consultants' Group and as such voluntarily operates under a Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the remuneration advice that they have received from Deloitte in the year has been objective and independent.

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

Remuneration continued

SINGLE FIGURE FOR TOTAL REMUNERATION (AUDITED INFORMATION)

The following table sets out total remuneration for Directors for the period ended 26 June 2021:

Table 1 – Directors' remuneration – single figure table

	Salary/fees[1]		Benefits[2]		Pension[5]		Total fixed remuneration[6]		Bonus[3]		LTIP awards[4]		Total variable remuneration[7]		Total	
	£'000		£'000		£'000		£'000		£'000		£'000		£'000		£'000	
Director	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Executive																
Nick Wilkinson	**563**	426	**50**	48	**45**	55	**658**	529	**570**	138	**2,814**	292	**3,384**	430	**4,042**	959
Laura Carr[1]	**383**	347	**21**	21	**31**	37	**435**	405	**386**	91	**1,648**	–	**2,034**	91	**2,469**	496
Sir Will Adderley	**–**	–	**20**	21	**–**	–	**20**	21	**–**	–	**–**	–	**–**	–	**20**	21
Non-Executive																
Andy Harrison[1]	**216**	162	**–**	–	**–**	–	**216**	162	**–**	–	**–**	–	**–**	–	**216**	162
Marion Sears[1]	**52**	39	**–**	–	**–**	–	**52**	39	**–**	–	**–**	–	**–**	–	**52**	39
Liz Doherty[1]	**–**	27	**–**	–	**–**	–	**–**	27	**–**	–	**–**	–	**–**	–	**–**	27
William Reeve[1]	**68**	47	**–**	–	**–**	–	**68**	47	**–**	–	**–**	–	**–**	–	**68**	47
Peter Ruis	**52**	39	**–**	–	**–**	–	**52**	39	**–**	–	**–**	–	**–**	–	**52**	39
Ian Bull[1]	**62**	41	**–**	–	**–**	–	**62**	41	**–**	–	**–**	–	**–**	–	**62**	41
Paula Vennells[1]	**43**	30	**–**	–	**–**	–	**43**	30	**–**	–	**–**	–	**–**	–	**43**	30
Arja Taaveniku[1]	**19**	–	**–**	–	**–**	–	**19**	–	**–**	–	**–**	–	**–**	–	**19**	–
Total	**1,458**	1,158	**91**	90	**76**	92	**1,625**	1,340	**956**	229	**4,462**	292	**5,418**	521	**7,043**	1,861

1. Ian Bull was appointed on 10 July 2019, and succeeded Liz Doherty as Chair of the Audit and Risk Committee on 19 November 2019. Paula Vennells was appointed on 4 September 2019 and stepped down from the Board on 25 April 2021. Liz Doherty retired from the Board on 19 November 2019. William Reeve was appointed as Senior Independent Director (SID) on 10 September 2020, this position was vacant between 19 November 2019 and that date. Arja Taaveniku was appointed to the Board on 15 February 2021. Basic salary/fee, SID fees and Committee Chair fees for Ian Bull, Liz Doherty, Paula Vennells, William Reeve and Arja Taaveniku are pro-rated over the relevant year. From 1 July 2020, Laura Carr's salary increased by 5%, and from 1 August 2020, Nick Wilkinson's base salary increased by 2%. Sir Will Adderley's base salary is held at £1 per annum. The Chairman and the Non-Executive Directors waived any increase in fees in FY21. During the period April to June 2020 inclusive, Nick Wilkinson took a voluntary 90% reduction in base salary, Laura Carr took a voluntary 20% reduction in base salary, and Sir Will Adderley, Andy Harrison and all of the Non-Executive Directors waived their fees in full. The salary/fee figures in the table above reflect these reductions.
2. Benefits include the cost to the Company of a car allowance and private health insurance for the individual and their family. Nick Wilkinson is also entitled to an allowance of 5% of his annual salary towards the cost of travel from home to Leicester.
3. Nick Wilkinson and Laura Carr were each awarded an annual performance-related bonus for FY21 with a maximum face value of 125% of contractual salary. The performance conditions which applied to the bonus were set in August 2020 and are described in the report below. The value of the bonus earned in the table above is based on the sum that would have been paid had the bonus been awarded in cash, although pursuant to specific arrangements put in place for FY21 due to Covid-19 it was awarded in deferred shares, payable in two equal tranches in September 2021 and 2022 respectively. The share price used to calculate the number of shares in the award was 1,189p. The Committee did not apply discretion to adjust the outcome of the performance criteria to reflect share price appreciation or depreciation, or for any other reason. The second tranche of the award which vests in September 2022 is eligible to receive a 'special dividend equivalent' in respect of the special dividend of 65p per share payable on 8 October 2021 and any other special dividend paid before that tranche vests.
4. The figure for Nick Wilkinson and Laura Carr is the value of the 2019-21 LTIP award whose three-year performance period ends on the last day of the financial period being reported on. The price used to calculate the value of the awards, which will vest on 17 October 2021 to Nick and 30 November 2021 to Laura, was the average of Dunelm's closing share price over the last three months of the FY21 financial year, which was 1,429p per share. It also includes a 'special dividend equivalent' of 32p per vested share in respect of the special dividend paid on 11 October 2019, and of 65p per vested share in respect of the special dividend that is to be paid on 8 October 2021. The share price used to calculate the number of shares in Nick and Laura's 'special dividend equivalent' was 731p per share in respect of the October 2019 special dividend (being the share price at the special dividend date) and 1,429p per share in respect of the October 2021 special dividend, which is based on the average of Dunelm's closing share price over the last three months of the financial year; therefore the amount of the values above include an element that may be attributed to share price increase of £1,557,451 for Nick and £961,412 for Laura. No discretion was applied to adjust the amount vesting for share price appreciation. The figure for Nick Wilkinson for the 2018-20 LTIP award has been restated to show the actual value of the award on vesting which was 22,697 shares times share price at close of business on 2 March 2021 of 1,286p.
   The Remuneration Committee did not apply discretion to adjust the outcome of the performance criteria applicable to this award to reflect share price appreciation or depreciation, or for any other reason. Sir Will Adderley has asked not to be considered for an LTIP award.
5. Pension for FY20 is 10% of contractual salary for Nick Wilkinson and Laura Carr and for FY21 is 8%. Sir Will Adderley waived his entitlement to pension from 1 July 2015.
6. Total fixed remuneration includes salary/fees, benefits and pension.
7. Total variable remuneration includes bonus and LTIP awards.

FY21 ANNUAL BONUS – SHARE BONUS AWARDS

In the light of the Covid-19 pandemic, specific temporary annual bonus arrangements were put in place in respect of FY20 and FY21 as set out in the Remuneration Policy. As in previous years, Nick Wilkinson and Laura Carr were each eligible to earn an annual bonus with a face value of up to 125% of base salary, subject to satisfaction of performance targets. However rather than being paid in cash, this was to be settled by way of a conditional share award, vesting over two financial years. These arrangements were adopted following consultation with our major shareholders and enshrined in our approved 2020 Remuneration Policy.

In FY21, conditional awards were over:

- Nick Wilkinson: 59,130 shares.
- Laura Carr: 40,291 shares.

Sir Will Adderley has asked that he not be considered for an annual bonus award.

- The number of shares in each award was determined by reference to the average share price over June and July 2020 of 1,189p per share. This price reflects the market assessment of performance during FY20, as it is set at the start of FY21 and includes the period post the year-end Trading Update on 15 July. This meant that there was more risk or opportunity depending upon Dunelm's progress during FY21 as reflected in share price movements. The Committee believes that movements in the Dunelm share price since then have reflected the market's assessment of the Group's performance and potential since that date, helping to align the Executives' interests with those of shareholders. The closing share price on 19 November 2020, the date preceding the date that the award was granted, was 1,186p. Any bonus is payable in deferred shares, with 50% of the vested shares (after applying the performance criteria) released in September 2021 and the remaining 50% deferred to September 2022. In both cases release is subject to continued employment and the participant not being under notice.
- Covid-19 left us operating in an unprecedented business environment with an exceptionally unpredictable range of future outcomes, especially over FY20 and FY21. The primary goals of the business during FY21 were to cope with the continuing Covid-19 pandemic and create the platform for successful growth post pandemic. In these circumstances, the Committee considered it appropriate to determine vesting of the annual bonus share awards by reference to a robust qualitative assessment of performance in three specific areas over the financial year to June 2021: financial performance and delivery of the Group's recovery plan; strategic progress and personal objectives.
- When the Committee determined the performance outcome for the year, it carefully considered its assessment of performance in the wider context of how the Group had performed for all its stakeholders including the resumption of dividend payments, the repayment of government support received through the Job Retention Scheme and other grant relief, colleague pay increases and bonus earned, and the discretionary 'thank you' payments given to colleagues.

A summary of the bonus measures, weightings and performance is set out below:

% of bonus opportunity	50%					25%	25%	**Total 100%**
Measure	**Financial performance and recovery plan**					**Strategic progress**	**Personal objectives**	
Sub measures	Sales	PBT	Customer NPS	eNPS (total Company)	Other operational metrics	n/a	n/a	
Weighting	12.5%	12.5%	6.25%	6.25%	12.5%	25%	25%	
Assessment	Quarterly	Quarterly	Annual	Annual	Annual	Annual	Annual	
% of target met	100%	75%	72.5%	55%	72.5%	80%	Nick 88% Laura 85%	
Nick Wilkinson % bonus earned	12.5	9.375	4.53	3.44	9.375	20.0	22.0	**81.22%**
No. of shares vesting (in 2 equal tranches 2021 and 2022)								**48,025**
Laura Carr % bonus earned	12.5	9.375	4.53	3.44	9.375	20.0	21.25	**80.47%**
No. of shares vesting (in 2 equal tranches 2021 and 2022)								**32,422**

A further explanation of how the Committee calculated performance for each of the criteria is set out below.

Remuneration continued

FINANCIAL TARGET AND DELIVERY OF A COVID RECOVERY PLAN – 50% OF BONUS OPPORTUNITY

The Committee considered that the targets for sales, profit, customer and colleague satisfaction and other key operational measures delivered substantial progress in the financial performance of the Company and the success of its Recovery Plan for its shareholders and its other key stakeholders, customers and colleagues. The financial targets were assessed by reference to reported statutory figures. The other targets were assessed by reference to the numerical data and a holistic consideration of the overall customer and colleague experience and operational performance.

Sales and PBT (each eligible for 12.5% of bonus opportunity)

Targets were set quarterly, as the economic situation changed during the pandemic, based on the Board's quarterly forecast and external expectations applicable when the target was set. In each quarter, the Committee set a target range, in which meeting expectations of sales/PBT would deliver a score of 40%. Exceeding the sales target by 7.5% or more would deliver a 100% score, and exceeding the PBT target by 2.5% or more would deliver a 100% score. Performance against these targets was as follows:

Sales	Q1	Q2	Q3	Q4	Total
Result	£359.1m	£360.4m	£236.6m	£380.1m	**£1,336.2m**
% of target met	100%	100%	100%	100%	**100%**
% bonus opportunity earned					**12.5%**

PBT					
% of target met	100%	0%	100%	100%	
adjusted % (see below)	100%	100%[1]	0%[2]	100%	**75%**
% bonus opportunity earned					**9.375%**

The Committee used its discretion to apply two adjustments to the outcome achieved in respect of the PBT target:

1. Performance against the Q2 PBT target was adjusted to remove the impact on PBT delivered of the Board's decision to repay £14.5m received from the Job Retention Scheme in FY20, which was not taken into account when the target was set. Without this adjustment, a score of nil would have been achieved.
2. Although performance against the Q3 PBT target was met delivering a score of 100%, the Committee considered that it was inappropriate to pay bonus against a profit target in a quarter in which the Group was lossmaking. Therefore the score for this quarter was reduced to nil.

The sales and PBT targets and actual PBT delivered by quarter has been excluded from the above table, as these are considered to be commercially sensitive.

Customer and colleague NPS (each eligible for 6.25% of bonus opportunity)

Performance against these measures was as follows:

Measure	Target range	Performance	% of target met	% bonus opportunity earned
Customer NPS	Flat to +4%	+4.2%	72.5%[1]	**4.53%**
Colleague NPS	-2% to +3%	+1.0%	55%	**3.44%**

1. The Committee decided that although the top end of the customer NPS range was met by averaging quarterly scores, this had not been consistently achieved throughout the year, and so a deduction was applied.

Operational metrics (eligible for 12.5% of bonus opportunity)

The operational metrics applicable to **Nick Wilkinson** were assessed as follows:

Measure	% of target met
Free cash flow	100%
Digital sales growth	50%
Overall assessment against targets	**75%**
% bonus opportunity earned	**9.375%**

The operational metrics applicable to **Laura Carr** were assessed as follows:

Measure	% of target met
Free cash flow	100%
Digital sales growth	50%
Stock loss percentage	100%
Store cost: sales	75%
Logistics cost: serve	50%
Overall assessment against targets	**75%**
% bonus opportunity earned	**9.375%**

The actual targets and performance for the above measures have not been disclosed as they are commercially sensitive and the Committee considers that it would damage the Company to disclose them. Free cash flow and digital sales growth performance are disclosed elsewhere in this report.

STRATEGIC PROGRESS – 25% OF BONUS OPPORTUNITY

Progress was measured against the six strategic focus areas described in the FY20 annual report. Assessment was made by reference to performance across the objectives as a whole, with no specific weighting.

Overall strategic development	Our substantial investments in digital capability and our customer proposition were vital to our success during the pandemic and for our future growth ambitions. Significant additional time spent by Executive Board and Board on strategic planning and development. Increased level of investment awareness and engagement in our strategy and customer metrics.
Grow Dunelm profitably	Profit growth and digital sales growth significantly exceeded expectations.
Win market share and rapidly grow online digital business	Digital sales grew by +115% over the year, 760bps ahead of the market, despite loss of share to 'essential' retail competitors when stores were closed during lockdowns.
Make progress on ESG	Rated 'low risk' by MSCI and Sustainalytics external ratings agencies, set Scope 1 and 2 emissions reduction targets, supporters of BRC's Climate Action Roadmap; understanding and ambition developed significantly, progress made on colleague wellbeing, diversity and community engagement.
Product	Meets expectations – substantial improvements were delivered in the strength of our product offering in terms of range, quality and value, including achievements in product development, launched paint and wallpaper range, 'The Edited Life' (sustainable) range and developed furniture supply base.
Customer	Meets expectations – good customer experience despite the challenges of the Covid-19 pandemic. A robust five-year activity plan in place and successful enhancements to digital marketing capability.
Digital sales	Exceeds expectations – unprecedented growth in our digital sales and delivered significant technical enhancements to Dunelm.com, pivoted to support a kerb-side Click & Collect offer, implemented centrally fulfilled Click & Collect offer.
Sustainability	Meets expectations – Set Scope 1 and 2 emissions reduction targets, supporters of BRC's Climate Action Roadmap; understanding and ambition developed significantly, progress made on colleague wellbeing, diversity and community engagement.
Delivery	Exceeds expectations – implemented post-sale customer experience strategy, capacity plan being implemented, managed significant operational challenges without losing strategic focus.
Operations	Meets expectations – programme to improve end-to-end process capabilities agreed, progress made on internal controls, supply chain capacity expansions planned.

Based on the above, the Committee considered that strong strategic progress had been made both overall and across all six focus areas, and expectations were exceeded in key profitability and customer measures. It therefore assessed that 80% of the strategic progress targets had been met by each of Nick and Laura, which earned 20% of total bonus opportunity.

Remuneration continued

PERSONAL OBJECTIVES – 25% OF BONUS OPPORTUNITY

Assessment was made by reference to personal performance of both Nick Wilkinson and Laura Carr, as well as specific objectives set by the Committee at the start of the year.

Nick Wilkinson

The Committee considered the following personal achievements:

- A highly efficient and ambitious environment was maintained, despite disruption due to the ongoing Covid-19 crisis.
- A more meaningful, differentiated and authentic purpose was developed in collaboration with colleagues and other key stakeholders.
- Good progress made in capability development, including two appointments to the Executive Board, and ongoing development of our digital and data capabilities.
- Further developed our internal strategic narrative, with seamless customer-focused multichannel thinking in place, momentum growing on sustainability, investor messaging improved.
- Three-year structured plan in place and being implemented to build internal succession and talent management.
- Additional investment opportunities for strategic growth developed and built into an ambitious five-year plan.

Taking all of the above into account, it was determined that Nick's delivery against personal and strategic objectives had greatly exceeded expectations, and that accordingly 88% of this target had been met, earning 22% of this element of the bonus (2020: 100%).

Laura Carr

The Committee considered the following personal achievements:

- Together with Nick, Laura has created a robust five-year plan, which includes greater growth ambition and supporting business plans, together with productivity opportunities to enable margin progression.
- Laura chaired the Supply Chain Steering Group, which minimised capacity constraints over Peak, and successfully delivered increased furniture storage and e-commerce capacity.
- Delivered significant improvements in the control environment, including the creation of the Risk and Resilience Committee.
- Developed a three-year plan to improve internal processes to support our growth ambition and improve productivity.
- Provided interim leadership of the Technology function for nine months pending the new CIO taking up his post, ensuring stability of core functionality and continued transformation of the function.
- Chaired the Data Steering Group which delivered increased functionality and capability.
- Continued to build the capability and effectiveness of the Finance team.

Taking all of the above into account, it was determined that Laura's delivery against personal and strategic objectives had greatly exceeded expectations, and that accordingly 85% of this target had been met, earning 21.25% of this element of the bonus (2020: 100%).

ASSESSMENT OF BONUS OUTCOME AFTER APPLYING PERFORMANCE CONDITIONS

The Committee reviewed the outcome of performance against the targets described above. It also considered the overall business context and stakeholder experience. It concluded that the Executive team, led by Nick, and of which Laura is part, has performed strongly during the year despite the ongoing Covid-19 crisis, improving all key stakeholder relationships. This has enabled the Company to maintain and improve its strong financial and market position. The team has also executed its recovery plan, designed to gain market share by accelerating our digital growth and developing our customer proposition, whilst maintaining and improving financial and operational performance. Meaningful progress has also been made to ensure that the business demonstrably delivers value to all of its stakeholders, for the climate, and to society as a whole.

Taking all of the above into account, it was agreed that the bonus outcome after applying the measures described was fair, reasonable and appropriate.

A total of 48,025 shares under the Share Bonus Award will vest to Nick and 32,422 shares under the Share Bonus Award will vest to Laura. These will vest in two equal tranches in September 2021 and September 2022, subject to continued employment and not being under notice.

The Committee also agreed that the second tranche of the award will qualify for a special dividend equivalent in respect of any special dividend paid between 9 September 2020 and vesting of this tranche of the award in September 2022, to be paid in shares.

WINDFALL

The Dunelm share price used to set the number of shares in each share bonus award was 1,189p. As set out above, the aim of using this price, rather than the share price at the date of grant of the award, was to further align the interests of Executives with shareholders by reflecting management performance over the financial year. The closing share price on 19 November 2020, the date preceding the date of the award, was 1,186p.

In determining the extent to which the share bonus award should vest, the Committee considered whether Executives have benefited from any 'windfall' effect. The Committee considered a 'windfall' effect to be one in which Executives benefited from upward share price movements that were driven by wider market trends, external and/or fortuitous circumstances other than by the Company's performance.

The Committee reviewed a paper prepared by Dunelm's brokers setting out Dunelm's share price performance over the period from January 2019 to the end of June 2021, compared with the performance of the FTSE 250 index and the FTSE 350 retailers index. The following factors were considered:

- The share price used to calculate the number of shares in the award (1,189p) is close to the pre Covid-19 price in February 2020, and therefore any share price increase over the year was likely to reflect management action rather than market recovery.
- Markets were volatile over the year but did not increase that much. The Dunelm share price over the financial year was volatile, and varied between 1,131p and 1,561p, closing at 1,367p at the end of the financial year.
- Dunelm's business performed well over the year, against peers and our own expectations. Dunelm's share price broadly reflects our performance and the market's understanding of it against market expectations. The share price tended to rise after results announcements. Share price falls largely reflected external factors such as imposition of restrictions due to Covid-19.
- In February 2021, the Adderley family, our majority shareholder, disposed of part of its shareholding, which had a negative impact on the share price.
- Vesting of 50% of the shares was deferred to September 2022, and shares vesting are subject to retention in accordance with the Shareholding Guidelines, which increases shareholder alignment.

Having taken all of the above into account, the Committee determined that the value of the Executives' awards that is attributed to share price increase was more related to the Company's performance than wider market trends, external and/or fortuitous circumstances, and thus the bonus outcome did not include an element of windfall gain. Therefore no adjustment should be made to the outcome.

DISCRETION

The Committee carefully considered whether it should exercise its discretion to adjust the overall outcome of the FY21 Share Bonus Award after applying the performance criteria described above (in addition to the discretion applied in relation to the financial performance criteria as described above). In doing so it considered the following factors:

- The financial performance of the Group has been strong, delivering record sales and profit, despite the ongoing Covid-19 crisis which has impacted operations and the external environment throughout the financial year.
- Significant progress has been made to advance the strategic objectives as set out earlier in the report, designed to accelerate future growth and advance the Company's long-term ambitions.
- The business performed strongly on customer and colleague engagement scores, including the customer 'How safe was your experience?' measure, which was consistently 95% or above.
- Colleagues received a pay increase during the year; colleagues in a bonus scheme will receive a similar outcome to that of Nick and Laura, and a second 'thank you' payment has been made to all other colleagues, of between £250 and £350 (dependent on average hours worked).
- Continued support was given to local communities and charitable activity, as described elsewhere in this report.
- Feedback from the National Colleague Voice on Executive pay has been that colleagues are satisfied with pay awarded provided that it reflects the performance of the business.
- The Group was able to resume payment of dividends to shareholders, with an interim dividend of 12p per share paid on 10 April, a recommended final dividend of 23p per share, and a special dividend of 65p per share.
- The Board decision to repay the £14.5m claimed from the government's Job Retention Scheme in FY20, and the fact that no claims have been made in FY21. Colleagues who were placed on furlough in FY21 received the same payments that they would have received via the government scheme, funded by the Group.
- The Board's decision to repay £4.0m in Covid-related grants received in FY21.
- The fact that the Board has decided not to repay to the government business rates relief made available to all retailers in FY20 and FY21. The Committee noted that in making this decision, the Board has carefully considered both the respective interests of all of our stakeholders and a range of other factors, including the repayment of other government support as noted above, the strong recovery of the business, the fact that our stores were closed to customers for a third of the financial year and the competitive imbalances arising from the boundaries between essential and non-essential retail. Further details relating to the Board's decisions in relation to repayment of government support are in the case study on page 110.
- Shares earned by Executive Directors are to be retained in accordance with the Company's Shareholding Guidelines.

Having considered all of the above factors, the Committee agreed that the FY21 annual bonus outcome for each of Nick Wilkinson and Laura Carr was fair and reasonable in the circumstances, reflected shareholder and wider stakeholder experience, and should not be further adjusted.

Remuneration continued

Total bonus earned in respect of FY21 performance is set out in the table below:

Table 2 – Annual bonus earned in respect of FY21 performance

	Bonus awarded (cash equivalent based on % of salary) £	Total number of shares vesting under Share Bonus Award	Percentage of maximum award
Nick Wilkinson	£570,084	48,025	81.22%
Laura Carr	£385,502	32,422	80.47%
Sir Will Adderley (waived entitlement)	–		N/A

The value of the bonus earned in the table above is based on the sum that would have been paid had the bonus been awarded in cash, although as stated above pursuant to specific arrangements put in place for FY21 due to Covid-19 it was awarded in deferred shares, payable in two equal tranches in September 2021 and 2022 respectively. The second tranche of the award which vests in September 2022 is eligible to receive a 'special dividend equivalent' in respect of the special dividend of 65p per share payable on 8 October 2021 and any other special dividend paid before that tranche vests.

FY20 – SHARE BONUS AWARDS

Payment of bonus earned for FY20 which would normally have been paid in cash, was in deferred shares, with 50% vesting in September 2021 and 50% in September 2022. As was the case for the FY21 share bonus award, the share price used to calculate the number of shares in the award was 1,189p, the average share price over June and July 2020, reflecting the market's assessment of the financial performance in FY20 following issue of our Trading Update in July 2020. The Committee reserved discretion to adjust the outturn for any 'windfall' element due to a post-Covid market recovery rather than management action. Having reviewed the share price progression over the financial year, the Committee concluded that price rises during the year reflected management performance rather than market recovery, and therefore that no adjustment should be made. Further details are set out above under the heading 'Windfall'. Please note that in accordance with reporting guidelines the value of the FY20 bonus award is not in the FY21 'single figure' table as it was included in the 'single figure' for FY20.

LTIP – AWARDS EARNED IN RESPECT OF PERFORMANCE IN 2019-2021

The performance condition which applied to the FY19-21 LTIP award was that compound growth in diluted EPS over the three-year performance period of July 2019 to June 2021 should exceed the compound growth in RPI over the same period by between 3% and 15%. Over the three-year performance period which ended on 26 June 2021, reported diluted EPS grew at a compound annual rate of 19.6%. This is 17.2% above the compound annual growth in RPI over the same period. Accordingly 100% of this award has vested to Nick Wilkinson and Laura Carr as set out below. This is included in the single figure for total remuneration for FY21 as set out in Table 1.

Table 3 – LTIP awards earned in respect of performance in 2019-21

	Shares vesting	Percentage of maximum award
Nick Wilkinson	180,802	100%
Laura Carr	105,893	100%

No awards are due to vest to Sir Will Adderley in respect of the LTIP. Nick Wilkinson and Laura Carr will also receive £230,683 and £135,095 respectively by way of 'special dividend equivalent' in relation to the special dividend of 32p per share paid on 11 October 2019 and the special dividend of 65p per share payable in October 2021. In either case these will be paid in shares. The number of shares expected to vest for Nick Wilkinson and Laura Carr are 16,145 and 9,455 respectively. These values are included in the single figure for total remuneration for FY21 as set out in Table 1 on page 154 and the basis on which they have been calculated is set out in note 4. Shares vesting must be retained in accordance with the shareholding guidelines set out in the Remuneration Policy.

AWARDS MADE TO DIRECTORS UNDER SHARE INCENTIVE SCHEMES IN FY21

Awards were made on 19 November 2020 to Nick Wilkinson and Laura Carr as set out below. Sir Will Adderley has asked not to be considered for share incentive awards.

Table 4 – Awards made under the Share Bonus Plan in FY21 (audited information)

Name	Nil-cost Share Bonus Award	Number of shares	Face value at date of award	Performance condition	Performance period	Vesting date[3]	% vesting at threshold performance
Nick Wilkinson	Share bonus award in respect of FY20 bonus	11,594	£137,853[1]	No performance condition – quantum reflects bonus earned after applying performance criteria. Two thirds of the shares vesting (after payment of tax and National Insurance) must be held for the duration of employment.	July 2019 to June 2020	5,797 vest in September 2021 and 5,797 vest in September 2022	n/a
Laura Carr	Share bonus award in respect of FY20 bonus	7,675	£91,256[1]	No performance condition – quantum reflects bonus earned after applying performance criteria. Two thirds of the shares vesting (after payment of tax and National Insurance) must be held for the duration of employment.	July 2019 to June 2020	3,837 vest in September 2021 and 3,838 vest in September 2022	n/a
Nick Wilkinson	Share bonus award in respect of FY21 bonus	48,025[2]	£571,017[1,2]	Please see section above headed 'FY21 annual bonus – share bonus award' Two thirds of the shares vesting (after payment of tax and National Insurance) must be held for the duration of employment.	July 2020 to June 2021	24,012 vest in September 2021 and 24,013 vest in September 2022[2]	5%
Laura Carr	Share bonus award in respect of FY21 bonus	32,422[2]	£385,498[1,2]	Please see section above headed 'FY21 annual bonus – share bonus award' Two thirds of the shares vesting (after payment of tax and National Insurance) must be held for the duration of employment.	July 2020 to June 2021	16,211 vest in September 2021 and 16,211 vest in September 2022[2]	5%

1. The number of shares in each award was based on a percentage of salary divided by the average share price over June and July 2020 of 1,189p per share. The FY20 award was over 25% of base salary, no performance conditions applied as this reflected bonus earned during FY20. The FY21 award was over 125% of base salary, subject to performance criteria. The price of 1,189p per share reflects the market assessment of performance during FY20, as it is set at the start of FY21 and includes the period post the year-end Trading Update on 15 July. This meant that there was more risk or opportunity depending upon Dunelm's progress during FY21 as reflected in share price movements. Executives' interests were thereby further aligned with those of shareholders. The closing share price on 19 November 2020, the date preceding the date of the award, was 1,186p.
2. Number shown after applying performance criteria. The total number of shares in the award before applying performance criteria was 59,130 shares to Nick Wilkinson and 40,291 shares to Laura Carr. The performance conditions applicable to the award and details of how the performance conditions were applied are set out in the section above headed 'FY21 Annual Bonus – Share Bonus Awards'.
3. Vesting is subject to continued employment and not being under notice at date of vesting.

Remuneration continued

The second tranche of the award which vests in September 2022 is eligible to receive a 'special dividend equivalent' in respect of the special dividend of 65p per share payable on 8 October 2021 and any other special dividend paid before that tranche vests.

Shares vesting must be retained in accordance with the Shareholding Guidelines set out in the Remuneration Policy.

Table 5 – LTIP awards made to Directors during FY21 (audited information)

Name	Award	Number of shares	Face value at date of award (200% of salary for Nick Wilkinson and 180% of salary for Laura Carr)	Performance condition	Performance period	Vesting date	% vesting at threshold performance
Nick Wilkinson	Nil cost option under LTIP	94,846	£1,124,874[1]	Diluted EPS for FY23. No part of the award will vest if EPS is less than 60.0p. 10% of the award vests if EPS is 60.0p, 50% of the award vests if EPS is 65.0p, 75% of the award vests if EPS is 72.5p and 100% of the award vests if EPS is 80.0p or more. Performance between these percentage thresholds will be calculated on a straight-line basis. All of the shares vesting (after payment of tax and National Insurance) must be held for two years from the vesting date, and then two thirds of these must be held for the duration of employment.	July 2020 to June 2023	20 November 2023	10%
Laura Carr	Nil cost option under LTIP	58,166	£689,849[1]	As for Nick Wilkinson	July 2020 to June 2023	20 November 2023	10%

1. Based on the closing share price on 19 November 2020 of 1,186p per share.

The award is eligible to receive a 'special dividend equivalent' in respect of the special dividend of 65p per share payable on 8 October 2021 and any other special dividend paid before the award vests.

PAYMENTS TO PAST DIRECTORS AND FOR LOSS OF OFFICE (AUDITED INFORMATION)

No payments have been or are being made to any former Director in the financial year in respect of loss of office or the termination of his employment.

STATEMENT OF DIRECTORS' SHARE INTERESTS

Executive Directors are subject to a shareholding target which requires them to build a holding of Dunelm shares with a value of 1× salary after three years and 2× salary after five years (measured by reference to share price at the financial year end). In addition, they are required to make a personal investment in Dunelm shares on appointment (subject to Company closed periods); and to invest two thirds of any annual bonus paid or Share Bonus Award and LTIP awards earned (after payment of tax and National Insurance liability on exercise) in Dunelm shares. In addition, for LTIP awards granted from 2020 onwards, all shares received (after sale to cover tax and National Insurance liability on exercise) must be retained for two years from vesting, then up to one third can be sold, the remainder being retained for the duration of employment. Post-employment shareholding requirements also apply, as set out in the Remuneration Policy.

All Executive Directors comply with this requirement at financial year end.

Nick Wilkinson was appointed on 1 February 2018 and Laura Carr was appointed on 29 November 2018. At the date of this report, they have beneficial shareholdings equal to 296% and 124% of salary respectively (based on closing share price at the year-end – please see below for detail).

Table 6 and Table 7 show the interests of the Directors in shares of the Company at 26 June 2021.

Table 6 – Shareholdings of Directors and Persons Closely Associated with them (audited information)

	At 26 June 2021 1p Ordinary Shares	At 27 June 2020 1p Ordinary Shares	Percentage of salary at 26 June 2021 (where applicable)[1]	Shareholding target (where applicable)
Sir Will Adderley	**76,371,779**	90,231,779		
Ian Bull	**4,000**	4,000		
Laura Carr	**36,000**	36,000	124%	1× salary by Nov 2021 2× salary by Nov 2023
Andy Harrison	**416,480**	416,480		
William Reeve	**18,000**	18,000		
Peter Ruis	**–**	–		
Marion Sears	**105,000**	105,000		
Arja Taaveniku	**–**	–		
Nick Wilkinson	**125,749**	113,752	296%	1× salary by Feb 2021 2× salary by Feb 2023
Paula Vennells	**–**	–		

1. Based on the closing share price of 1,367p at 25 June 2021 and base salary at 1 July 2021.

There have been no changes in the shareholdings above since the period end.

Table 7 – Directors' interests in options at the period end (audited information)

	Date of award	Nature of award	Share options at 26 June 2021	End of performance period	Option price	Market price of shares at date of award
Sir Will Adderley	–	–	**Nil**	–	–	–
Nick Wilkinson	October 2018	2019–21 LTIP	**180,802**	June 2021	Nil	598p
	October 2019	2020-22 LTIP	**134,984**	June 2022	Nil	817p
	November 2020	2021-23 LTIP	**94,846**	June 2023	Nil	1,186p
	November 2020	FY20 Share Bonus	**11,594**	June 2020	Nil	1,186p
	November 2020	FY21 Share Bonus	**59,130**	June 2021	Nil	1,186p
	November 2018	Sharesave	**3,757**	December 2021	479p	598p
Laura Carr	November 2018	2019–21 LTIP	**105,893**	June 2021	Nil	552p
	October 2019	2019-22 LTIP	**71,481**	June 2022	Nil	817p
	November 2020	2021-23 LTIP	**58,166**	June 2023	Nil	1,186p
	November 2020	FY20 Share Bonus	**7,675**	June 2020	Nil	1,186p
	November 2020	FY21 Share Bonus	**40,291**	June 2021	Nil	1,186p
	November 2019	Sharesave	**2,752**	December 2022	654p	817p

The LTIP awards above granted to Nick Wilkinson and Laura Carr in 2018 and 2019 are subject to the performance conditions noted in the policy table in the Remuneration Policy set out in the 2019 Annual Report. The LTIP awards and FY21 Share Bonus Awards granted to Nick Wilkinson and Laura Carr in 2020 are subject to the performance conditions referred to in Tables 4 and 5 on pages 161 and 162. The LTIP awards and the second tranche of the FY21 Share Bonus award which vests in September 2022 are eligible to receive a 'special dividend equivalent' in respect of the special dividend of 65p per share payable on 8 October 2021 and any other special dividend paid before the relevant award vests.

Remuneration continued

SHARE OPTIONS AND DILUTION

The Remuneration Committee considers the provisions of the Investment Association's Guidelines on Executive Remuneration when determining the number of shares over which share scheme incentive awards may be made. At the period end, over the last ten-year period options have been granted over 2.8% of the Company's issued share capital (adjusted for share issuance and cancellation). The Group does not hold any shares in an employee benefit trust.

SERVICE CONTRACTS

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

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

Table 8 – Directors' service contracts

	Start date under contract	Unexpired term	Notice period
Sir Will Adderley	28 September 2006	N/A	12 months
Nick Wilkinson	1 February 2018	N/A	6 months
Laura Carr	29 November 2018	N/A	6 months
Marion Sears	22 July 2004	10 months	1 month
Andy Harrison	1 September 2014	24 months	3 months
William Reeve	1 July 2015	33 months	1 month
Peter Ruis	10 September 2015	36 months	1 month
Ian Bull	10 July 2019	11 months	1 month
Arja Taaveniku	15 February 2021	30 months	1 month

Since Marion Sears has now served more than nine years on the Board her contract is renewed for one-year terms (rather than three), with the notice period referred to above.

RELATIVE TOTAL SHAREHOLDER RETURN (TSR) PERFORMANCE

The graph below shows the Group's performance over ten years, measured by total shareholder return, compared with the FTSE 350 General Retail Index and the FTSE 250. The Remuneration Committee has chosen these indices for comparison because they provide a range of comparator companies which have similar market capitalisation, which are in the same sector and which face similar market and economic challenges in the long term.

Table 9 – Total shareholder return performance graph (rebased to 2 July 2011 = 100)

The shares traded in the range of 1,131p to 1,561p during the year and stood at 1,367p at 25 June 2021.

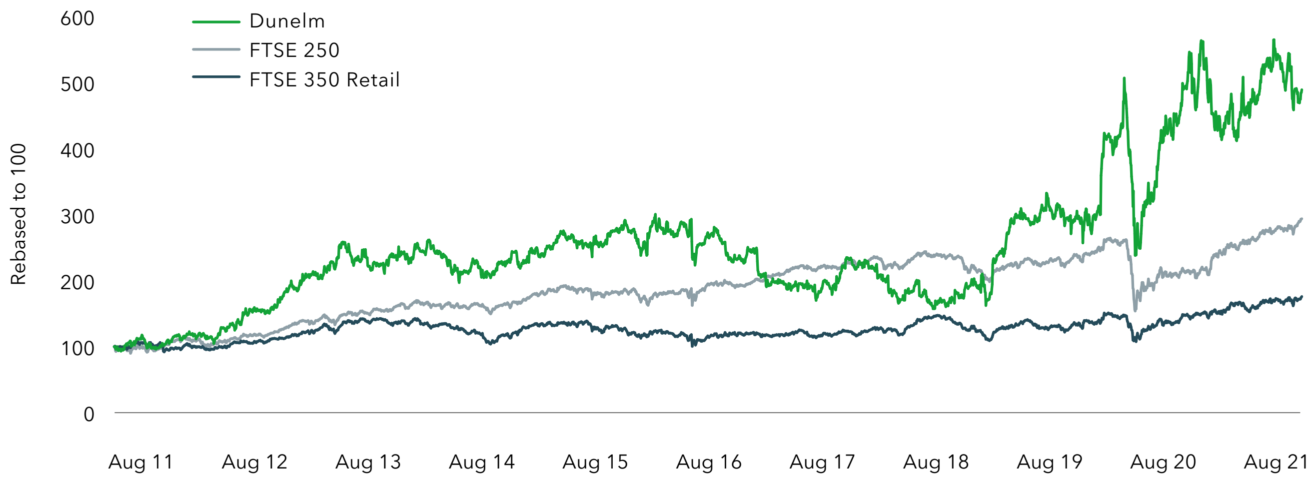


Table 10 – Historic Chief Executive Officer pay

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

		CEO single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
FY21	Nick Wilkinson	4,042	81.22%	100%
FY20	Nick Wilkinson[1]	885	20.0%	19.8%
FY19	Nick Wilkinson	1,365	97.9%	N/A
FY18	Nick Wilkinson[2]	308	13.3%	N/A
FY18	John Browett[2]	429	N/A	N/A
FY17	John Browett	722	14.0%	N/A
FY16	John Browett[1]	489	57.7%	N/A
FY16	Sir Will Adderley[3]	10	N/A	N/A
FY15	Sir Will Adderley[4]	507	5%	N/A
FY15	Nick Wharton[4]	110	N/A	N/A
FY14	Nick Wharton[5]	1,509	22.5%	77.5%
FY13	Nick Wharton	1,292	97.0%	86.7%
FY12	Nick Wharton	853	100.0%	N/A

1. During the period April to June 2020 inclusive, Nick Wilkinson took a voluntary 90% reduction in base salary.
2. John Browett left the Group on 29 August 2017. He was succeeded by Nick Wilkinson on 1 February 2018. The total figure for John Browett includes £322,120 in respect of salary and benefits paid for his six-month notice period. The data for each Director for 2017/18 is pro-rated by time of service as Chief Executive Officer.
3. Sir Will Adderley was succeeded by John Browett as Chief Executive Officer on 1 January 2016. The data for each Director for 2015/16 is pro-rated by time of service as Chief Executive Officer. Sir Will Adderley's base salary was reduced to £1 on 1 July 2015.
4. Sir Will Adderley was reappointed Chief Executive Officer on 11 September 2014, following the resignation of Nick Wharton on 10 September 2014. The data for each Director for 2014/15 is pro-rated by time of service as Chief Executive Officer.
5. Nick Wharton's first LTIP award vested and was exercised in December 2013. No LTIP awards vested to John Browett since his appointment.

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

Table 11 – Change in Directors' pay compared with annual change in average employee's pay

	Percentage increase in remuneration between FY20 and FY21			Percentage increase in remuneration between FY19 and FY20		
	Salary and fees[1]	Benefits[1]	Short-term incentive[2,4]	Salary and fees[1]	Benefits[1]	Short-term incentive[2,4]
Nick Wilkinson	1.8%	3.6%	313.0%	2.0%	(55.6%)	(79.2%)
Laura Carr	5.0%	2.3%	324.2%	0.0%	(93.3%)	(66.3%)
Sir Will Adderley	0%	(4.8%)	n/a	0.0%	0.0%	n/a
Andy Harrison	0%	n/a	n/a	2.0%	n/a	n/a
Marion Sears	0%	n/a	n/a	2.0%	n/a	n/a
William Reeve[5]	8.4%	n/a	n/a	2.0%	n/a	n/a
Peter Ruis	0%	n/a	n/a	2.2%	n/a	n/a
Ian Bull	0%	n/a	n/a	2.0%	n/a	n/a
Paula Vennells	0%	n/a	n/a	n/a	n/a	n/a
Arja Taaveniku	n/a	n/a	n/a	n/a	n/a	n/a
All colleagues[3,6]	4.4%	0%	145.4%	3.5%	0%	(42.7%)

1. Directors' remuneration above is based on contractual salary or fees as appropriate, and does not take account of the voluntary salary reductions of 90% and 20% respectively of Nick Wilkinson and Laura Carr during April to June 2020 inclusive, or the waiver by all other Directors of 100% of their fees for this period.
2. Short-term incentive percentage has been calculated in relation to only those colleagues eligible to receive a bonus in the period as this is considered a more appropriate comparator group. All colleagues short-term incentives include a one-off £250 'thank you' payment to all colleagues in respect of FY20 and the 'thank you' payment of between £250 and £350 made to colleagues in respect of FY21.
3. All colleagues salary increase is calculated only for colleagues employed for the whole of FY20 and FY21.
4. The difference between the increase in short-term incentives of the Directors and the all colleagues rate reflects the strong performance of the business, and the fact that a higher proportion of the Directors' pay is performance-related.
5. The increase in William Reeve's pay is due to the assumption of responsibilities as Senior Independent Director.
6. Comparisons have been made against colleague pay across the entire Group as the parent company employs a limited number of individuals.

Remuneration continued

Table 12 – CEO pay ratio

We have utilised a third party (Barnett Waddingham) to calculate our CEO Pay Ratio. There are three permissible methods available to calculate this, which are outlined below:

Option	Method
A	Determining the total FTE remuneration for all UK employees. Rank from low to high. Identify the colleagues at 25th percentile, 50th percentile, 75th percentile.
B	Identify the colleagues at 25th, 50th, 75th percentile, using the Gender Pay Gap Reporting.
C	Use a different data set, but calculate in the same way as the Gender Pay Gap Reporting.

Option A is considered the most statistically accurate method and therefore we have opted for this method.

The table below shows the ratio of actual pay of Nick Wilkinson, CEO, to other colleagues. Full year pay data for FY21 has been used to calculate these ratios and the elements included are based on the CEO single figure remuneration in Table 1:

Financial Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
FY21	Option A	204:1	204:1	186:1
FY21 Total pay and benefits		£19,793	£19,793	£21,740
FY20 (Based on actual remuneration – including Nick's 90% pay reduction during the period April to June 2020.)	Option A	54:1	47:1	38:1
FY20 (Based on contractual remuneration.)	Option A	62:1	53:1	43:1
FY20 Total pay and benefits		£16,409	£18,918	£23,498

The increase in the number of store colleagues relative to the total colleague population in FY21 has impacted the total pay and benefits attributable to the percentile bandings.

The following assumptions were made to calculate these figures:

- We have used a 40-hour week in order to consistently calculate the annual salary for everyone, converting hourly rate of pay into a full-time equivalent salary, to ensure direct comparison.
- 9,857 colleagues were included in the data set.
- 81.22% bonus outcome for Nick Wilkinson and 100% LTIP vesting.

Commentary:

There has been a sizeable increase in the CEO pay ratio in FY21 versus FY20. This is attributable to an increase in variable pay - both annual bonus (81.22% in FY21 v 20% in FY20), and the vesting of the FY19-21 LTIP scheme of 100% in FY21 compared to 19.8% vesting in FY20 for the FY18-20 LTIP scheme. On a salary only basis, the ratios would be 30:1 at 25th and 50th percentile and 26:1 at 75th percentile.

The Committee considered whether the median pay ratio for the year is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole, and concluded that it is, for the following reasons:

- Our CEO, whose fixed pay is lower as a proportion of total pay than the peer group, has performed above the average in the industry and his pay will reflect that.
- This year the ratio will be at the high end. This is due entirely, either directly or indirectly, to the high levels of performance, and the payout in line with our policy and existing arrangements, due as a result of that performance.
- The increase in variable pay reflects the strong business performance shown under Nick's leadership both in FY21 for the annual bonus, but also over the past three years, which is rewarded through the LTIP.
- Last year's ratio was abnormally low, due to Nick's voluntary 90% salary reduction, and the low bonus and LTIP vesting.
- The colleagues at the 25th, 50th and 75th percentile are hourly-paid colleagues, reflective of the fact that c.80% of our colleague base are employed in hourly-paid roles who do not have any element of variable pay.
- The median pay ratio is considered appropriate and consistent with the pay and reward policies for all of the Group's employees. Our remuneration strategy is based on paying median or below for salary, but median to upper quartile for variable pay, to reward strong performance and focus on long-term value creation, with at least two thirds (after deduction of tax and National Insurance liabilities) paid or invested in Dunelm shares which are retained for at least the duration of employment. The CEO remuneration is reflective of this, as Nick's pay has a larger quantum in variable pay. In comparison we pay our hourly-paid colleagues upper median or above versus the market.

Table 13 – Relative spend on pay

The table below shows the all employee pay cost and returns to shareholders by way of dividends (including special dividends) and share buyback for FY21 and FY20:

	FY21 £'m	FY20 £'m	% change
Total spend on pay	**166.7**	155.2	7.4%
Ordinary dividend to shareholders	**24.3**	41.4	(41.3%)
Special distributions to shareholders	**–**	64.6	(100.0%)
Total distributions to shareholders	**24.3**	106.0	(77.1%)

This information is based on the following:

- Total spend on pay – total employee costs excluding car allowances and bonuses from note 4 on page 198. This excludes £14.5m received from the UK Government's Job Retention Scheme in respect of colleagues who were on furlough during the period.
- Dividends taken from note 7 on page 200.

Remuneration continued

EXECUTIVE DIRECTOR EXTERNAL BOARD APPOINTMENTS

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

Nick Wilkinson and Laura Carr do not hold any external appointments. Sir Will Adderley is a Director of WA Capital Limited.

SENIOR EXECUTIVE REMUNERATION

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

Members of the Executive Board and senior management team are eligible for awards under the LTIP and for Share Bonus Awards.

All members of senior management who receive share awards are also subject to shareholding targets, in order to improve their alignment with shareholders, as follows:

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

GENDER PAY DISCLOSURES

We are committed to paying men and women equally for roles of the same size and scale. Please see page 71 for details of our latest Gender Pay Gap report.

Dunelm's brand purpose is 'To help create the joy of truly feeling at home. Now and for the generations to come.' We want everyone to feel that Dunelm is a place for them, and this applies equally for our colleagues and customers. Diversity, inclusion, and more generally the wellbeing of our colleagues, are high on our agenda.

We want all colleagues to feel they can grow with Dunelm and that they are welcome. Improving our gender balance is part of this and remains a commitment of ours.

We have good male/female representation in our senior leadership. As at 26 June 2021, our Executive Board had 55% female representation. When combined with the Group Board, our senior leadership team is 45% female.

ENGAGING WITH OUR COLLEAGUES ON PAY

In a process introduced in FY19 there is an annual presentation to the National Colleague Voice from Marion Sears, Non-Executive Director designated to consider colleague views, or William Reeve, Chair of the Remuneration Committee. A full National Colleague Voice meeting was allocated to engagement on remuneration in April 2021. Our People team presented an overview of how Dunelm regards Fair Reward and also discussed it in the context of Equal Pay (including ethnicity) and Gender Pay. William Reeve described Dunelm's Pay Strategy and Structure including how decisions are made by the Remuneration Committee and the People Team in the context of regulation (National Living Wage), market conditions and relative to the market and our competitors. Considering these factors we explained that we have decided Dunelm's hourly paid colleagues should be paid at upper quartile/median level on average whilst recognising we cannot compete with grocers who stayed open during the pandemic. We also provided an overview of Pay Strategy by level, explaining the differences at different levels between pay rise %, pension supplement % and variable pay element.

Our colleague representatives told us they believe Dunelm is a good employer that they trust, and that multiple factors contribute to their decision to work at Dunelm including reward and support. Our shared values, good line manager relationships and salary advance scheme were mentioned specifically as being important. Representatives were clear that pay for the CEO is at an appropriate level providing the Company is being run well. Questions were asked about the differential pay percentage given to lower-paid monthly vs. hourly-paid colleagues, the fairness of differential bonus levels and the benefit of Sharesave for lower paid colleagues who cannot afford to participate.

STATEMENT OF IMPLEMENTATION OF POLICY IN THE FY22 FINANCIAL YEAR

Shareholders will note that there were specific arrangements proposed for performance remuneration relating to FY20 and FY21 due to the Covid-19 pandemic, and that we have reverted to our usual Policy structure for FY22 onwards.

Base salary and benefits for each of the Executive Directors for FY22 are set out in the table below:

Table 14 – Base salary, benefits and pension for FY22

Name	Base salary	Increase to base salary year-on-year	Benefits	Increase to benefits year-on-year	Pension	Change to pension contribution % year-on-year
Nick Wilkinson	£582,125	3.5%	Car allowance; travel allowance of 5% of salary; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount.	N/A	£17,464	(5%pts)
Laura Carr	£396,663	3.5%	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount.	N/A	£11,900	(5%pts)
Sir Will Adderley	£1	Nil	As for Laura Carr above.	Nil	Nil	N/A

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

BASE SALARY

It was agreed that the Committee would like to award an increase in base salary to Nick and Laura in view of their strong performance and that of the Company. The Committee considered their total remuneration for FY21, the performance of the business, the other stakeholder considerations outlined in relation to payment of the FY21 share bonus award, including the feedback on Executive Director pay given by the National Colleague Voice, and the wider Covid-19 climate.

From 1 August 2021, the Committee decided to award each of Nick Wilkinson and Laura Carr a 3.5% increase in base salary. These increases are in line with the median pay increase across the Group of 3.5%. The base pay of each of the Executives will still be slightly below the external benchmark median.

PENSION

In 2020, the Remuneration Committee committed to reduce the pension entitlement of Nick Wilkinson (CEO) and Laura Carr (CFO), from 10% of base salary, to the rate available for the wider workforce, currently 3%, by 1 July 2023. From 1 July 2020, both Nick and Laura agreed to accept an initial reduction in their entitlement to 8% of salary. Following a further review again in June 2021, the Committee was pleased that Nick and Laura have agreed to accept a further reduction to bring their entitlement in line with the workforce average this year, two years before the Policy deadline. Therefore their pension entitlement will reduce to 3% of base salary from 1 August 2021.

FY22 ANNUAL BONUS

Nick Wilkinson and Laura Carr have each been awarded a bonus opportunity of up to 125% of base salary. The performance conditions attached to the bonus are:

- 50% linked to achievement of budget PBT;
- 25% linked to achievement of budget sales
- 25% linked to achievement of strategic and personal targets, aligned to the Group strategy. These include customer and colleague satisfaction measures, and at least one other environmental, social and governance measure linked to our 'Pathway to Zero' ambition.

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

Nick Wilkinson and Laura Carr have committed that two-thirds of the bonus earned (after payment of income tax and National Insurance) will be invested in Dunelm shares, to be held for the duration of employment. Shares held on termination of employment will be retained for up to a minimum of two years as required by the Shareholding Requirements set out in the Remuneration Policy.

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

Remuneration continued

LTIP FY22-24

In line with our 2020 Remuneration policy, an award is expected to be made to Nick Wilkinson and Laura Carr in October 2021 under the Long-Term Incentive Plan over shares to the value of 200% and 180% of salary respectively. The award will vest, subject to continued employment, on the third anniversary of the grant date, to the extent that performance conditions have been met. All of the vested shares (after sale to cover tax and National Insurance liability on exercise) must be retained for two years after vesting, after which one third of these may be sold and the remainder must be retained for the duration of employment. Shares held on termination of employment will be retained for a minimum of two years as required by the Shareholding Requirements set out in the Remuneration Policy.

The performance criteria that apply to the award will be set by the Remuneration Committee in line with the Remuneration Policy, and are set out below:

Financial measures: 80% of the award

Diluted EPS of the Company for FY24	Less than 66.6p	66.6p	72.2p	80.9p	88.8p or more
Percentage of the FY22-24 Award vesting[1]	Nil	10%	50%	75%	100%

1. Performance between each of these percentage thresholds will be calculated on a straight-line basis.

Note that these numbers assume that UK corporation tax increases to 25% from April 2023. Should this assumption prove incorrect the Committee expects to adjust the targets proportionately and disclose this in the annual report.

Non-financial measures: 20% of the award

Measure	FY24 Target	% of LTIP award
Percentage of own brand cotton products which meet our 'More Responsibly Sourced Cotton' standard	80%	6.66%
Reduction in plastic packaging of own brand products against FY20 base	20% reduction	6.66%
% of own brand products for which we offer an easy to use take-back service	50%	6.66%

These targets were chosen because they are aligned to our strategy and long-term targets, and they cover areas where we are able to make the most impact on the environment and provide the most benefit to our customers and our communities. Products purchased for resale, and their packaging, account for over 80% of Dunelm's carbon footprint, and cotton products comprise about half of these. Cotton which meets our More Responsibly Sourced standard will have a lower carbon footprint, as well as using less water and meeting our ethical/social standards. Enabling customers to take back products and reducing plastic packaging also reduce waste and adverse environmental impacts. The Committee has set stretching meet/fail targets rather than setting a target range in order to incentivise management to make significant progress in delivering these important objectives.

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

SHARESAVE

An invitation will be issued in October 2021 to all eligible employees, to apply for options to be granted under the Sharesave scheme at a 20% discount to the closing market price of Dunelm Group shares on the dealing day preceding the issue of the invitation. The maximum monthly savings will be £500 per month. Executive Directors employed at the eligibility date may apply for Sharesave options, subject to the plan rules.

NON-EXECUTIVE DIRECTOR FEES FOR FY22

The Non-Executive Directors did not accept an increase in fees in FY21.

Fees to be paid to Non-Executive Directors in FY22, as set out in the table below:

Table 15 – Non-Executive Director Fees

	Position	Base fee	Committee/ SID fee	Increase in base fee year-on-year	Increase in Committee/ SID fee year-on-year
Andy Harrison	Chairman	£216,487	Nil	Nil	N/A
Ian Bull	Audit and Risk Committee Chair	£53,624	£10,404	3.5%	Nil
William Reeve	Remuneration Committee Chair	£53,624	£10,404	3.5%	Nil
	Senior Independent Director (SID)		£6,496	N/A	Nil
Peter Ruis	Non-Executive Director	£53,624	Nil	3.5%	N/A
Marion Sears	Non-Executive Director	£53,624	Nil	3.5%	N/A
Arja Taaveniku	Non-Executive Director	£53,624	Nil	3.5%	N/A
Paula Vennells	Non-Executive Director	N/A	N/A	N/A	N/A

Fees above are for the full year and reflect Board responsibilities at the date of this report.

STATEMENT OF SHAREHOLDER VOTING

At the Annual General Meeting on 17 November 2020, the total number of shares in issue with voting rights (excluding treasury shares) was 202,354,357. Details of voting on remuneration-related resolutions are set out below:

Table 16 – Voting on remuneration-related resolutions at the 2020 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve Remuneration Policy	185,828,351	99.9	21,010	0.01	248,318	0.13
Approve Annual Remuneration Report	184,954,566	99.87	237,317	0.13	905,796	0.49
Approve Dunelm 2020 Share Plan	185,752.569	99.90	179,652	0.10	165,459	0.09

Approved by the Board on 8 September 2021.

William Reeve
Chair of the Remuneration Committee
8 September 2021

Directors' report

The Directors present their report together with the audited financial statements for the period ended 26 June 2021.

Where reference is made to other sections of the Annual Report and Accounts, these sections are incorporated into this report by reference.

STRATEGIC REPORT

The Group's Strategic Report is set out on pages 2 to 91. This contains an indication of likely future developments in the business of the Company and the Group.

RESULTS AND DIVIDENDS

The consolidated profit of the Group for the year after taxation was £128.9m (2020: £87.7m). The results are discussed in greater detail in the CEO's review on pages 20 to 25.

A special dividend of 65p per share (2020: 32p) will be paid on 8 October 2021 to shareholders on the register at 17 September 2021.

A final ordinary dividend of 23p per share (2020: nil) is proposed in respect of the period ended 26 June 2021, to add to an interim ordinary dividend of 12p per share paid on 9 April 2021 (2020: nil). The final dividend will be paid on 19 November 2021 to shareholders on the register at 29 October 2021.

STAKEHOLDER ENGAGEMENT

Details of how the Directors have engaged with employees and other stakeholders, and had regard to the interests of colleagues and the need to foster the Company's business relationships with suppliers, customers and others and the effect of that regard, including on the principal decisions taken by the Company during the financial year, are set out in the Corporate Governance Report on pages 103 to 113, with complementary information in the Strategic Report on pages 14 to 17. Our s172(1) Companies Act 2006 statement can be found on page 91.

SHAREHOLDER AND VOTING RIGHTS

All members who hold Ordinary Shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every Ordinary Share held.

On 2 October 2006, Jean Adderley, Bill Adderley and Sir Will Adderley (all shareholders) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Sir Will Adderley undertook to the Company that, for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30% or more of the rights to vote at general meetings of the Company or they are able to control the appointment of Directors who are able to exercise a majority of votes at Board meetings of the Company, they will:

- Conduct all transactions and relationships with any member of the Group on arm's length terms and on a normal commercial basis.
- Not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley, Sir Will Adderley and their associates (as defined in the Listing Rules).
- Not exercise any of their voting rights or other powers to procure any amendment to the Articles of Association of the Company which would be inconsistent with or undermine any of the provisions of the Relationship Agreement.
- Abstain from voting on any resolution to which LR11.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Sir Will Adderley or any of their associates as the related party.
- Not carry on (other than through their holding of securities of the Company) or have any financial interest (other than a financial interest in securities which are held for investment purposes only) in any person who carries on a business as a homewares retailer, to the extent that it would be inconsistent with or undermine any provisions of the Relationship Agreement.
- Only enter into, amend or terminate any transaction, agreement or relationship between themselves or any of their associates and any member of the Group with the approval of a majority of the independent Non-Executive Directors.

WA Capital Limited and Nadine Adderley, to whom Sir Will Adderley transferred shares by way of a gift, have subsequently become party to this agreement.

In July 2014, the Relationship Agreement was amended so as to comply with Listing Rule LR 9.2.2A(2)(a), which came into effect on 16 May 2014. The following additional undertakings were given by the parties:

- No action will be taken that would have the effect of preventing the Company from complying with its obligations under the Listing Rules.
- No resolution will be proposed, or procured to be proposed, which is intended to, or appears to be intended to circumvent the proper application of the Listing Rules.

In addition, the Articles of Association of the Company provide that the election and re-election of Independent Directors must be conducted in accordance with the election provisions set out in LR 9.2.2ER and LR 9.2.2FR. This means that the election or re-election of each Independent Director at the Annual General Meeting will be subject to an additional separate resolution upon which parties controlling 30% or more of the voting shares of the Company are not eligible to vote.

The Company confirms that it has complied with its obligations under the Relationship Agreement during the financial period under review, and that so far as it is aware, all other parties to that agreement have complied with it.

The Company confirms that there are no contracts of significance between any member of the Group and any of the parties to the Relationship Agreement, with the exception of Sir Will Adderley's service agreement as a Director of the Company, the terms of which are outlined in the Remuneration Report.

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading and marketing requirements relating to closed periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

UK LISTING AUTHORITY LISTING RULES (LR) – COMPLIANCE WITH LR 9.8.4C

The majority of the disclosures required under LR 9.8.4 are not applicable to Dunelm. The table below sets out the location of those requirements that are applicable:

Applicable sub-paragraph within LR 9.8.4	Disclosure provided
(14) A statement made by the Board that the Company has entered into an agreement under LR 9.2.2A, that the Company has, and as far as it is aware, the other parties to the agreement have, complied with the agreement.	See section of Directors' report headed 'Shareholder and voting rights'.

CHANGE OF CONTROL

The Company is not party to any significant agreements which take effect, alter or terminate solely on a change of control of the Company following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Details of the rights of employees to exercise options on a change of control of the Company are set out in the remuneration policy section of this report.

Directors' report continued

SHARE CAPITAL AND TREASURY SHARES

The Company has only one class of shares, Ordinary Shares of 1p each.

The issued Ordinary Share capital of the Company has not changed during the period.

At 26 June 2021, the Company held 160,319 Ordinary Shares in treasury (2020: 573,590).

During the period the Company did not purchase any Ordinary Shares into treasury. 413,271 shares were transferred to employees who exercised options under a share incentive scheme or Directors under the LTIP scheme. Details of option exercises by Directors are set out in the Remuneration Report.

Since the financial year end, 21,289 Ordinary Shares have been moved out of treasury to employees who exercised options under a share incentive scheme.

SUBSTANTIAL SHAREHOLDERS

At 26 June 2021 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's Ordinary Shares:

	Ordinary Shares	Percentage of share capital
Sir Will Adderley	75,231,779	37.7
Jean Adderley	9,968,500	4.9
J P Morgan Asset Management	11,320,031	5.6
Abrdn plc	10,274,359	5.1
Royal London Asset Management Limited	9,907,809	4.9

Sir Will Adderley is also deemed to hold a legal interest in 967,250 Ordinary Shares held by The Stoneygate Trust (formerly known as The Leicester Foundation) and 172,750 Ordinary Shares held by the Paddocks Discretionary Trust, by virtue of the fact that he is a trustee of those trusts.

Between the period end date and 8 September 2021 we have been notified of the following holding:

Jupiter Fund Management PLC	10,313,568	5.1

DIRECTORS

Details of the Directors of the Company who served on the Board during the year, and the biographies of those on the Board at the date of this report are set out on pages 96 to 99. Details of changes to the Board during the period are set out on page 120. Details of the interests of the Directors in shares of the Company are in the Implementation Report section of the Remuneration Report on page 163.

POWERS OF DIRECTORS

Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance Report on pages 118 to 119.

EMPLOYEE INFORMATION

Information relating to employees of the Group, including our approach to disabled persons, is set out in the 'Community' section of the Sustainability section on pages 66 to 73.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 143 to 146.

DONATIONS

The Group does not make any political donations.

PUBLIC POLICY

We are members of the British Retail Consortium and support relevant campaigning activity by that body. During November 2020 we wrote to government ministers expressing the arguments for allowing homewares stores to open as 'essential' stores. Otherwise, we have not taken part in any direct lobbying or public policy activity.

NON-FINANCIAL INFORMATION STATEMENT FY21

The following sets out how we have complied with the Non-Financial Reporting Requirements set out in sections 414CA and 414CB of the Companies Act 2006. Where these provisions do not form part of the Strategic Report, they are deemed to be incorporated into it by cross reference for the purposes of compliance with these sections.

Reporting requirement	Some of our relevant policies (see corporate.dunelm.com)	Where to read about our impact, including the principal risks relating to these matters in this report and KPIs
Environmental matters	Responsible Animal Welfare Policy Responsible Timber Policy Responsible Cotton Policy Plastic and Packaging Policy Sustainability Home Page	'Circular Economy' section in Sustainability 'Carbon Reduction' section in Sustainability 'Climate change and environment' principal risk in Principal Risks and Uncertainties s172 Companies Act statement – environment Measuring and rewarding progress against our ambitions
Employees	Equality and Diversity Policy Health and Safety	Chairman's Letter CEO Review 'Community' and 'Colleague' sections in Sustainability 'People and culture' principal risk in Principal Risks and Uncertainties Corporate Governance Report s172 Companies Act statement – colleagues Remuneration Report Nominations Committee Report Measuring and rewarding progress against our ambitions
Human rights	Ethical Code of Conduct Modern Slavery Statement	'Circular Economy' and 'Community' sections in Sustainability 'Brand damage' principal risk in Principal Risks and Uncertainties s172 Companies Act statement – Suppliers
Social matters	Our Purpose Ethical Code of Conduct Modern Slavery Statement Tax Strategy Privacy Policy	'Our Purpose' and 'Our Strategy' sections in Strategic Report Chairman's Letter CEO Review CFO Review 'Community' section in Sustainability 'People and culture' principal risk in Principal Risks and Uncertainties Corporate Governance Report s172 Companies Act statement
Anti-bribery and corruption	Ethical Code of Conduct Anti-Corruption and Anti-Bribery Policy Whistleblowing Policy	'Community' section in Sustainability 'Brand damage' principal risk in Principal Risks and Uncertainties
Business model		'Our Business Model' section in Strategic Report Measuring and rewarding progress against our ambitions

Directors' report continued

GREENHOUSE GAS EMISSIONS

In the tables below we set out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Streamlined Energy and Carbon Reporting (SECR)

Summary MWh	FY19	FY20	FY21
Purchase of energy	57	51	53
Vehicles on Company business	5	3	3
Vehicles in the Home Delivery Network	9	12	15
	71	**66**	**71**

Energy consumption has increased by 8% year-on-year, driven by the increased heating and ventilation necessary in stores, in response to adjustments made for Covid-19 safety. We are focused on improving energy efficiency through our building management systems (BMS) and exploring wider energy saving alternatives. Miles driven by the Home Delivery Network increased by 25% year-on-year (FY20: 26%) as a result in the growth of our home delivery sales. We aim to offset this through our focus on vehicle fill, and reducing the number of journeys made accordingly, alongside improved driver training.

Greenhouse gas (GHG) emissions (tCO_2e)

	FY19	FY20	FY21
Direct emissions (Scope 1)	7,260	6,937	7,936
Indirect emissions from electricity (Scope 2)	11,002	8,757	7,866
Total GHG emissions	**18,262**	**15,694**	**15,802**
Turnover £m	1,100.4	1,057.9	1,336.2
GHG intensity per £1m turnover	16.6	14.8	11.8

The reduction in indirect emissions is a result of slightly reduced electricity usage and the reduction of UK grid electricity carbon intensity. Increased energy used within the Home Delivery Network as a result of the increase in miles driven has been offset by reduced energy usage within the company car fleet. Overall, the growth in turnover in FY21 has not driven an equivalent increase in emissions and our carbon intensity has reduced as a result.

TREASURY AND RISK MANAGEMENT

The Group's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Principal Risks and Uncertainties section on page 88 and note 17 to the annual financial statements.

CORPORATE GOVERNANCE

Our Corporate Governance Report on pages 100 to 171 explains how we have applied the Code's Principles as set out in the UK Corporate Governance Code published in July 2018 (the 'Corporate Governance Code').

INDEPENDENT AUDITORS

In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit and Risk Committee, a resolution is to be proposed at the AGM for the reappointment of PricewaterhouseCoopers LLP as auditor of the Group.

DISCLAIMER

This Directors' Report, Strategic Report and the financial statements contain certain forward-looking statements with respect to the financial condition, results, operations and business of Dunelm Group plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Directors' Report and Strategic Report or in these financial statements should be construed as a profit forecast.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11:30am on Tuesday 16 November 2021 at the Dunelm Support Centre, Watermead Business Park, Syston, Leicester, LE7 1AD. A formal notice of meeting, explanatory circular and a form of proxy will accompany this Annual Report and financial statements.

This report was reviewed and signed by order of the Board on 8 September 2021.

Dawn Durrant
Company Secretary
8 September 2021

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Company has also prepared financial statements in accordance with and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Governance section confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Nick Wilkinson
Chief Executive Officer
8 September 2021

Financial statements

Independent auditors' report

to the members of Dunelm Group plc

Report on the audit of the financial statements

Opinion

In our opinion, Dunelm Group plc's Group financial statements and Parent Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 June 2021 and of the Group's profit and the Group's and Parent Company's cash flows for the 52 week period then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position and Parent Company Statement of Financial Position as at 26 June 2021; the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, Parent Company Statement of Cash Flows and Parent Company Statement of Changes in Equity for the period then ended; the Accounting Policies; and the Notes to the Financial Statements.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in the Accounting Policies, the Group and Parent Company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group and Parent Company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Audit and Risk Committee report, we have provided no non-audit services to the Parent Company or its controlled undertakings in the period under audit.

Independent auditors' report

to the members of Dunelm Group plc

Our audit approach

Overview

Audit scope

- The Group is structured with one segment which comprises a consolidation of the Parent Company and seven subsidiary companies.
- For the purposes of the Group financial statements, we conducted an audit of the complete financial information of one of these legal entities, together with additional procedures performed including over the Group consolidation.
- We separately audited the Parent Company financial statements.

Key audit matters

- Inventory provisioning (Group)
- Covid-19 pandemic impact (Group and Parent Company)

Materiality

- Overall Group materiality: £7,800,000 (2020: £5,500,000) based on 5% of profit before tax.
- Overall Parent Company materiality: £5,400,000 (2020: £5,000,000) based on 1% of total assets.
- Performance materiality: £5,850,000 (Group) and £4,050,000 (Parent Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Transition to IFRS 16, which was a key audit matter last year, is no longer included because the KAM was specific to the year of transition. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Inventory provisioning (Group)	
Refer to the Audit and Risk Committee Report, the Accounting Policies, Note 3 (Operating Profit) and Note 13 (Inventories).	We tested sales made post period-end to ensure that inventory items were held at the lower of cost and NRV.

Key audit matter	How our audit addressed the key audit matter
Inventory represents a significant asset on the Group's balance sheet and is carried at the lower of cost and net realisable value ("NRV"). The Group's accounting policy is to determine a provision based upon: the historic negative margin of the type of inventory, by ageing category, which is calculated by analysing the historic sales price compared to the cost of inventory, and applying a percentage provision to each line of inventory; and a further provision for 'at risk' lines where the calculated provision was not considered to be sufficient.	We examined inventory write-offs in the financial period to ensure they are consistent with the key assumptions used in the inventory provision model at the year end. We tested the inputs to the provision calculation, including the classification of inventory and sales data for each of the ageing categories from the Buying department, which is segregated from the Finance department, and found them to be consistent. We tested the average cost of inventory by agreeing the inputs to source documentation and testing freight and duty costs. We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately. We challenged management's assumptions on what they deemed the 'at risk' inventory lines were, and corroborated that these lines were at risk with the Merchandising team. We also independently challenged the completeness of the 'at risk' lines based on our understanding of the nature of the Group's inventory lines. We found that the NRV provision against inventory was consistent with the evidence obtained.
Covid-19 pandemic impact (Group and Parent Company) Refer to the Audit and Risk Committee Report and the Accounting Policies. During the financial year, the Covid-19 pandemic has had a significant impact on the Group. Lockdown measures resulted in retail stores closing for a period of time between October and April which had a significant impact on the revenue and profit results of the Group for the period. As at the year end date and the date of signing the financial statements, there continues to be uncertainty over the future impact of Covid-19. Management have considered implications for the Group's and Parent Company's going concern assessment and the potential impairment of certain store assets. The results of these assessments did not indicate a material uncertainty over going concern and only identified an impairment trigger over certain store assets.	In respect of going concern we: • Evaluated the liquidity and covenant headroom in each of management's base case, severe but plausible and reverse stress test scenarios, challenging key assumptions including the forecast cash flows. • sensitised management's forecasts to understand the impact of more prudent assumptions over growth in revenue and whether this would impact the conclusions drawn by management. • checked the integrity of management's model, as well as agreeing underlying data to source documents. • assessed whether management's mitigating actions are reasonably achievable based on our understanding of the business, including the nature of its cost base. • obtained evidence to support disclosures within the financial statements and checked that the disclosures within the Annual Report are consistent with the financial statements and knowledge gained on the audit. Our conclusion in respect of going concern is included in the "Conclusions relating to going concern" section below. In respect of impairment, our audit procedures were focused on the following areas: • confirmed the cash generating units ("CGUs") identified in management's model are appropriate. • assessed management's approach to identifying CGUs where there was an impairment trigger and developed our own independent expectation of CGUs with an impairment trigger. • For CGUs with an impairment trigger we: – ensured that assets were appropriately allocated to these CGUs; – tested the integrity of management's model, as well as agreeing underlying data to source documents; and – assessed the forecast cast flows and assumptions, albeit noting that these were not materially sensitive to reasonable changes. We found that the accounting for impairment of store assets is consistent with the evidence obtained.

Independent auditors' report

to the members of Dunelm Group plc

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured with one segment. The Group financial statements are a consolidation of eight legal entities within this segment, comprising the Group's operating business and centralised functions.

In establishing the overall approach to the Group audit, we identified one legal entity: Dunelm (Soft Furnishings) Limited, which, as the sole trading legal entity in the Group, required an audit of its complete financial information due to its financial significance to the Group.

Further specific audit procedures over central functions including the Group consolidation, share based payments, equity and taxes were performed.

All audit procedures were performed by the Group Engagement Team. The scoping above gave us the evidence we needed for our opinion on the Group financial statements as a whole.

The Parent Company is comprised of one legal entity which was subject to a full scope audit for the purposes of the Parent Company financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Parent Company
Overall materiality	£7,800,000 (2020: £5,500,000).	£5,400,000 (2020: £5,000,000).
How we determined it	5% of profit before tax	1% of total assets
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing benchmark, as we believe this is the key measure used by the shareholders in evaluating the performance of the Group.	We have applied this benchmark, a generally accepted auditing benchmark, as we believe this is the key measure used by the shareholders in evaluating the performance of the Parent Company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £5,850,000 for the Group financial statements and £4,050,000 for the Parent Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £390,000 (Group audit) (2020: £250,000) and £270,000 (Parent Company audit) (2020: £250,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included the procedures as set out in key audit matter on the impact of Covid-19.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

In relation to the Directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. 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 26 June 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate Governance Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;

Independent auditors' report

to the members of Dunelm Group plc

- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and Parent Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journals with unexpected account combinations, which increase revenue or profits, and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to inventory provisioning (see related key audit matter); and
- Identifying and testing higher risk journal entries, in particular any journal entries posted with unusual account combinations, specifically relating to journals which increased revenue or profits.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Remuneration Committee report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 14 January 2014 to audit the financial statements for the year ended 28 June 2014 and subsequent financial periods. The period of total uninterrupted engagement is eight years, covering the years ended 28 June 2014 to 26 June 2021.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
8 September 2021

Consolidated Income Statement

For the 52 weeks ended 26 June 2021

	Note	2021 52 weeks £'m	2020 52 weeks £'m
Revenue	1	**1,336.2**	1,057.9
Cost of sales		**(647.3)**	(525.5)
Gross profit		**688.9**	532.4
Operating costs	2	**(522.5)**	(416.4)
Operating profit	3	**166.4**	116.0
Financial income	5	**0.1**	0.4
Financial expenses	5	**(8.7)**	(7.3)
Profit before taxation		**157.8**	109.1
Taxation	6	**(28.9)**	(21.4)
Profit for the period		**128.9**	87.7
Earnings per Ordinary Share – basic	8	**63.7p**	43.4p
Earnings per Ordinary Share – diluted	8	**62.9p**	42.9p

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 26 June 2021

	Note	2021 52 weeks £'m	2020 52 weeks £'m
Profit for the period		**128.9**	87.7
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	17	**(17.7)**	6.8
Deferred tax on hedging movements	12	**2.2**	(0.1)
Other comprehensive income for the period, net of tax		**(15.5)**	6.7
Total comprehensive income for the period		**113.4**	94.4

Consolidated Statement of Financial Position

As at 26 June 2021

	Note	26 June 2021 £'m	26 June 2020 £'m
Non-current assets			
Intangible assets	9	**14.8**	22.7
Property, plant and equipment	10	**162.6**	175.4
Right-of-use assets	11	**262.0**	283.3
Deferred tax assets	12	**11.4**	4.2
Derivative financial instruments		**0.3**	1.6
Total non-current assets		**451.1**	487.2
Current assets			
Inventories	13	**172.4**	118.2
Trade and other receivables	14	**11.8**	15.6
Current tax asset		**2.4**	–
Derivative financial instruments		**0.4**	5.0
Cash and cash equivalents	15	**128.6**	90.0
Total current assets		**315.6**	228.8
Total assets		**766.7**	716.0
Current liabilities			
Trade and other payables	16	**(181.8)**	(177.2)
Lease liabilities	11	**(49.0)**	(48.0)
Current tax liability		**-**	(2.6)
Derivative financial instruments		**(5.1)**	–
Total current liabilities		**(235.9)**	(227.8)
Non-current liabilities			
Bank loans	18	**-**	(44.6)
Lease liabilities	11	**(244.3)**	(266.4)
Provisions	19	**(4.5)**	(3.8)
Derivative financial instruments		**(0.8)**	–
Total non-current liabilities		**(249.6)**	(314.8)
Total liabilities		**(485.5)**	(542.6)
Net assets		**281.2**	173.4
Equity			
Issued share capital	20	**2.0**	2.0
Share premium account		**1.6**	1.6
Capital redemption reserve		**43.2**	43.2
Hedging reserve		**(4.3)**	5.3
Retained earnings		**238.7**	121.3
Total equity attributable to equity holders of the Parent		**281.2**	173.4

The financial statements on pages 186 to 216 were approved by the Board of Directors on 8 September 2021 and were signed on its behalf by:

Laura Carr
Chief Financial Officer
8 September 2021

Consolidated Statement of Cash Flows

For the 52 weeks ended 26 June 2021

	Note	2021 52 weeks £'m	2020 52 weeks £'m
Cash flows from operating activities			
Profit before taxation		**157.8**	109.1
Net financial expense	5	**8.6**	6.9
Operating profit		**166.4**	116.0
Depreciation and amortisation of property, plant and equipment and intangible assets	3	**31.8**	33.2
Depreciation of right-of-use assets	3	**45.7**	45.1
Loss on disposal and impairment of property, plant and equipment and intangible assets	3	**2.3**	1.5
Impairment of right-of-use assets	3	**1.0**	0.4
Operating cash flows before movements in working capital		**247.2**	196.2
(Increase)/decrease in inventories		**(54.2)**	39.5
Decrease/(increase) in trade and other receivables		**4.1**	(1.2)
Increase in trade and other payables		**15.1**	41.8
Net movement in working capital		**(35.0)**	80.1
Share-based payments expense		**7.5**	2.1
Tax paid		**(35.5)**	(34.3)
Net cash generated from operating activities		**184.2**	244.1
Cash flows from investing activities			
Acquisition of intangible assets		**(0.6)**	(4.4)
Acquisition of property, plant and equipment		**(15.1)**	(20.5)
Interest received		**0.1**	0.1
Net cash used in investing activities		**(15.6)**	(24.8)
Cash flows from financing activities			
Proceeds from issue of treasury shares	21	**1.8**	2.0
Drawdowns on Revolving Credit Facility		**–**	165.0
Repayments of Revolving Credit Facility		**(45.0)**	(165.0)
Interest paid		**(0.8)**	(1.4)
Interest on lease liabilities	11	**(5.3)**	(5.5)
Repayment of lease liabilities		**(54.0)**	(37.7)
Ordinary dividends paid	7	**(24.3)**	(106.0)
Net cash used in financing activities		**(127.6)**	(148.6)
Net increase in cash and cash equivalents		**41.0**	70.7
Foreign exchange revaluations	5	**(2.4)**	0.3
Cash and cash equivalents at the beginning of the period	15	**90.0**	19.0
Cash and cash equivalents at the end of the period	15	**128.6**	90.0

Consolidated Statement of Changes in Equity

For the 52 weeks ended 26 June 2021

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
As at 30 June 2019		**2.0**	**1.6**	**43.2**	**5.0**	**134.0**	**185.8**
Profit for the period		–	–	–	–	87.7	87.7
Movement in fair value of cash flow hedges	17	–	–	–	6.8	–	6.8
Deferred tax on hedging movements	12	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the period		–	–	–	6.7	87.7	94.4
Proceeds from issue of treasury shares	21	–	–	–	–	2.0	2.0
Share-based payments		–	–	–	–	2.1	2.1
Deferred tax on share-based payments	12	–	–	–	–	1.3	1.3
Current tax on share options exercised		–	–	–	–	0.2	0.2
Gain on cash flow hedges transferred to inventory	17	–	–	–	(6.4)	–	(6.4)
Ordinary dividends paid	7	–	–	–	–	(106.0)	(106.0)
Total transactions with owners, recorded directly in equity		–	–	–	(6.4)	(100.4)	(106.8)
As at 27 June 2020		**2.0**	**1.6**	**43.2**	**5.3**	**121.3**	**173.4**
Profit for the period		–	–	–	–	128.9	128.9
Movement in fair value of cash flow hedges	17	–	–	–	(17.7)	–	(17.7)
Deferred tax on hedging movements	12	–	–	–	2.2	–	2.2
Total comprehensive income for the period		–	–	–	(15.5)	128.9	113.4
Proceeds from issue of treasury shares	21	–	–	–	–	1.8	1.8
Share-based payments		–	–	–	–	7.5	7.5
Deferred tax on share-based payments	12	–	–	–	–	2.9	2.9
Current tax on share options exercised		–	–	–	–	0.6	0.6
Loss on cash flow hedges transferred to inventory	17	–	–	–	5.9	–	5.9
Ordinary dividends paid	7	–	–	–	–	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		–	–	–	5.9	(11.5)	(5.6)
As at 26 June 2021		**2.0**	**1.6**	**43.2**	**(4.3)**	**238.7**	**281.2**

Accounting Policies

For the 52 weeks ended 26 June 2021

GENERAL INFORMATION

The Group financial statements consolidate those of Dunelm Group plc ('the Company') and its subsidiaries (together referred to as 'the Group'). The Company financial statements on pages 186 to 216 present information about the Company as a separate entity and not about its Group.

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

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

BASIS OF PREPARATION

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are presented on pages 186 to 216.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The annual financial statements are prepared under the historical cost convention except for financial assets and financial liabilities (including derivative financial instruments and share-based payments), which have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest 0.1 million.

GOING CONCERN

The Group has considerable financial resources together with long-standing relationships with a number of key suppliers and an established reputation in the retail sector across the UK. In their consideration of going concern, the Directors have reviewed future profit forecasts and cash projections, which are based on market data and include their experience over the last 18 months during the Covid-19 pandemic. Even in these uncertain times, the Group has grown income and profit as it has navigated the various lockdowns and has used the experience gained during this period to model two different downside scenarios. The 'market downturn' scenario assumes a change in consumer spending away from homewares, as the hospitality and travel industry open up, with an additional five week 'circuit break' lockdown in December 2021. The 'three-month lockdown' scenario assumes a government enforced national lockdown for three months over our peak winter trading period, where the stores are closed but Click & Collect services continue, and no government support is received. In both of these scenarios the Group would not breach any of its financial covenants and would not require any additional sources of financing during the forecast period, being at least until March 2023 (the RCF maturity date).

In addition, reverse stress testing has been conducted which shows there would have to be at least a 30% decline in sales over the forecast period compared to the 'central case' scenario for there to be a risk of financial covenants being breached, which is considered to be highly unlikely. If this decline in sales were to occur management would follow the course of action undertaken during previous lockdowns. In addition, management could implement further mitigating actions including but not limited to:

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

In addition, similar to during FY20 and FY21, the government could reintroduce actions to address specific closure periods (e.g. Job Retention Scheme, rates holidays, delay in VAT payments) from which the Group could chose to benefit. As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future, being at least 18 months, until March 2023 (the RCF maturity date). For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 2 to 91. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Financial Review on pages 35 to 39. In addition, note 17 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk, as well as details of financial covenants in place.

USE OF ESTIMATES AND JUDGEMENTS

The presentation of the annual financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key estimates and judgements used in the financial statements are as follows:

Estimate: Inventory provisions

The Group provides against the carrying value of the inventories held where it is anticipated that net realisable value (NRV) will be below cost. NRV is based on estimated selling price with future price reductions assumed to be in line with historic margin analysis on a line-by-line basis, 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 £1.7m (9.8%) (2020: £1.2m (9.7%)). Consideration is also given to whether any stock categories require additional provision due to specific circumstances in place at the period end date.

Judgement: Determining the lease term

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options and break clauses. At the commencement date of a property lease the Group normally determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised and it is not reasonably certain that the Group will continue in occupation for any period beyond the lease term. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

Judgement: Expired leases

Judgement has been applied in respect of those property leases where the current lease term has expired, but the Group remains in negotiation with the landlord for potential renewal. Where the Group believes renewal to be highly probable and the lease is protected by the Landlord and Tenants Act (LTA) it will be treated as having been renewed at the date of termination of the previous lease term and on the same terms as the previous lease. On completion, the lease will be revalued to take account of the new terms. Where renewal is not considered to be reasonably certain leases are moved into holdover status, and lease payments recognised as an expense on a straight-line basis.

Lease liabilities were £2.6m higher (2020: £13.0m) and right-of-use assets were £2.7m higher (2020: £13.0m) at the period end date due to the inclusion of property leases where the current lease term has expired but the lease has been treated as having been renewed.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Consistent accounting policies have been adopted across the Group.

REVENUE

Revenue is generated from the sale of homewares and related goods and services through the Group's stores and website, excluding sales between Group companies, and is after deducting returns, relevant discounts and VAT. Revenue is recognised when the Group has satisfied its performance obligations to its customers and the customer has obtained control of the goods and services being transferred.

In general, these conditions for store sales are met at the point of sale. The exceptions to this are custom-made products and Click & Collect sales, where revenue is recognised at the point that the goods are collected, and gift vouchers, where revenue is recognised when the vouchers are redeemed aside from the element management do not expect to be redeemed based on historical data which is recognised at the point of sale. Revenue on home delivery sales is recognised at the point of delivery. Revenue is settled in cash at the point of sale for all revenue channels.

The Group has two types of products; stocked products and products which are sent directly from suppliers to customers. Management has established that the Group acts as a principal for both types of products and thus should recognise revenue as the gross amount of consideration to which it expects to be entitled.

The Group holds a sales return provision in the Consolidated Statement of Financial Position to provide for expected levels of returns on sales made before the period end but returned after the period end. The Group recognises the expected value of revenue relating to returns within sales provisions and the expected value of cost of sales relating to the returned items is included within inventories.

For the purposes of the financial statements, management has concluded that since customers access the Group's products across multiple channels and their journey often involves more than one channel, disaggregation of revenue would not be appropriate.

Accounting Policies continued

For the 52 weeks ended 26 June 2021

EXPENSES

Financial income and expenses

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and related foreign exchange gains and losses.

Retirement benefits

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

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance condition (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Consolidated Income Statement, with a corresponding adjustment to equity.

When options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For new issued shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and the share premium account.

Social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the Consolidated Statement of Financial Position date. Resulting exchange gains or losses are recognised in the Consolidated Income Statement for the period in financial income and expenses, except when deferred as qualifying cash flow hedges.

TAXATION

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax represents the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the Consolidated Statement of Financial Position date, together with any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the Consolidated Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

DIVIDENDS

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

INTANGIBLE ASSETS

Intangible assets comprise of software development, licences, rights to brands and customer lists, are stated at cost less accumulated amortisation and impairment. Costs incurred in developing the Group's own brands are expensed as incurred.

Separately acquired brands and customer lists are shown at historical cost. Software, brands and customer lists acquired in a business combination are recognised at fair value at the acquisition date. These assets are deemed to have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful life.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

Amortisation

Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful life of the asset. These are as follows:

Software development and licences	3 to 5 years
Rights to brands and customer lists	5 to 15 years

PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, to write down the cost to its estimated residual value. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years
Leasehold improvements	over the remaining period of the lease
Refit improvements	7 years
Plant and machinery	4 years
Fixtures and fittings	3 to 5 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

LEASES

Lease recognition

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to, and reviewed regularly for, impairment. Depreciation of right-of-use assets is included in operating costs in the Consolidated Income Statement.

Accounting Policies continued

For the 52 weeks ended 26 June 2021

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or rate. Any variable lease payments that do not depend on an index or rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the fixed lease payments. Interest charges are included in finance costs in the Consolidated Income Statement.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery and equipment that have a lease term of less than 12 months and leases of low-value assets (defined as assets with a value, when new, of £5,000 or less). Lease payments relating to short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Subsequent measurement

The lease liability and right-of-use asset is subsequently remeasured to reflect changes in:

- The lease term (using a revised discount rate);
- The assessment of a purchase option (using a revised discount rate); and
- Future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

The payments related to leases are presented under cash flow from financing activities in the Consolidated Cash Flow Statement.

FINANCIAL INSTRUMENTS

Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the Consolidated Income Statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the Consolidated Income Statement and presented in other gains/(losses) together with foreign exchange gains and losses.
- **FVPL:** All other financial assets that do not meet the criteria for amortised cost are measured at FVPL, unless the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the Consolidated Income Statement in the period in which it arises.

Impairment of financial assets

The Group uses a forward-looking approach to assess the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Derivatives

Derivative financial instruments used are forward foreign exchange contracts. These are measured at fair value. The fair values are determined by reference to the market prices available from the market on which the instruments are traded.

Certain derivative financial instruments are designated as hedges in line with the Group's treasury policy. These are instruments that hedge exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecasted transaction.

Any gains or losses arising from changes in fair value derivative financial instruments not designated as hedges are recognised in the Consolidated Income Statement.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement, within operating costs.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options and time value of options are recognised in the cash flow hedge reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group designates the full change in fair value of the forward contract (including forward points) as the hedging instrument. The gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in the Consolidated Income Statement as the hedged item affects profit or loss (for example, through cost of sales).

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain/loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain/loss and deferred costs of hedging that were reported in equity are immediately reclassified to the Consolidated Income Statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

TRADE AND OTHER RECEIVABLES

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

INVENTORIES

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

GOVERNMENT GRANTS

The Group applies IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' when accounting for government grants. A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants are recognised in the Consolidated Income Statement over the same period as the related costs for which the grants are intended to compensate. The Group has chosen to present receipt and repayment of government grants against the related expense.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances including credit card receipts and deposits. All cash equivalents have an original maturity of three months or less.

TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

BANK BORROWINGS AND BORROWING COSTS

Interest-bearing bank loans are initially recorded at their fair value and subsequently held at amortised cost. Transaction costs incurred are amortised over the term of the loan.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the Consolidated Statement of Financial Position date.

Accounting Policies continued

For the 52 weeks ended 26 June 2021

IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's assets are reviewed annually at each Consolidated Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for assets grouped at the lowest levels for which there are largely independent cash flows, i.e. the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount. A cash-generating unit has been defined as an individual store or the online business. If an impairment loss is identified for a cash-generating unit, the loss shall be allocated to reduce the carrying amount of the assets of the unit pro-rated on the basis of the carrying amount of each asset in the unit for both property, plant and equipment and right-of-use assets. Impairment losses are recognised in the Consolidated Income Statement.

SHARE CAPITAL

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

PROVISIONS

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a current legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably measured.

A provision for onerous contracts is recognised when the expected benefit to be derived by the Group from a contract is lower than the unavoidable costs of meeting its obligations under the contract.

A dilapidations provision is recognised when there is an expectation of future obligations relating to the maintenance of leasehold properties arising from events such as lease renewals or terminations.

NEW STANDARDS AND INTERPRETATIONS

No new standards, amendments or interpretations, effective for the first time for the financial period beginning on or after 28 June 2020 have had a material impact on the financial statements of the Group.

Certain new accounting standards and interpretations have been published that are not yet effective. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements

For the 52 weeks ended 26 June 2021

1 Revenue

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

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

The Chief Operating Decision-maker is the Executive Board of Directors of Dunelm Group plc. The Executive Board reviews internal management reports on a monthly basis and performance is assessed based on a number of financial and non-financial KPIs as well as on profit before taxation. The list of our financial and non-financial KPIs can be found on pages 32 to 33.

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

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

2 Operating costs

	2021 52 weeks £'m	2020 52 weeks £'m
Selling and distribution costs	**423.9**	330.6
Administrative expenses	**98.6**	85.8
	522.5	416.4

3 Operating profit

Operating profit is stated after charging the following items:

	2021 52 weeks £'m	2020 52 weeks £'m
Cost of inventories included in cost of sales	**638.5**	519.3
Amortisation of intangible assets	**7.3**	7.3
Depreciation of owned property, plant and equipment	**24.5**	25.9
Depreciation of right-of-use assets	**45.7**	45.1
Loss on disposal and impairment of property, plant and equipment and intangible assets	**2.3**	1.5
Impairment of right-of-use assets	**1.0**	0.4
Expense related to short-term leases	**1.8**	2.3

The cost of inventories included in cost of sales includes the impact of a net increase in the provision for obsolete inventory of £5.3m (2020: £0.5m increase).

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

3 Operating profit continued

The analysis of the auditor's remuneration is as follows:

	2021 52 weeks £'000	2020 52 weeks £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual financial statements	**29**	28
Fees payable to the Company's auditors and their associates for other services to the Group		
• Audit of the Company's subsidiaries pursuant to legislation	**225**	201
• Other assurance services (See Audit and Risk Committee Report on page 130 for further information)	**40**	29

The prior year audit fees include £55,800 that was billed in the 2021 financial year.

4 Employee numbers and costs

The average monthly number of people employed by the Group (including Directors) was:

	2021 52 weeks Number of heads	2021 52 weeks Full time equivalents	2020 52 weeks Number of heads	2020 52 weeks Full time equivalents
Selling	**9,039**	**5,390**	8,359	5,050
Distribution	**829**	**812**	794	778
Administration	**704**	**695**	702	691
	10,572	**6,897**	9,855	6,519

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

	2021 52 weeks £'m	2020 52 weeks £'m
Wages and salaries (including termination benefits)	**190.8**	148.7
Social security costs	**13.0**	10.5
Share-based payment expense	**7.5**	2.1
Pension costs - defined contribution plans	**4.5**	4.0
	215.8	165.3

In the prior year, the Group claimed £14.5m under the UK Government's Coronavirus Job Retention Scheme which was netted off against payroll costs. Following the Board's decision to repay the Coronavirus Job Retention Scheme claims, the current year payroll costs include the £14.5m repayment.

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 138 to 171 and in the Related Parties note on page 216.

5 Financial income and expenses

	2021 52 weeks £'m	2020 52 weeks £'m
Financial income		
Interest on bank deposits	**0.1**	0.1
Net foreign exchange gains	**-**	0.3
	0.1	0.4
Financial expenses		
Interest on bank borrowings	**(0.8)**	(1.5)
Amortisation of issue costs of bank loans	**(0.2)**	(0.3)
Net foreign exchange losses	**(2.4)**	-
Interest on lease liabilities	**(5.3)**	(5.5)
	(8.7)	(7.3)
Net financial expense	**(8.6)**	(6.9)

6 Taxation

	2021 52 weeks £'m	2020 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**32.7**	24.7
Adjustments in respect of prior periods	**(1.7)**	(1.1)
	31.0	23.6
Deferred taxation		
Origination of temporary differences	**(1.3)**	(2.0)
Impact of change in tax rate	**(0.8)**	(0.2)
	(2.1)	(2.2)
Total tax expense	**28.9**	21.4

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2021 52 weeks £'m	2020 52 weeks £'m
Profit before taxation	**157.8**	109.1
UK corporation tax at standard rate of 19.0% (2020: 19.0%)	**30.0**	20.7
Factors affecting the charge in the period:		
Non-deductible expenses	**1.4**	2.0
Adjustments in respect of prior periods	**(1.7)**	(1.1)
Impact of change in tax rate	**(0.8)**	(0.2)
Tax charge	**28.9**	21.4

The taxation charge for the period as a percentage of profit before tax is 18.3% (2020: 19.6%).

During the year 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 26 June 2021 has been calculated based on the rate of 25.0% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19.0% has been used.

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

7 Dividends

The dividends set out in the table below relate to the 1 pence Ordinary Shares:

		2021 52 weeks £'m	2020 52 weeks £'m
Special dividend for the period ended 29 June 2019	– paid 32.0 pence	–	64.6
Final dividend for the period ended 29 June 2019	– paid 20.5 pence	–	41.4
Interim dividend for the period ended 26 June 2021	– paid 12.0 pence	**24.3**	–
		24.3	106.0

The Directors are proposing a final dividend of 23.0 pence per Ordinary Share for the period ended 26 June 2021 which equates to £46.6m. Subject to shareholder approval at the AGM this will be paid on 19 November 2021 to shareholders on the register at the close of business on 29 October 2021. The Directors are also proposing a special dividend of 65.0 pence per Ordinary Share for the period ended 26 June 2021 which equates to £131.7m. This will be paid on 8 October 2021 to shareholders on the register at the close of business on 17 September 2021.

8 Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by the Company and held as treasury shares (note 21).

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the period.

Weighted average numbers of shares:

	2021 52 weeks '000	2020 52 weeks '000
Weighted average number of shares in issue during the period	**202,445**	202,106
Impact of share options	**2,445**	2,113
Number of shares for diluted earnings per share	**204,890**	204,219

	2021 52 weeks £'m	2020 52 weeks £'m
Profit for the period	**128.9**	87.7
Earnings per Ordinary Share - basic	**63.7p**	43.4p
Earnings per Ordinary Share - diluted	**62.9p**	42.9p

9 Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 30 June 2019	49.8	11.0	60.8
Additions	3.0	–	3.0
Disposals	(1.1)	–	(1.1)
At 27 June 2020	51.7	11.0	62.7
Additions	0.6	–	0.6
Disposals	(0.3)	–	(0.3)
At 26 June 2021	**52.0**	**11.0**	**63.0**
Accumulated amortisation			
At 30 June 2019	22.5	11.0	33.5
Charge for the financial period	7.3	–	7.3
Disposals	(0.8)	–	(0.8)
At 27 June 2020	29.0	11.0	40.0
Charge for the financial period	7.3	–	7.3
Disposals	(0.3)	–	(0.3)
Impairment	1.2	–	1.2
At 26 June 2021	**37.2**	**11.0**	**48.2**
Net book value			
At 30 June 2019	27.3	–	27.3
At 27 June 2020	22.7	–	22.7
At 26 June 2021	**14.8**	**–**	**14.8**

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

The impairment of £1.2m (2020: nil) relates to tablet-based sales enabling software that was impaired following the development and roll out of new functionality in this area.

Within software development and licences there were no additions (2020: £0.8m) related to internally generated assets.

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

10 Property, plant and equipment

	Freehold land and buildings £'m	Leasehold improvements £'m	Plant and machinery £'m	Refit improvements £'m	Fixtures and fittings £'m	Total £'m
Cost						
At 30 June 2019	92.1	158.9	5.8	7.4	112.0	376.2
Additions	5.6	7.3	0.2	1.6	7.2	21.9
Disposals	–	(14.6)	(0.2)	–	(5.1)	(19.9)
At 27 June 2020	97.7	151.6	5.8	9.0	114.1	378.2
Additions	–	3.1	1.9	0.7	7.1	12.8
Disposals	–	(6.7)	(0.1)	–	(4.6)	(11.4)
At 26 June 2021	**97.7**	**148.0**	**7.6**	**9.7**	**116.6**	**379.6**
Accumulated depreciation						
At 30 June 2019	14.2	83.4	4.7	2.1	91.2	195.6
Charge for the financial period	1.6	12.2	0.4	1.1	10.6	25.9
Disposals	–	(14.4)	(0.2)	–	(5.1)	(19.7)
Impairment	0.6	0.4	–	–	–	1.0
At 27 June 2020	16.4	81.6	4.9	3.2	96.7	202.8
Charge for the financial period	1.7	11.8	0.3	1.4	9.3	24.5
Disposals	–	(6.2)	(0.1)	–	(4.2)	(10.5)
Impairment	–	0.1	–	–	0.1	0.2
At 26 June 2021	**18.1**	**87.3**	**5.1**	**4.6**	**101.9**	**217.0**
Net book value						
At 30 June 2019	77.9	75.5	1.1	5.3	20.8	180.6
At 27 June 2020	81.3	70.0	0.9	5.8	17.4	175.4
At 26 June 2021	**79.6**	**60.7**	**2.5**	**5.1**	**14.7**	**162.6**

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

The impairment of £0.2m (2020: £1.0m) relates to store impairment as well as the prior year impairment of the Group's head office. The recoverable amount has been determined as the value in use applying a discount rate of 10.0% (2020: 10.0%).

11 Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 26 June 2021 were as follows:

	2021 Land and buildings £'m	2021 Motor vehicles, plant and equipment £'m	2021 Total £'m	2020 Total £'m
At the beginning of the period	**275.6**	**7.7**	**283.3**	294.3
Additions	**22.6**	**2.9**	**25.5**	34.9
Disposals	**–**	**(0.1)**	**(0.1)**	(0.4)
Impairment	**(1.0)**	**–**	**(1.0)**	(0.4)
Depreciation	**(42.5)**	**(3.2)**	**(45.7)**	(45.1)
At the end of the period	**254.7**	**7.3**	**262.0**	283.3

Right-of-use additions include £1.3m of lease modifications (2020: £0.4m).

Lease liabilities included in the Consolidated Statement of Financial Position at 26 June 2021 were as follows:

	2021 Land and buildings £'m	2021 Motor vehicles, plant and equipment £'m	2021 Total £'m	2020 Total £'m
At the beginning of the period	**(306.7)**	**(7.7)**	**(314.4)**	(325.0)
Additions	**(23.9)**	**(3.0)**	**(26.9)**	(36.4)
Disposals	**-**	**0.1**	**0.1**	0.4
Interest	**(5.2)**	**(0.1)**	**(5.3)**	(5.5)
Repayment of lease liabilities	**49.7**	**3.5**	**53.2**	52.1
At the end of the period	**(286.1)**	**(7.2)**	**(293.3)**	(314.4)

The discount rate applied across all lease liabilities ranged between 1.0% and 2.1% (2020: 1.6% and 2.4%).

The maturity analysis of the lease liabilities is as follows:

	2021 £'m	2020 £'m
Current	**(49.0)**	(48.0)
Non-current	**(244.3)**	(266.4)
	(293.3)	(314.4)

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

	2021 £'m	2020 £'m
Less than one year	**(53.7)**	(51.6)
One to five years	**(170.9)**	(174.2)
More than five years	**(88.3)**	(118.6)
Total undiscounted lease liability	**(312.9)**	(344.4)

The following amounts have been recognised in the Consolidated Income Statement:

	2021 52 weeks Land and buildings £'m	2021 52 weeks Motor vehicles, plant and equipment £'m	2021 52 weeks Total £'m	2020 52 weeks Total £'m
Depreciation of right-of-use assets	**42.5**	**3.2**	**45.7**	45.1
Impairment of right-of-use assets	**1.0**	**-**	**1.0**	0.4
Interest expenses (included in financial expenses)	**5.2**	**0.1**	**5.3**	5.5
Expense relating to short-term leases	**1.7**	**0.1**	**1.8**	2.3

The impairment of £1.0m (2020: £0.4m) relates to store impairment. The recoverable amount has been determined as the value in use applying a discount rate of 10.0% (2020: 10.0%).

The total cash outflow for leases during the financial period was £59.3m (2020: £43.2m).

Cash repayment of lease liabilities includes the deferred payment into this financial year of two months' rent which would normally have been paid in June 2020. From September 2020 onwards, we reverted to paying rents quarterly in advance.

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

12 Deferred tax assets/liabilities

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 25.0% unless the asset/liability is expected to be realised or settled before the corporation tax rate increase in 2023 in which case the rate of 19.0% has been used (2020: 19.0%).

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Property, plant and equipment	**3.6**	2.5	**-**	–	**3.6**	2.5
Share-based payments	**6.5**	2.2	**-**	–	**6.5**	2.2
Hedging	**1.0**	–	**-**	(1.2)	**1.0**	(1.2)
Other temporary differences	**0.3**	0.7	**-**	–	**0.3**	0.7
	11.4	5.4	**-**	(1.2)	**11.4**	4.2

	Assets		Liabilities		Net assets/(liabilities)	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Deferred tax recoverable/(payable) after more than 12 months	**4.6**	2.6	**-**	–	**4.6**	2.6
Deferred tax recoverable/(payable) within 12 months	**6.8**	2.8	**-**	(1.2)	**6.8**	1.6
	11.4	5.4	**-**	(1.2)	**11.4**	4.2

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

	Balance at 30 June 2019 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 27 June 2020 £'m
Property, plant and equipment	1.6	0.9	–	2.5
Share-based payments	0.3	0.6	1.3	2.2
Hedging	(1.1)	–	(0.1)	(1.2)
Other temporary differences	-	0.7	–	0.7
	0.8	2.2	1.2	4.2

	Balance at 28 June 2020 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 26 June 2021 £'m
Property, plant and equipment	2.5	1.1	–	**3.6**
Share-based payments	2.2	1.4	2.9	**6.5**
Hedging	(1.2)	–	2.2	**1.0**
Other temporary differences	0.7	(0.4)	–	**0.3**
	4.2	2.1	5.1	**11.4**

13 Inventories

	2021 £'m	2020 £'m
Goods for resale	**172.4**	118.2

Goods for resale includes a net realisable value provision of £17.2m (2020: £11.9m). Write-downs of inventories to net realisable value amounted to £16.4m (2020: £14.3m). These were recognised as an expense during the period and were included in cost of sales in the Consolidated Income Statement.

14 Trade and other receivables

	2021 £'m	2020 £'m
Trade receivables	**0.9**	1.3
Other receivables	**4.8**	8.5
Prepayments and accrued income	**6.1**	5.8
	11.8	15.6

All trade receivables are due within one year from the end of the reporting period.

No impairment was incurred on trade and other receivables during the period and the expected credit loss provision held at period end is nil (2020: nil). No material amounts are overdue (2020: nil).

In the prior year other receivables included £4.8m receivable from the UK Government's Coronavirus Job Retention Scheme.

15 Cash and cash equivalents

	2021 £'m	2020 £'m
Cash at bank and in hand	**128.6**	90.0

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

16 Trade and other payables

	2021 £'m	2020 £'m
Trade payables	**69.4**	71.7
Accruals and deferred income	**69.9**	65.8
Taxation and social security	**42.3**	39.3
Other payables	**0.2**	0.4
	181.8	177.2

Included within accruals and deferred income is £4.0m in relation to Local Authority Covid grants (2020: nil) received in the year that the Board has committed to repay.

Notes to the Consolidated Financial Statements continued

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17 Financial risk management

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. A formal process for reviewing and managing risk in the business is in place.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Group only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties, therefore credit risk is considered to be low.

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of an 'A' credit rating. The credit limit for the syndicate banks is £75m. All other parties are limited to £25m.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets. No collateral is held (2020: nil). At the period end the maximum exposure is detailed in the table below.

	2021 £'m	2020 £'m
Current		
Cash and cash equivalents	**128.6**	90.0
Trade and other receivables	**5.7**	9.8
Accrued income	**0.3**	0.1
Derivative financial instruments	**0.4**	5.0
Total current financial assets	**135.0**	104.9
Non-current		
Derivative financial instruments	**0.3**	1.6
Total financial assets	**135.3**	106.5

Trade and other receivables include rebates due from suppliers recognised as a reduction to cost of sales in the period to which they relate. The rebates are recovered through deductions from future payments to suppliers and therefore management is confident of the recoverability of these balances.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade and other receivables and accrued income. To measure the expected credit losses, trade and other receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. There is limited exposure to ECL due to the way the Group operates.

The Group will write off, either partially or in full, the gross carrying amount of a financial asset when there is no realistic prospect of recovery. This is usually the case when it is determined that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the Group may still choose to pursue enforcement in order to recover the amounts due.

On that basis, the loss allowance as at 27 June 2020 and 26 June 2021 was determined to not be significant for trade and other receivables, accrued income and cash and cash equivalents.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances. The Group manages this risk by continuously monitoring cash flow forecasts. Further details of the Group's available facilities can be found in the capital management section of this note.

All cash flows on financial liabilities for 2021 and 2020 are contractually due within one year with the exception of lease liabilities, the details of which are shown in note 11, provisions and derivative financial liabilities.

Total borrowings of nil (2020: £45.0m) reflect the level of facility drawdown at the period end on the Group's Revolving Credit Facility.

INTEREST RATE RISK

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

During the period, if Libor interest rates had been 10 basis points higher with all other variables held constant, post-tax profit would have been the same (2020: £0.7m lower) as there would have been no impact on post-tax profit.

FOREIGN CURRENCY RISK

All of the Group's revenues are in sterling. The majority of purchases are also in pounds sterling, but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just over 30% (2020: 20%) of stock purchases in the period ended 26 June 2021.

The Group uses various means to cover its exposure to US dollars including holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of US dollars. All the Group's foreign exchange transactions are designed to satisfy US dollar denominated liabilities. The maximum level of hedging coverage which will be undertaken is 100% of anticipated expenditure on a three month horizon, stepping down to 75% on a four- to 12-month horizon and 50% on a 13- to 18-month horizon. There is a low level of coverage beyond the 18 month horizon.

Cash flow hedges are in place to manage foreign exchange rate risk arising from forecast purchases denominated in US dollars. At the Consolidated Statement of Financial Position date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was a £5.2m liability (2020: £6.6m asset) which relates to a commitment to purchase $242.0m (2020: $159.0m) for a fixed sterling amount. A fair value loss of £17.7m (2020: £6.8m gain) was recognised in other comprehensive income and no loss (2020: nil) was recognised on cash flow hedges during the period. In the period, a loss of £5.9m (2020: £6.4m gain) was recycled from the cash flow hedge reserve to inventory to offset foreign exchange movements on purchases. The remaining hedge reserve balance will be recycled to the Consolidated Income Statement to offset future purchases occurring after the Consolidated Statement of Financial Position date, the majority of which expire in the next 12 months.

The outstanding US dollar liabilities at the period end were $0.1m (2020: $0.1m).

In the event of a significant adverse movement in the US dollar exchange rate, the Group could seek to minimise the impact on profitability by changing the selling price of goods, renegotiating terms with suppliers or sourcing from alternative markets.

At the period end if GBP had strengthened by 10% against US dollar with all other variables held constant, post-tax profit would have been £1.5m higher (2020: £1.9m 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 £4.2m lower (2020: £0.4m higher) as a result of a decrease in fair value of derivatives designated as cash flow hedges.

Conversely, if GBP had weakened by 10% against US dollar with all other variables held constant, post-tax profit for the period would have been £1.2m lower (2020: £2.4m lower) and other components of equity would have been £6.3m higher (2020: £4.0m lower).

The US dollar period end exchange rate applied in the above analysis is £1=$1.3877 (2020: £1=$1.2332).

CAPITAL MANAGEMENT

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

The Board's objective with respect to capital management is to ensure the Group continues as a going concern in order to optimise returns to shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

From time to time the Group purchases its own shares on the market. These shares are intended to be used for issuing shares under the Group's share option programmes. The Board has authorised a share purchase programme designed to ensure that all options expected to vest under share option schemes can be fulfilled out of treasury shares.

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17 Financial risk management continued

The Group has a syndicated Revolving Credit Facility (RCF) of £165m which is maturing in March 2023. There is also an optional accordion facility of £75m. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (net debt to be no greater than 2.5× EBITDA before exceptional items and IFRS 16 impact) and fixed charge cover (EBITDAR before exceptional items and IFRS 16 impact to be no less than 1.75× fixed charges), both of which were met comfortably as at 26 June 2021 as shown below. In addition, the Group maintains £10m of uncommitted overdraft facilities with one syndicate partner bank.

The gearing ratio and banking covenants, on a pre-IFRS 16 basis, were as follows:

	2021 £'m	2020 £'m
Total borrowings (note 18)	–	45.0
Less: unamortised debt issue costs (note 18)	**(0.2)**	(0.4)
Less: cash and cash equivalents (note 15)	**(128.6)**	(90.0)
Net (cash)	**(128.8)**	(45.4)
Total equity	**281.2**	173.4
Total capital	**152.4**	128.0
Gearing ratio	**(84.5%)**	(35.5%)
Operating profit excluding IFRS 16 impact	**163.1**	112.8
Add: Depreciation and amortisation of property, plant and equipment and intangible assets (note 3)	**31.8**	33.2
Add: Loss on disposal and impairment of property, plant and equipment and intangible assets (note 3)	**2.5**	1.5
EBITDA excluding IFRS 16 impact	**197.4**	147.5
Leverage ratio	**(0.65)**	(0.31)
EBITDA excluding IFRS 16 impact	**197.4**	147.5
Rent	**53.9**	47.5
EBITDAR excluding IFRS 16 impact	**251.3**	195.0
Net interest excluding lease liabilities (note 5)	**3.3**	1.4
Rent	**53.9**	47.5
Fixed charges	**57.2**	48.9
Fixed charge cover	**4.4**	4.0

The gearing and net debt ratios are negative due to the Group being in a net cash position at the period end date.

DERIVATIVES: HEDGE INEFFECTIVENESS

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

MARKET RISK

The Group uses a combination of foreign currency options and foreign currency forwards to hedge its exposure to foreign currency risk. Under the Group's policy the critical terms of the forwards and options must align with the hedged items.

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. It is discounted where material.

The intrinsic value of foreign currency options is determined with reference to the relevant spot market exchange rate. The differential between the contracted strike rate and the discounted spot market exchange rate is defined as the time value. It is discounted where material.

The changes in the forward element of the foreign currency forwards and the time value of the options that relate to hedged items are deferred in the hedging reserve.

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION AND PERFORMANCE

	2021 £'m	2020 £'m
Foreign currency forwards		
Carrying amount of (liability)/asset	**(5.2)**	6.6
Notional amount	**174.0**	122.2
Maturity date	**July 2021-May 2023**	July 2020-May 2022
Hedge ratio	**1:1**	1:1
Change in value of hedged item used to determine hedge effectiveness	**17.7**	(6.8)
Change in the value of hedging instruments	**(17.7)**	6.8
Weighted average hedged rate for the year (including forward points)	**£1:US$1.3493**	£1:US$1.3014

FAIR VALUES

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

FAIR VALUE HIERARCHY

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

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

FINANCIAL ASSETS/(LIABILITIES)

The carrying value of all financial assets and financial liabilities was materially equal to their fair value.

At 27 June 2020	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	90.0	–	–	90.0
Trade and other receivables	9.8	–	–	9.8
Accrued income	0.1	–	–	0.1
Derivative financial instruments	–	–	6.6	6.6
Total financial assets	99.9	–	6.6	106.5
Trade and other payables	–	(72.1)	–	(72.1)
Accruals	–	(50.3)	–	(50.3)
Bank borrowings	–	(44.6)	–	(44.6)
Provisions	–	(3.8)	–	(3.8)
Total financial liabilities	–	(170.8)	–	(170.8)
Net financial assets/(liabilities)	**99.9**	**(170.8)**	**6.6**	**(64.3)**

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

17 Financial risk management continued

At 26 June 2021	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	**128.6**	**–**	**–**	**128.6**
Trade and other receivables	**5.7**	**–**	**–**	**5.7**
Accrued income	**0.3**	**–**	**–**	**0.3**
Derivative financial instruments	**–**	**–**	**0.7**	**0.7**
Total financial assets	**134.6**	**–**	**0.7**	**135.3**
Trade and other payables	**–**	**(69.6)**	**–**	**(69.6)**
Accruals	**–**	**(57.9)**	**–**	**(57.9)**
Bank borrowings	**–**	**–**	**–**	**–**
Provisions	**–**	**(4.5)**	**–**	**(4.5)**
Derivative financial instruments	**–**	**–**	**(5.9)**	**(5.9)**
Total financial liabilities	**–**	**(132.0)**	**(5.9)**	**(137.9)**
Net financial assets/(liabilities)	**134.6**	**(132.0)**	**(5.2)**	**(2.6)**

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

	2021 £'m	2020 £'m
Sterling	**122.4**	71.8
US dollar	**5.8**	18.1
Euro	**0.4**	0.1
	128.6	90.0

18 Bank loans

	2021 £'m	2020 £'m
Total borrowings	**–**	45.0
Less: unamortised debt issue costs[1]	**(0.2)**	(0.4)
	(0.2)	44.6

1. Unamortised debt issue costs are included in other receivables as at 26 June 2021 as there is no debt at the period end.

Borrowings relate to the Group's syndicated Revolving Credit Facility (RCF), as described in note 17. The carrying amount of bank borrowings is equal to fair value. The Group also has an accordion option with a maximum facility of £75m, as well as an overdraft facility of £10m.

The analysis below shows the reconciliation of net debt:

	2021 £'m	2020 £'m
Net cash/(debt) at 28 June 2020 and 30 June 2019	**45.4**	(25.3)
Net increase in cash and cash equivalents (excluding foreign exchange revaluations)	**41.0**	70.7
Effect of foreign exchange (note 5)	**(2.4)**	0.3
Repayments of Revolving Credit Facility	**45.0**	165.0
Drawdowns of Revolving Credit Facility	**-**	(165.0)
Change in net debt resulting from cash flows	**83.6**	71.0
Amortisation of debt issue costs (note 5)	**(0.2)**	(0.3)
Movement in net debt	**83.4**	70.7
Net cash represented by		
Cash and cash equivalents (note 15)	**128.6**	90.0
Non-current borrowings (note 18)	**-**	(45.0)
Net cash including unamortised debt issue costs	**128.6**	45.0
Unamortised debt issue costs (note 18)	**0.2**	0.4
Net cash at 26 June 2021 and 27 June 2020	**128.8**	45.4

19 Provisions

	Balance at 27 June 2020 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	Balance at 26 June 2021 £'m
Property-related	3.8	(0.6)	2.3	(1.0)	**4.5**

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

20 Issued share capital

	2021 Number of Ordinary Shares of 1p each	2020 Number of Ordinary Shares of 1p each
In issue at the start of the period	**202,833,931**	202,833,931
In issue at the end of the period	**202,833,931**	202,833,931

	2021 Number of shares	2021 £'m	2020 Number of shares	2020 £'m
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5.0**	500,000,000	5.0
Allotted, called up and fully paid	**202,833,931**	**2.0**	202,833,931	2.0

Proceeds received in relation to shares issued during the period were nil (2020: nil).

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

21 Treasury shares

	2021 Number of shares	2021 £'m	2020 Number of shares	2020 £'m
Outstanding at the beginning of the period	**573,590**	**5.1**	867,642	7.8
Reissued during the period in respect of share option schemes	**(413,271)**	**(3.7)**	(294,052)	(2.7)
Outstanding at the end of the period	**160,319**	**1.4**	573,590	5.1

The Group acquired no shares through purchases on the London Stock Exchange during the period (2020: nil).

The Group reissued 413,271 (2020: 294,052) treasury shares during the period for a total value of £3.7m (2020: £2.7m).

Proceeds from the issue of treasury shares included in the Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity of £1.8m (2020: £2.0m) is the amount employees contributed.

The Group has the right to reissue the remaining treasury shares at a later date.

22 Share-based payments

The Group operates a number of share-based payment schemes as follows:

DUNELM GROUP SHARE OPTION PLAN (GSOP)

These options are granted to particular individuals and are dependent on the level of growth in the Group's diluted earnings per share relative to RPI as well as continuing employment with the Group.

The Dunelm GSOP provides options over shares, exercisable between three and ten years following their grant, to be allocated to Dunelm (Soft Furnishings) Ltd employees at the discretion of the Remuneration Committee. No options were granted to any Directors or changes made to existing entitlements in the year under review. There are no cash-settlement alternatives and they are therefore accounted for under IFRS 2 as equity-settled awards. Option prices are set at the prevailing market price at the time of grant. This is a legacy share option scheme and the last grants under this scheme were made in October 2016.

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

GSOP	2021 No. of options	2021 Weighted average exercise price (p)	2020 No. of options	2020 Weighted average exercise price (p)
Outstanding at beginning of year	**3,731**	**872.96**	81,658	827.97
Exercised	**–**	**–**	(77,927)	825.81
Outstanding at end of year	**3,731**	**872.96**	3,731	872.96
Exercisable at end of year	**3,731**	**872.96**	3,731	872.96

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is 2.3 years (2020: 3.3 years).

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%. Options may be exercised under the scheme within six months of the completion of each three-year savings contract (from the grant date). There is provision for early exercise in certain circumstances such as death, disability, redundancy, and retirement. Sharesave options are also accounted for as equity-settled awards under IFRS 2.

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

Sharesave Plans	2021 No. of options	2021 Weighted average exercise price (p)	2020 No. of options	2020 Weighted average exercise price (p)
Outstanding at beginning of year	**1,773,317**	**549.95**	1,779,332	539.98
Granted	**316,251**	**1,167.00**	520,369	654.00
Exercised	**(310,203)**	**585.64**	(216,125)	621.76
Forfeited	**(207,475)**	**670.00**	(310,259)	617.27
Outstanding at end of year	**1,571,890**	**651.20**	1,773,317	549.95
Exercisable at end of year	**28,461**	**602.00**	41,878	618.50

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date. The figure of 28,461 options (2020: 41,878 options) excludes the provisions for early exercise explained above.

Options outstanding at 26 June 2021 are exercisable at prices ranging between 479.00p and 1,167.00p (2020: 479.00p and 654.00p) and have a weighted average remaining contractual life of 1.6 years (2020: 2.1 years), as analysed in the table below:

Sharesave Plans	2021 No. of options	2021 Weighted average remaining contractual life (years)	2020 No. of options	2020 Weighted average remaining contractual life (years)
Exercise price (pence):				
479.00	**842,982**	**1.0**	962,146	2.0
602.00	**28,461**	**-**	281,789	1.0
618.50	**-**	**-**	41,878	-
654.00	**418,562**	**2.0**	487,504	3.0
1,167.00	**281,885**	**3.0**	-	-
	1,571,890	**1.6**	1,773,317	2.1

LONG TERM INCENTIVE PLAN (LTIP)

As explained in the Remuneration Report, the Group operates an equity-settled LTIP scheme for executive directors and other senior colleagues. Performance conditions for the LTIP awards are detailed in the Remuneration Report. LTIP options are also accounted for as equity-settled awards under IFRS 2.

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

LTIP Awards	2021 No. of options	2020 No. of options
Outstanding at beginning of year	**1,741,497**	1,451,158
Granted	**424,430**	670,185
Dividend equivalent awarded in the year	**144,686**	-
Exercised	**(95,696)**	-
Forfeited	**(481,386)**	(379,846)
Outstanding at end of year	**1,733,531**	1,741,497
Exercisable at end of year	**5,795**	-

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is 8.2 years (2020: 8.5 years).

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

22 Share-based payments continued

RESTRICTED STOCK AWARD (RSA)

These awards are granted to particular individuals and are dependent on continuing employment. There are no performance conditions attached to these awards. RSA options are also accounted for as equity-settled awards under IFRS 2.

The following table summarises the movements in nil cost RSA options during the year:

Restricted Stock Award	2021 No. of options	2020 No. of options
Outstanding at beginning of year	**34,200**	24,800
Granted	**44,479**	12,200
Dividend equivalent awarded in the year	**4,932**	–
Exercised	**(8,944)**	–
Forfeited	**(6,564)**	(2,800)
Outstanding at end of year	**68,103**	34,200
Exercisable at end of year	**1,456**	–

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is 8.7 years (2020: 8.4 years).

BONUS DEFERRED SHARES AWARD

The Bonus Deferred Shares Award provides options over shares in Dunelm Group plc for colleagues of the Group as a discretionary bonus. This is an equity-settled share option scheme and there are no performance conditions attached to these awards, they are only dependent on continued employment. Under this arrangement, colleagues are awarded a number of options which is based on the cash value of the earned bonus award, determined by their achievement of a mixture of company and individual performance metrics, divided by a share price value of 1,189.00p which was approved at the November 2020 AGM. The deferred shares awarded vest in September 2021 and/or September 2022, depending on colleague level.

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

Bonus Deferred Shares Award	2021 No. of options	2020 No. of options
Outstanding at beginning of year	**–**	–
Granted	**509,927**	–
Dividend equivalent awarded in the year	**9,889**	–
Forfeited	**(25,396)**	–
Outstanding at end of year	**494,420**	–
Exercisable at end of year	**–**	–

The weighted average remaining contractual life of these options is 0.7 years (2020: n/a).

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.

The following tables list the inputs to the model used for options granted in the periods ended 26 June 2021 and 27 June 2020 based on information at the date of grant:

Sharesave Plans	2021	2020
Share price at date of grant	**1,262.00p**	1,156.00p
Exercise price	**1,167.00p**	654.00p
Volatility	**44.11%**	37.71%
Expected life	**3 years**	3 years
Risk-free rate	**(0.10%)**	0.60%
Dividend yield	**2.66%**	4.00%
Fair value per option	**332.40p**	451.20p

LTIP Awards and Restricted Stock Awards	2021	2020
Share price at date of grant	**1,186.00p**	817.00p
Exercise price	**0.00p**	0.00p
Volatility	**43.83%**	35.33%
Expected life	**3 years**	3 years
Risk-free rate	**0.01%**	0.49%
Dividend yield	**2.66%**	4.00%
Fair value per option	**909.00p**	547.50p

Bonus Deferred Shares Award	2021	2020
Share price at date of grant	**1,186.00p**	n/a
Exercise price	**0.00p**	n/a
Volatility	**43.83%**	n/a
Expected life	**15-39 months**	n/a
Risk-free rate	**0.01%**	n/a
Dividend yield	**2.66%**	n/a
Fair value per option	**1,089.30p - 1,148.80p**	n/a

23 Commitments

As at 26 June 2021, the Group had entered into capital contracts amounting to £13.7m (2020: £3.1m). Capital contracts as at 26 June 2021 include commitments for a new furniture warehouse, a new e-commerce warehouse as well as new stores and refits.

24 Contingent liabilities

The Group had no contingent liabilities at the period end date (2020: none).

Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 26 June 2021

25 Related parties

IDENTITY OF RELATED PARTIES

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group. A list of subsidiaries can be found in note 4 to the Parent Company financial statements.

KEY MANAGEMENT PERSONNEL

The key management personnel of the Group comprise members of the Board of Directors and the Executive Board.

Directors of the Company and their close relatives control 43.0% (2020: 51.5%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 138 to 171. The remuneration of the key management personnel is set out below:

	2021 52 weeks £'m	2020 52 weeks £'m
Wages and salaries	**3.0**	2.7
Other benefits	**0.7**	1.1
Post-employment benefits	**0.2**	0.2
Share-based payments	**3.2**	1.3
	7.1	5.3

In FY21 bonus awards to key management personnel were payable in deferred shares. As such, under IFRS 2, this expense was accounted for under share-based payments.

From time to time Directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees and values involved are trivial.

26 Ultimate controlling party

The Directors consider that there is no ultimate controlling party of Dunelm Group plc.

27 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Parent Company Statement of Financial Position

As at 26 June 2021

	Note	26 June 2021 £'m	26 June 2020 £'m
Non-current assets			
Investments in subsidiary undertakings	4	**60.7**	55.2
Deferred tax assets	5	**1.8**	0.6
Total non-current assets		**62.5**	55.8
Current assets			
Trade and other receivables	6	**478.9**	445.6
Total current assets		**478.9**	445.6
Total assets		**541.4**	501.4
Current liabilities			
Trade and other payables	7	**(226.6)**	(196.9)
Total current liabilities		**(226.6)**	(196.9)
Total liabilities		**(226.6)**	(196.9)
Net assets		**314.8**	304.5
Equity			
Issued share capital	11	**2.0**	2.0
Share premium account		**1.6**	1.6
Non-distributable reserves		**15.5**	10.0
Capital redemption reserve		**43.2**	43.2
Retained earnings		**252.5**	247.7
Total equity attributable to equity holders of the Parent		**314.8**	304.5

The Company made a profit after tax of £24.5m (2020: £122.3m).

The financial statements on pages 217 to 224 were approved by the Board of Directors on 8 September 2021 and were signed on its behalf by:

Laura Carr
Director
Company number 04708277
8 September 2021

Parent Company Statement of Cash Flows

For the 52 weeks ended 26 June 2021

There were no cash movements during the period or in the prior period for the Company as any cash transactions were executed by other members of the Group on behalf of the Company. As a result, no Statement of Cash Flows has been presented in these financial statements.

Parent Company Statement of Changes in Equity

For the 52 weeks ended 26 June 2021

	Note	Issued share capital £'m	Share premium account £'m	Non-distributable reserves £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
At 30 June 2019		**2.0**	**1.6**	**8.4**	**43.2**	**228.6**	**283.8**
Profit for the period		–	–	–	–	122.3	122.3
Total comprehensive income for the period		–	–	–	–	122.3	122.3
Proceeds from issue of treasury shares	12	–	–	–	–	2.0	2.0
Share-based payments	13	–	–	1.6	–	0.5	2.1
Deferred tax on share-based payments	5	–	–	–	–	0.3	0.3
Ordinary dividends paid	3	–	–	–	–	(106.0)	(106.0)
Total transactions with owners, recorded directly in equity		–	–	1.6	–	(103.2)	(101.6)
As at 27 June 2020		**2.0**	**1.6**	**10.0**	**43.2**	**247.7**	**304.5**
Profit for the period		–	–	–	–	24.5	24.5
Total comprehensive income for the period		–	–	–	–	24.5	24.5
Proceeds from issue of treasury shares	12	–	–	–	–	1.8	1.8
Share-based payments	13	–	–	5.5	–	2.0	7.5
Deferred tax on share-based payments	5	–	–	–	–	0.8	0.8
Ordinary dividends paid	3	–	–	–	–	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		–	–	5.5	–	(19.7)	(14.2)
As at 26 June 2021		**2.0**	**1.6**	**15.5**	**43.2**	**252.5**	**314.8**

The non-distributable reserves' purpose is to reflect movements in share-based payments in respect of awards given by the Parent Company to employees of its subsidiaries.

Parent Company Accounting Policies

For the 52 weeks ended 26 June 2021

GENERAL INFORMATION

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

BASIS OF PREPARATION

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are presented on pages 217 to 224.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The annual financial statements are prepared under the historical cost convention. The financial statements are prepared in pounds sterling, rounded to the nearest 0.1 million.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Additional considerations relating to the potential downturn in the homewares market and other Covid-19 implications on the going concern assumption are set out in the Group's financial statements on page 190.

SHARE-BASED PAYMENTS

Employees of the Company have been granted options for two equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

When the options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For issued new shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

TAXATION

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax represents the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the Statement of Financial Position date, together with any adjustment to tax payable in respect of previous periods.

Deferred tax provides for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Parent Company Accounting Policies continued

For the 52 weeks ended 26 June 2021

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

DIVIDENDS

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

FINANCIAL ASSETS

Trade and other receivables

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

SHARE CAPITAL

Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

INVESTMENTS

Investments in subsidiary undertakings are stated at the adjusted cost of the investment. IFRS 2 requires the Parent Company to recognise an increase in the cost of its investment in a subsidiary which has issued share options in the Parent Company's shares to its employees.

NEW STANDARDS AND INTERPRETATIONS

No new standards, amendments or interpretations, effective for the first time for the financial period beginning on or after 28 June 2020 have had a material impact on the financial statements of the Group.

Certain new accounting standards and interpretations have been published that are not yet effective and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Use of estimates and judgements

The presentation of the annual financial statements in conformity with IFRS as adopted by the EU requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

No estimates or judgements have had a material impact on the Company.

Notes to the Parent Company Financial Statements

For the 52 weeks ended 26 June 2021

1 Income Statement

The Company made a profit after tax of £24.6m (2020: £122.3m). The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and have not presented an Income Statement for the Company.

Disclosures relating to the fees paid to the Company's auditors are set out in note 3 in the Group's financial statements on page 198.

2 Employee costs

The Company's employees are the three Executive Directors and the Non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 138 to 171. Share-based payments details are given in note 13 on page 224.

3 Dividends and special distributions to shareholders

Disclosures relating to dividends and special distributions to shareholders are set out in note 7 in the Group's financial statements on page 200.

4 Investments in subsidiary undertakings

Shares in subsidiary undertakings:

	2020 £'m
As at 30 June 2019	53.6
Share-based payments	1.6
As at 27 June 2020	55.2
Share-based payments	5.5
As at 26 June 2021	**60.7**

The share-based payment adjustment to investments reflects share option awards given by the Parent Company to employees of its subsidiaries.

The following were subsidiaries as at 26 June 2021 and 27 June 2020:

Subsidiary	Proportion of ordinary shares held	Nature of business
Dunelm Limited	100%	Holding company
Dunelm (Soft Furnishings) Limited[1]	100%	Retailer of homewares
Dunelm Estates Limited[1]	100%	Non-trading company
Zoncolan Limited[1]	100%	Non-trading company
Fogarty Holdings Limited[1]	100%	Intellectual property holding company
Globe Online Limited[1]	100%	Dormant company
Achica Brand Management Limited (Registered in Cyprus)[1]	100%	Intellectual property holding company

1. Share capital held by subsidiary undertaking.

Notes to the Parent Company Financial Statements continued

For the 52 weeks ended 26 June 2021

4 Investments in subsidiary undertakings continued

Dunelm Group plc, the Parent Company, and its subsidiaries (excluding Achica Brand Management Limited) are incorporated and domiciled in the UK. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD.

Achica Brand Management Limited was incorporated in Cyprus on 27 June 2011 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at 28 Oktovriou, 261, View Point Tower, 3035, Limassol, Cyprus.

5 Deferred tax assets

	Assets	
	2021 £'m	2020 £'m
Employee benefits	**1.8**	0.6

The movement in deferred tax assets is as follows:

	Balance at 30 June 2019 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 27 June 2020 £'m
Employee benefits	0.2	0.1	0.3	0.6

	Balance at 28 June 2020 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 26 June 2021 £'m
Employee benefits	**0.6**	**0.4**	**0.8**	**1.8**

6 Trade and other receivables

	2021 £'m	2020 £'m
Amounts owed by Group undertakings	**478.9**	445.6

Amounts owed by subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%.

These amounts pose no liquidity or credit risk as they are owed by other Group undertakings and are expected to be settled by Group transactions.

7 Trade and other payables

	2021 £'m	2020 £'m
Amounts owed to Group undertakings	**225.5**	196.5
Other taxation and social security	**1.1**	0.4
	226.6	196.9

Amounts owed to subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%.

8 Taxation

	2021 52 weeks £'m	2020 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	-	–
	-	–
Deferred taxation		
Origination of temporary differences	**(0.4)**	(0.1)
Total tax credit	**(0.4)**	(0.1)

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2021 52 weeks £'m	2020 52 weeks £'m
Profit before taxation	**24.5**	122.3
UK corporation tax at standard rate of 19.0% (2020: 19.0%)	**4.7**	23.2
Factors affecting the charge in the period:		
Income not subject to tax	**(4.7)**	(23.0)
Group relief	**(0.4)**	(0.3)
Tax credit	**(0.4)**	(0.1)

During the year 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 26 June 2021 has been calculated based on the rate of 25.0% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19.0% has been used.

9 Interest bearing loans and borrowings

The Company's only interest bearing borrowings relate to intercompany loans which have interest charges of 2.0% and are not affected by changes in Libor rates.

10 Financial risk management

CAPITAL MANAGEMENT

The Board's objective with respect to capital management is to ensure the Company continues as a going concern in order to optimise returns to shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

11 Issued share capital

Disclosures relating to issued share capital are set out in note 20 in the Group's financial statements on page 211.

Notes to the Parent Company Financial Statements continued

For the 52 weeks ended 26 June 2021

12 Treasury shares

Disclosures relating to treasury shares are set out in note 21 in the Group's financial statements on page 212.

13 Share-based payments

The Company operates the following share-based payment schemes for the CEO and CFO:

A. LONG TERM INCENTIVE PLAN (LTIP)

As explained in the Remuneration Report, the Company operates an equity-settled LTIP scheme. Performance conditions for the LTIP awards are detailed in the Remuneration Report. LTIP options are also accounted for as equity-settled awards under IFRS 2.

B. BONUS DEFERRED SHARES AWARD

The Bonus Deferred Shares Award provides options over shares in Dunelm Group plc for participants as a discretionary bonus. This is an equity-settled share option scheme and there are no performance conditions attached to these awards, they are only dependent on continued employment. Under this arrangement, participants are awarded a number of options which is based on the cash value of the earned bonus award – determined by their achievement of a mixture of company and individual performance metrics – divided by a share price value of 1,189.00p which was approved at the November 2020 AGM. The deferred shares awarded vest in September 2021 and September 2022.

14 Contingent liabilities

The Company had no contingent liabilities at the period end date (2020: none).

15 Related parties

Transactions between the Company and its subsidiaries were as follows:

	2021 52 weeks £'m	2020 52 weeks £'m
Dividends received	**24.3**	121.2
Net interest receivable	**5.0**	4.0
	29.3	125.2

	2021 £'m	2020 £'m
Amounts owed by Group undertakings	**478.9**	445.6
Amounts due to Group undertakings	**(225.5)**	(196.5)
	253.4	249.1

KEY MANAGEMENT PERSONNEL

All employees of the Company are key management personnel.

Directors of the Company and their close relatives control 43.0% (2020: 51.5%) of the voting shares of the Company.

Disclosures relating to the remuneration of Directors are set out in the Remuneration Report on pages 138 to 171.

16 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Advisers and Contacts

Corporate Brokers	**Barclays Bank plc** 5 The North Colonnade London E14 4BB Tel: 020 7623 2323
Financial Advisers	**Peel Hunt LLP** 100 Liverpool Street London EC2M 2AT Tel: 020 7418 8900 **UBS Investment Bank** 5 Broadgate London EC2M 2QS Tel: 020 7567 8000
Legal Advisers	**Allen & Overy LLP** One Bishops Square London E1 6AD Tel: 020 3088 0000
Independent Auditor	**PricewaterhouseCoopers LLP** One Chamberlain Square Birmingham B3 3AX Tel: 0121 265 5000
Principal Bankers	**Barclays Bank plc** Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2WN Tel: 0345 755 5555
Registrars	**Equiniti** Aspect House Spencer Road, Lancing West Sussex BN99 6DA Tel: 0371 384 2030[1]
Financial Public Relations	**MHP Communications** 60 Great Portland Street London W1W 7RT Tel: 020 3128 8100
Registered Office	**Support Centre** Watermead Business Park Syston Leicestershire LE7 1AD Company Registration No: 4708277
Investor Relations	**corporate.dunelm.com** Tel: 0116 264 4400 Email: investorrelations@dunelm.com

1. If dialling internationally, call +44 121 415 7047. The helpline is open Monday to Friday, 8.30 am to 5.30 pm, excluding bank holidays.

Store Listing

Superstores
London
Barnet
Beckton
Catford
Colliers Wood
Croydon
Dartford
Enfield
Greenford
Harrow
Romford
Staples Corner

Superstores
Aberdeen
Altrincham
Ashford
Aylesbury
Ballymena
Banbury
Bangor
Barnsley
Barnstaple
Barrow-in-Furness
Basingstoke
Bedford
Belfast
Birmingham Erdington
Birmingham Highgate Middleway
Blackburn
Blackpool
Bolton
Boston
Bournemouth
Bradford
Bridgend
Bristol Brislington
Bristol Cribbs
Broadstairs
Bromborough
Burton
Bury St Edmunds
Cambridge
Cannock
Canterbury
Cardiff
Carlisle
Carmarthen
Chelmsford
Cheltenham
Chester
Chesterfield
Chichester
Colchester
Coleraine
Coventry
Cramlington
Crewe
Darlington
Derby
Doncaster
Dumfries
Dundee
Dunstable
Durham
Eastbourne
Edinburgh Straiton
Exeter
Falkirk
Fareham
Farnborough
Glasgow Clydebank
Glasgow Paisley
Glasgow Uddingston
Gateshead
Gloucester
Grantham
Grimsby
Halifax
Harlow
Hartlepool
Hastings
Hemel Hempstead
Hereford
High Wycombe
Horsham
Huddersfield
Hull
Huntingdon
Ilkeston
Inverness
Ipswich
Jersey
Keighley
Kettering
Kidderminster
Kilmarnock
Kirkcaldy
Lancaster
Leeds
Leicester Thurmaston
Lincoln
Liverpool Garston
Liverpool Sefton
Livingstone
Llanelli
Londonderry
Loughborough
Lowestoft
Maidstone
Manchester Ashton-Under-Lyne
Manchester Radcliffe
Manchester Trafford
Mansfield
Milton Keynes
Newbury
Newcastle Under Lyme
Newport
Newport Isle of Wight
Newtownabbey
North Shields
Northampton
Norwich
Nottingham
Nuneaton
Oldbury
Oxford
Perth
Peterborough
Plymouth
Pontypridd
Preston
Reading
Redditch
Rochdale
Rotherham
Rugby
Rustington
Salisbury
Scarborough
Scunthorpe
Sheffield Kilner Way
Sheffield Woodseats
Shoreham
Shrewsbury Sundorne
Sittingbourne
Slough
Solihull
Southampton
Southport
St Albans
St Helens
Stafford
Stevenage
Stockport
Stockton-on-Tees
Stoke-on-Trent Fenton
Sunderland
Swansea
Swindon
Taunton
Telford
Thurrock
Torquay
Truro
Wakefield
Walsall
Warrington
Wellingborough
Weston-Super-Mare
Wisbech
Wolverhampton
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Yeovil
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