Independent auditors' report

to the members of Dunelm Group plc

Report on the audit of the financial statements

OPINION

In our opinion, Dunelm Group plc's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 2 July 2022 and of the group's profit and the group's and parent company's cash flows for the 53 week period then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated statement of financial position and parent company statement of financial position as at 2 July 2022; the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity, parent company statement of cash flows and parent company statement of changes in equity for the period then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 3, we have provided no non-audit services to the parent company or its controlled undertakings in the period under audit.

OUR AUDIT APPROACH

Overview

Audit scope

- The group is structured with one segment which comprises a consolidation of the parent company and eight additional components.
- For the purposes of the group financial statements, we conducted an audit of the complete financial information of one financially significant component, together with additional procedures performed centrally including the group consolidation.
- We separately audited the parent company financial statements.

Key audit matters

- Inventory provisions (group)
- Recoverability of investments in subsidiary undertakings (parent)

Materiality

- Overall group materiality: £10,640,000 (2021: £7,800,000) based on 5% of profit before tax.
- Overall parent company materiality: £1,600,000 (2021: £5,400,000) based on 1% of total assets.
- Performance materiality: £8,000,000 (2021: £5,850,000) (group) and £1,200,000 (2021: £4,050,000) (parent company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Carrying value of investments in the parent company is a new key audit matter this year. Covid-19 pandemic impact, which was a key audit matter last year, is no longer included because of the reduced level of uncertainty in respect of the impact of Covid-19 on the Group and Company. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Inventory provisions (group) Refer to the Audit and Risk Committee Report, the Accounting Policies, note 3 (Operating Profit) and note 13 (Inventories) to the Consolidated Financial Statements. Inventory represents a significant asset on the Group's balance sheet and is carried at the lower of cost and net realisable value ("NRV"). The Group's accounting policy is to determine a provision based upon: the historic negative margin of the type of inventory, by ageing category, which is calculated by analysing the historic sales price compared to the cost of inventory, and applying a percentage provision to each line of inventory; and a further provision for 'at risk' lines where the calculated provision was not considered to be sufficient.	We tested sales made post period-end to ensure that inventory items were held at the lower of cost and NRV. We examined inventory write-offs in the financial period to ensure they are consistent with the key assumptions used in the inventory provision model at the year end. We tested the inputs to the provision calculation, including the classification of inventory and sales data for each of the ageing categories from the Buying department, which is segregated from the Finance department, and found them to be consistent. We tested the average cost of inventory by agreeing a sample of inputs to source documentation and testing freight and duty costs. We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately. We challenged management's assumptions on what they deemed the 'at risk' inventory lines were, and corroborated whether these lines were at risk with the Merchandising team. We also independently challenged the completeness of the 'at risk' lines based on our understanding of the nature of the group's inventory lines. We found that the NRV provision against inventory was consistent with the evidence obtained.
Recoverability of investments in subsidiary undertakings (parent) Refer to note 4 (Investments) to the Parent Company Financial Statements. In accordance with IAS 36 (Impairment of assets), the Parent Company's investments balance of £64.8m (FY21: £60.7m) should be carried at no more than its recoverable amount, being the higher of fair value less costs to sell and its value in use. IAS 36 requires an entity to determine whether there are indications that an impairment loss may have occurred and if so, make a formal estimate of the recoverable amount.	We evaluated whether any indications that an impairment loss may have occurred in relation to the Parent Company's investments balance with specific consideration given to the following: • the market capitalisation of the Group is significantly in excess of the investments balance, noting that substantially all of the market capitalisation is considered to be in relation to one indirect subsidiary (Dunelm (Soft Furnishings) Ltd) of the Parent Company; • the trading results of Dunelm (Soft Furnishings) Ltd are not worse than expected and are not expected to be worse in future periods; and • there have not been and are not expected to be any significant changes with an adverse impact in relation to the technological, market, economic or legal environment in which this indirect subsidiary operates. We consider management's conclusion that there are no indicators of impairment to be appropriate.

Independent auditors' report continued

to the members of Dunelm Group plc

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The group is structured with one reporting segment which comprises a consolidation of the parent company and eight additional components.

In establishing the overall approach to the group audit, we identified one component: Dunelm (Soft Furnishings) Ltd, which, as the sole trading legal entity in the Group, required an audit of its complete financial information due to its financial significance to the group.

Further specific audit procedures over central functions including the Group consolidation, equity, taxes and the business combination were performed.

With regards to assessing potential risks arising from climate change we enquired of management as to their risk assessment, obtained their papers and also assessed commitments made by Dunelm Group plc in the Annual Report and Accounts and their website. We also considered the industry in which Dunelm Group plc operates and assessed the nature and magnitude of assets held at the period-end date which could be subject to either transition or physical climate risks. Based on management's assessment noted on page 185 we did not identify any audit risks which were expected to be significantly impacted by the effects of climate change, principally due to the fact that the majority of the Group's asset base is expected to be realised in the short to medium term.

All audit procedures were performed by the Group Engagement Team. The scoping above gave us the evidence we needed for our opinion on the group financial statements as a whole.

The Parent Company is comprised of one component which was subject to a full scope audit for the purposes of the Parent Company financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£10,640,000 (2021: £7,800,000).	£1,600,000 (2021: £5,400,000).
How we determined it	5% of profit before tax	1% of total assets
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing benchmark, as we believe this is the key measure used by the shareholders in evaluating the performance of the group.	We have applied this benchmark, a generally accepted auditing benchmark, as we believe this is the key measure used by the shareholders in evaluating the performance of the parent company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £8,000,000 (2021: £5,850,000) for the group financial statements and £1,200,000 (2021: £4,050,000) for the parent company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £530,000 (group audit) (2021: £390,000) and £80,000 (parent company audit) (2021: £270,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's going concern assessment and ensured that this was consistent with board approved budgets;
- We have evaluated management's forecasting accuracy based on historical budgets versus actual performance;
- We obtained confirmation from lenders of the level of drawn and undrawn revolving credit facilities and tested the actual and forecast covenant compliance associated with these facilities; and
- We assessed the adequacy of the going concern disclosures in the accounting policies.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 2 July 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on Other Information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Strategic report and Corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;

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to the members of Dunelm Group plc

- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and parent company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the parent company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and parent company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journals with unexpected account combinations, which manipulate revenue or profits, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the Company Secretary, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group's whistleblowing log;
- Searches for news articles which would highlight potential non-compliance with laws and regulations;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations which manipulate revenue or profits; and
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to inventory provisions (see related key audit matter).

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Remuneration Committee report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 14 January 2014 to audit the financial statements for the year ended 28 June 2014 and subsequent financial periods. The period of total uninterrupted engagement is nine years, covering the years ended 28 June 2014 to 2 July 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

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

14th September 2022

Consolidated Income Statement

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Revenue		**1,581.4**	1,336.2
Cost of sales		**(772.0)**	(647.3)
Gross profit		**809.4**	688.9
Operating costs	2	**(591.7)**	(522.5)
Operating profit	3	**217.7**	166.4
Financial income	5	**1.2**	0.1
Financial expenses	5	**(6.1)**	(8.7)
Profit before taxation		**212.8**	157.8
Taxation	6	**(41.6)**	(28.9)
Profit for the period		**171.2**	128.9
Earnings per Ordinary Share – basic	8	**84.5p**	63.7p
Earnings per Ordinary Share – diluted	8	**83.6p**	62.9p

Consolidated Statement of Comprehensive Income

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Profit for the period		**171.2**	128.9
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	17	**32.4**	(17.7)
Deferred tax on hedging movements	12	**(5.3)**	2.2
Other comprehensive income for the period, net of tax		**27.1**	(15.5)
Total comprehensive income for the period		**198.3**	113.4

Consolidated Statement of Financial Position

As at 2 July 2022

	Note	2 July 2022 £'m	26 June 2021 £'m
Non-current assets			
Intangible assets	9	**9.9**	14.8
Property, plant and equipment	10	**173.7**	162.6
Right-of-use assets	11	**248.5**	262.0
Deferred tax assets	12	**4.1**	11.4
Derivative financial instruments		**4.6**	0.3
Total non-current assets		**440.8**	451.1
Current assets			
Inventories	13	**223.0**	172.4
Trade and other receivables	14	**22.9**	11.8
Current tax asset		**1.1**	2.4
Derivative financial instruments		**19.9**	0.4
Cash and cash equivalents	15	**30.2**	128.6
Total current assets		**297.1**	315.6
Total assets		**737.9**	766.7
Current liabilities			
Trade and other payables	16	**(223.2)**	(181.8)
Lease liabilities	11	**(52.8)**	(49.0)
Derivative financial instruments		**–**	(5.1)
Total current liabilities		**(276.0)**	(235.9)
Non-current liabilities			
Bank loans	18	**(52.8)**	–
Lease liabilities	11	**(225.3)**	(244.3)
Provisions	19	**(5.5)**	(4.5)
Derivative financial instruments		**–**	(0.8)
Total non-current liabilities		**(283.6)**	(249.6)
Total liabilities		**(559.6)**	(485.5)
Net assets		**178.3**	281.2
Equity			
Issued share capital	20	**2.0**	2.0
Share premium account		**1.7**	1.6
Capital redemption reserve		**43.2**	43.2
Hedging reserve		**20.2**	(4.3)
Retained earnings		**111.2**	238.7
Total equity attributable to equity holders of the Parent		**178.3**	281.2

The financial statements on pages 176 to 207 were approved by the Board of Directors on 14 September 2022 and were signed on its behalf by:

Karen Witts
Chief Financial Officer

14 September 2022

Consolidated Statement of Cash Flows

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Cash flows from operating activities			
Profit before taxation		**212.8**	157.8
Net financial expense	5	**4.9**	8.6
Operating profit		**217.7**	166.4
Depreciation and amortisation of property, plant and equipment and intangible assets	3	**30.5**	31.8
Depreciation of right-of-use assets	3	**48.6**	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets	3	**0.3**	2.3
(Gain)/loss on disposal and impairment of right-of-use assets	3	**(0.1)**	1.0
Share-based payments expense		**4.8**	7.5
Operating cash flows before movements in working capital		**301.8**	254.7
Increase in inventories		**(40.3)**	(54.2)
Decrease/(increase) in trade and other receivables		**(7.7)**	4.1
Increase in trade and other payables		**33.2**	15.1
Net movement in working capital		**(14.8)**	(35.0)
Tax paid		**(35.2)**	(35.5)
Net cash generated from operating activities		**251.8**	184.2
Cash flows from investing activities			
Acquisition of intangible assets		**(0.7)**	(0.6)
Acquisition of property, plant and equipment		**(23.3)**	(15.1)
Acquisition of Business combination	27	**(17.7)**	–
Interest received		**0.1**	0.1
Net cash used in investing activities		**(41.6)**	(15.6)
Cash flows from financing activities			
Proceeds from issue of treasury shares and ordinary shares	21	**3.9**	1.8
Purchase of treasury shares	21	**(28.3)**	–
Drawdowns on Revolving Credit Facility		**85.0**	–
Repayments of Revolving Credit Facility		**(31.0)**	(45.0)
Interest paid and loan transaction costs		**(2.2)**	(0.8)
Interest paid on lease liabilities	11	**(4.8)**	(5.3)
Repayment of principal element of lease liabilities		**(50.2)**	(54.0)
Ordinary dividends paid	7	**(282.1)**	(24.3)
Net cash used in financing activities		**(309.7)**	(127.6)
Net (decrease)/increase in cash and cash equivalents		**(99.5)**	41.0
Foreign exchange revaluations	5	**1.1**	(2.4)
Cash and cash equivalents at the beginning of the period	15	**128.6**	90.0
Cash and cash equivalents at the end of the period	15	**30.2**	128.6

Consolidated Statement of Changes in Equity

For the 53 weeks ended 2 July 2022

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
As at 28 June 2020		**2.0**	**1.6**	**43.2**	**5.3**	**121.3**	**173.4**
Profit for the period		–	–	–	–	128.9	128.9
Movement in fair value of cash flow hedges	17	–	–	–	(17.7)	–	(17.7)
Deferred tax on hedging movements	12	–	–	–	2.2	–	2.2
Total comprehensive income for the period		–	–	–	(15.5)	128.9	113.4
Proceeds from issue of treasury shares	21	–	–	–	–	1.8	1.8
Share-based payments		–	–	–	–	7.5	7.5
Deferred tax on share-based payments	12	–	–	–	–	2.9	2.9
Current tax on share options exercised		–	–	–	–	0.6	0.6
Movement on cash flow hedges transferred to inventory	17	–	–	–	5.9	–	5.9
Ordinary dividends paid	7	–	–	–	–	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		–	–	–	5.9	(11.5)	(5.6)
As at 26 June 2021		**2.0**	**1.6**	**43.2**	**(4.3)**	**238.7**	**281.2**
Profit for the period		–	–	–	–	171.2	171.2
Movement in fair value of cash flow hedges	17	–	–	–	32.4	–	32.4
Deferred tax on hedging movements	12	–	–	–	(5.3)	–	(5.3)
Total comprehensive income for the period		–	–	–	27.1	171.2	198.3
Proceeds from issue of shares	20	–	0.1	–	–	–	0.1
Proceeds from issue of treasury shares	21	–	–	–	–	3.9	3.9
Purchase of treasury shares	21	–	–	–	–	(28.3)	(28.3)
Share-based payments		–	–	–	–	4.8	4.8
Deferred tax on share-based payments	12	–	–	–	–	0.8	0.8
Current tax on share options exercised		–	–	–	–	2.2	2.2
Movement on cash flow hedges transferred to inventory	17	–	–	–	(2.6)	–	(2.6)
Ordinary dividends paid	7	–	–	–	–	(282.1)	(282.1)
Total transactions with owners, recorded directly in equity		–	0.1	–	(2.6)	(298.7)	(301.2)
As at 2 July 2022		**2.0**	**1.7**	**43.2**	**20.2**	**111.2**	**178.3**

Accounting Policies

For the 53 weeks ended 2 July 2022

GENERAL INFORMATION

The Group financial statements consolidate those of Dunelm Group plc ('the Company') and its subsidiaries (together referred to as 'the Group'). The Company financial statements on pages 176 to 207 present information about the Company as a separate entity and not about its Group.

Dunelm Group plc and its subsidiaries are incorporated and domiciled in the UK. Dunelm Group plc is a listed public company, limited by shares and the Company registration number is 04708277. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD.

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

BASIS OF PREPARATION

The financial statements presented cover a 53 week trading period for the financial period ended 2 July 2022 (2021: 52 week period ended 26 June 2021).

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Dunelm Group plc transitioned to UK-adopted International Accounting Standards in its Company financial statements on 27 June 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Dunelm Group plc have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. These financial statements are presented on pages 176 to 207.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The annual financial statements are prepared under the historical cost convention except for financial assets and financial liabilities (including derivative financial instruments and share-based payments), which have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest 0.1 million.

GOING CONCERN

At the time of approving the financial statements, the Board of Directors is required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'Going Concern' basis of accounting. To support this assessment, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks.

The key judgement that the Directors have considered in forming their conclusion is the potential impact on future revenue, profits and cashflows of a downturn in consumer spending away from homewares due to the current economic environment, resulting in no growth in Year 1 and lower sales and margin across all channels throughout the review period. They have also considered a deeper downturn in consumer spending away from homewares, resulting in negative growth in Year 1 and lower sales and margin across all channels throughout the review period.

In both downside scenarios Dunelm has sufficient liquidity to continue trading, including maintaining the payment of dividends in line with its dividend policy, and to comfortably meet its financial covenants. Reverse stress modelling has demonstrated that a prolonged sales reduction of 30% from Q2 FY23 and 37% from FY24 is required to breach covenants by the end of FY24 and a 55% sales reduction is required to breach the RCF limit by the end of FY24, assuming reasonable mitigating actions have been implemented.

In such an event, management would follow a similar course of actions to those initially undertaken during the recent Covid-19 pandemic.

As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements. In addition, based on a review of the impact of climate change, climate change is not expected to have a significant impact in the Group's going concern assessment.

Further detail in respect of the Directors' going concern assessment are included in the going concern statement on pages 80 to 81.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 2 to 81. In addition, note 17 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

USE OF ESTIMATES AND JUDGEMENTS

Based in the IAS 1 definitions, there are no significant estimates or critical judgements used in the Financial Statements. The inventory provision is not considered a significant estimate as there is not a significant risk of a material adjustment to the level of the provision in the next 12 months. Management do, however, consider the inventory provision to be a key estimate as it is based on assumptions relating to a highly material balance (gross inventory) and is subject to uncertainty. It is therefore disclosed as an other estimate in line with IAS 1.

Inventory provisions

The Group provides against the carrying value of the inventories held where it is anticipated that net realisable value (NRV) will be below cost. NRV is based on estimated selling price with future price reductions assumed to be in line with historic margin analysis on a line-by-line basis, and applied to the inventory population as deemed appropriate given the expected sell through period and discontinuation status. A 100 basis points change in the provision rate of each stock discontinuation category would lead to a change in the provision of £2.0m (2021: £1.7m). Consideration is also given to whether any stock categories require additional provision due to specific circumstances in place at the period end date.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Consistent accounting policies have been adopted across the Group.

REVENUE

Revenue is generated from the sale of homewares and related goods and services through the Group's stores and website, excluding sales between Group companies, and is after deducting returns, relevant discounts and VAT. Revenue is recognised when the Group has satisfied its performance obligations to its customers and the customer has obtained control of the goods and services being transferred.

In general, these conditions for store sales are met at the point of sale. The exceptions to this are custom-made products and Click & Collect sales, where revenue is recognised at the point that the goods are collected, and gift vouchers, where revenue is recognised when the vouchers are redeemed aside from the element management do not expect to be redeemed based on historical data which is recognised at the point of sale. Revenue on home delivery sales is recognised at the point of delivery. Revenue is settled in cash at the point of sale for all revenue channels.

The Group has two types of products; stocked products and products which are sent directly from suppliers to customers. Management has established that the Group acts as a principal for both types of products and thus should recognise revenue as the gross amount of consideration to which it expects to be entitled.

The Group holds a sales return provision in the Consolidated Statement of Financial Position to provide for expected levels of returns on sales made before the period end but returned after the period end. The Group recognises the expected value of revenue relating to returns within sales provisions and the expected value of cost of sales relating to the returned items is included within inventories.

For the purposes of the financial statements, management has concluded that since customers access the Group's products across multiple channels and their journey often involves more than one channel, disaggregation of revenue would not be appropriate.

EXPENSES

Financial income and expenses

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and related foreign exchange gains and losses.

Retirement benefits

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

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance condition (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Consolidated Income Statement, with a corresponding adjustment to equity.

Accounting Policies continued

For the 53 weeks ended 2 July 2022

When options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For newly issued shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and the share premium account.

Social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the Consolidated Statement of Financial Position date. Resulting exchange gains or losses are recognised in the Consolidated Income Statement for the period in financial income and expenses, except when deferred as qualifying cash flow hedges.

TAXATION

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax represents the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the Consolidated Statement of Financial Position date, together with any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the Consolidated Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

DIVIDENDS

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

INTANGIBLE ASSETS

Intangible assets comprise of software development, licences, rights to brands and customer lists, and are stated at cost less accumulated amortisation and impairment. Costs incurred in developing the Group's own brands are expensed as incurred.

Separately acquired brands and customer lists are shown at historical cost. Software, brands and customer lists acquired in a business combination are recognised at fair value at the acquisition date. These assets are deemed to have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful life.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

Amortisation

Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful life of the asset. These are as follows:

Software development and licences	3 to 5 years
Rights to brands and customer lists	5 to 15 years

PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, to write down the cost to its estimated residual value. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years
Leasehold improvements	over the remaining period of the lease, or useful life if shorter
Fixtures, fittings, and equipment	3 to 5 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

LEASES

Lease recognition

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to, and reviewed regularly for, impairment. Depreciation of right-of-use assets is included in operating costs in the Consolidated Income Statement.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the fixed lease payments.

Interest charges are included in finance costs in the Consolidated Income Statement.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery and equipment that have a lease term of less than 12 months and leases of low-value assets (defined as assets with a value, when new, of £5,000 or less). Lease payments relating to short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Subsequent measurement

The lease liability and right-of-use asset is subsequently remeasured to reflect changes in:

- The lease term (using a revised discount rate);
- The assessment of a purchase option (using a revised discount rate); and
- Future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

The payments related to leases are presented under cash flow from financing activities in the Consolidated Cash Flow Statement.

FINANCIAL INSTRUMENTS

Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the Consolidated Income Statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the Consolidated Income Statement and presented in other gains/(losses) together with foreign exchange gains and losses.

Accounting Policies continued

For the 53 weeks ended 2 July 2022

- **FVPL:** All other financial assets that do not meet the criteria for amortised cost are measured at FVPL, unless the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the Consolidated Income Statement in the period in which it arises.

Impairment of financial assets

The Group uses a forward-looking approach to assess the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Derivatives

Derivative financial instruments used are forward foreign exchange contracts. These are measured at fair value. The fair values are determined by reference to the market prices available from the market on which the instruments are traded.

Certain derivative financial instruments are designated as hedges in line with the Group's treasury policy. These are instruments that hedge exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecasted transaction.

Any gains or losses arising from changes in fair value derivative financial instruments not designated as hedges are recognised in the Consolidated Income Statement.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement, within operating costs.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options and time value of options are recognised in the cash flow hedge reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group designates the full change in fair value of the forward contract (including forward points) as the hedging instrument. The gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in the Consolidated Income Statement as the hedged item affects profit or loss (for example, through cost of sales).

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain/loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain/loss and deferred costs of hedging that were reported in equity are immediately reclassified to the Consolidated Income Statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

TRADE AND OTHER RECEIVABLES

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

INVENTORIES

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

GOVERNMENT GRANTS

The Group applies IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' when accounting for government grants. A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants are recognised in the Consolidated Income Statement over the same period as the related costs for which the grants are intended to compensate. The Group has chosen to present receipt and repayment of government grants against the related expense.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances including credit card receipts and deposits. All cash equivalents have an original maturity of three months or less.

TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

BANK BORROWINGS AND BORROWING COSTS

Interest-bearing bank loans are initially recorded at their fair value and subsequently held at amortised cost. Transaction costs incurred are amortised over the term of the loan.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the Consolidated Statement of Financial Position date.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's assets are reviewed annually at each Consolidated Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for assets grouped at the lowest levels for which there are largely independent cash flows, i.e. the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount. A cash-generating unit has been defined as an individual store or the online business. If an impairment loss is identified for a cash-generating unit, the loss shall be allocated to reduce the carrying amount of the assets of the unit pro-rated on the basis of the carrying amount of each asset in the unit for both property, plant and equipment and right-of-use assets. Impairment losses are recognised in the Consolidated Income Statement.

SHARE CAPITAL

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

PROVISIONS

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a current legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably measured.

A provision for onerous contracts is recognised when the expected benefit to be derived by the Group from a contract is lower than the unavoidable costs of meeting its obligations under the contract.

A dilapidations provision is recognised when there is an expectation of future obligations relating to the maintenance of leasehold properties arising from events such as lease renewals or terminations.

CLIMATE CHANGE

In preparing the financial statements we have considered the potential impact of climate change. Given that the identified risks of climate change are expected to be present in the medium to long term our focus has been on the non-current assets within the Statement of Financial Position. Specifically, for the material non-current assets, we note the following:

- The plant, property and equipment, and the right-of-use assets have relatively short useful lives (the average remaining lease term of our leasehold land and buildings is 5.2 years). The longer life assets relate to freehold stores and our head office, none of which are located in areas identified as being at significant risk to climate change
- The intangible assets, which consist of a brand, internally generated and other software, have a useful life of 3 to 5 years and therefore we would not expect the identified risks to impact these assets.

The other non-current assets were also reviewed, and no risk was identified. Current assets, by their nature, are expected to be fully utilised within the business in the short term and no climate risk has been identified in this time horizon. Consequently, there has been no material impact on the financial reporting judgements and estimates applied in the preparation of the FY22 Annual Report and Accounts. Please see page 76 of the Annual Report and Accounts for further detail on our climate change risk assessment.

NEW STANDARDS AND INTERPRETATIONS

No new standards, amendments or interpretations, effective for the first time for the financial period beginning on or after 27 June 2021 have had a material impact on the financial statements of the Group.

Notes to the Consolidated Financial Statements

For the 53 weeks ended 2 July 2022

1. Revenue

The Group has one reportable segment, in accordance with IFRS 8 'Operating Segments', which is the retail of homewares in the UK.

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

The Chief Operating Decision-maker is the Executive Board of Directors of Dunelm Group plc. The Executive Board reviews internal management reports on a monthly basis and performance is assessed based on a number of financial and non-financial KPIs as well as on profit before taxation. The list of our financial and non-financial KPIs can be found on page 24 to 25.

Management believes that these measures are the most relevant in evaluating the performance of the Group and for making resource allocation decisions.

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

At the year end the company had £12.2m (2021: £11.8m) of sales orders placed that will be recognised in the Consolidated Income Statement when the goods are despatched in the following financial year.

2. Operating costs

	2022 53 weeks £'m	2021 52 weeks £'m
Selling and distribution costs	**469.4**	423.9
Administrative expenses	**122.3**	98.6
	591.7	522.5

3. Operating profit

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

	2022 53 weeks £'m	2021 52 weeks £'m
Cost of inventories included in cost of sales	**765.3**	638.5
Amortisation of intangible assets	**6.2**	7.3
Depreciation of owned property, plant and equipment	**24.3**	24.5
Depreciation of right-of-use assets	**48.6**	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets	**0.3**	2.3
(Gains)/losses on disposal and impairment of right-of-use assets	**(0.1)**	1.0
Expense related to short-term leases	**0.6**	1.8

The cost of inventories included in cost of sales includes the impact of a net increase in the provision for obsolete inventory of £4.2m (2021: £5.3m increase) of which £2.6m relates to Sunflex.

The analysis of the auditors' remuneration is as follows:

	2022 53 weeks £'000	2021 52 weeks £'000
Fees payable to the Group's auditors for the audit of the Parent and consolidated annual financial statements	**46**	29
Fees payable to the Group's auditors and their associates for other services to the Group		
• Audit of the Company's subsidiaries pursuant to legislation	**256**	225
• Other assurance services (See Audit and Risk Committee Report on page 120 for further information)	**42**	40

4. Employee numbers and costs

The average monthly number of people employed by the Group (including Directors) was:

	2022 53 weeks Number of heads	2022 53 weeks Full time equivalents	2021 52 weeks Number of heads	2021 52 weeks Full time equivalents
Selling	**9,544**	**5,437**	9,039	5,390
Distribution	**963**	**930**	829	812
Administration	**925**	**906**	704	695
	11,432	**7,273**	10,572	6,897

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

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries (including termination benefits)	**211.1**	190.8
Social security costs	**14.3**	13.0
Share-based payment expense	**4.9**	7.5
Pension costs – defined contribution plans	**5.2**	4.5
	235.5	215.8

In the prior year, payroll costs included £14.5m relating to the Board's decision to repay claims made in 2020 under the UK Government's Coronavirus Job Retention Scheme.

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 130 to 162 and in the Related Parties note 25 on page 206.

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

5. Financial income and expenses

	2022 53 weeks £'m	2021 52 weeks £'m
Financial income		
Interest on bank deposits	**0.1**	0.1
Net foreign exchange gains	**1.1**	–
	1.2	0.1
Financial expenses		
Interest on bank borrowings	**(0.9)**	(0.8)
Amortisation of issue costs of bank loans	**(0.4)**	(0.2)
Net foreign exchange losses	**–**	(2.4)
Interest on lease liabilities	**(4.8)**	(5.3)
	(6.1)	(8.7)
Net financial expense	**(4.9)**	(8.6)

6. Taxation

	2022 53 weeks £'m	2021 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**39.0**	32.7
Adjustments in respect of prior periods	**(0.2)**	(1.7)
	38.8	31.0
Deferred taxation		
Origination of temporary differences	**3.0**	(1.3)
Adjustments in respect of prior periods	**(0.2)**	–
Impact of change in tax rate	**–**	(0.8)
	2.8	(2.1)
Total tax expense	**41.6**	28.9

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Profit before taxation	**212.8**	157.8
UK corporation tax at standard rate of 19.0% (2021: 19.0%)	**40.4**	30.0
Factors affecting the charge in the period:		
Non-deductible expenses	**1.6**	1.4
Adjustments in respect of prior periods	**(0.4)**	(1.7)
Impact of change in tax rate	**–**	(0.8)
Tax charge	**41.6**	28.9

The taxation charge for the period as a percentage of profit before tax is 19.5% (2021: 18.3%).

The UK Government substantively enacted an increase in the corporation tax rate to 25.0% effective from 1 April 2023. The deferred tax asset as at 2 July 2022 has been calculated based on the rate of 25.0% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19.0% has been used.

7. Dividends

The dividends set out in the table below relate to the 1 pence Ordinary Shares:

		2022 53 weeks £'m	2021 52 weeks £'m
Interim dividend for the period ended 26 June 2021	– paid 12.0 pence	–	24.3
Special dividend for the period ended 26 June 2021	– paid 65.0 pence	**131.9**	–
Final dividend for the period ended 26 June 2021	– paid 23.0 pence	**46.8**	–
Interim dividend for the period ended 2 July 2022	– paid 14.0 pence	**28.3**	–
Special dividend for the period ended 2 July 2022	– paid 37.0 pence	**75.1**	–
		282.1	24.3

The Board are proposing a final dividend of 26.0 pence per Ordinary Share for the period ended 2 July 2022 which equates to £52.9m. Subject to shareholder approval at the AGM this will be paid on 5 December 2022 to shareholders on the register at the close of business on 11 November 2022.

8. Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by the Company and held as treasury shares (note 21).

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These represent share options granted to employees where the exercise price is less than the average market price of the Group's Ordinary Shares during the period.

Weighted average numbers of shares:

	2022 53 weeks '000	2021 52 weeks '000
Weighted average number of shares in issue during the period	**202,722**	202,445
Impact of share options	**2,135**	2,445
Number of shares for diluted earnings per share	**204,857**	204,890

	2022 53 weeks £'m	2021 52 weeks £'m
Profit for the period	**171.2**	128.9
Earnings per Ordinary Share – basic	**84.5p**	63.7p
Earnings per Ordinary Share – diluted	**83.6p**	62.9p

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

9. Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 28 June 2020	51.7	11.0	62.7
Additions	0.6	–	0.6
Disposals	(0.3)	–	(0.3)
At 26 June 2021	52.0	11.0	63.0
Additions	0.9	–	0.9
Acquisition through business combination	–	0.5	0.5
Disposals	(0.3)	–	(0.3)
At 2 July 2022	**52.6**	**11.5**	**64.1**
Accumulated amortisation			
At 28 June 2020	29.0	11.0	40.0
Charge for the financial period	7.3	–	7.3
Disposals	(0.3)	–	(0.3)
Impairment	1.2	–	1.2
At 26 June 2021	37.2	11.0	48.2
Charge for the financial period	6.2	–	6.2
Disposals	(0.2)	–	(0.2)
At 2 July 2022	**43.2**	**11.0**	**54.2**
Net book value			
At 28 June 2020	22.7	–	22.7
At 26 June 2021	14.8	–	14.8
At 2 July 2022	**9.4**	**0.5**	**9.9**

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

There was no trigger for impairment in the period. Last year's impairment of £1.2m relates to tablet-based sales enabling software that was impaired following the development and roll out of new functionality in this area.

Within software development and licences there were no additions (2021: nil) related to internally generated assets.

10. Property, plant and equipment

	Freehold land and buildings £'m	Leasehold improvements £'m	Fixtures, fittings and equipment £'m	Total £'m
Cost				
At 28 June 2020	97.7	160.6	119.9	378.2
Additions	–	3.8	9.0	12.8
Disposals	–	(6.7)	(4.7)	(11.4)
At 26 June 2021	97.7	157.7	124.2	379.6
Transfer	–	1.2	(1.2)	–
Additions	0.1	13.3	12.6	26.0
Acquisition through business combination	9.2	0.1	0.3	9.6
Disposals	–	(8.3)	(3.7)	(12.0)
At 2 July 2022	**107.0**	**164.0**	**132.2**	**403.2**
Accumulated depreciation				
At 28 June 2020	16.4	84.8	101.6	202.8
Charge for the financial period	1.7	13.2	9.6	24.5
Disposals	–	(6.2)	(4.3)	(10.5)
Impairment	–	0.1	0.1	0.2
At 26 June 2021	18.1	91.9	107.0	217.0
Transfer	–	(0.5)	0.5	–
Charge for the financial period	1.8	14.4	8.1	24.3
Disposals	–	(8.1)	(3.7)	(11.8)
At 2 July 2022	**19.9**	**97.7**	**111.9**	**229.5**
Net book value				
At 28 June 2020	81.3	75.8	18.3	175.4
At 26 June 2021	79.6	65.8	17.2	162.6
At 2 July 2022	**87.1**	**66.3**	**20.3**	**173.7**

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

There was no trigger for impairment in the period. Last year's impairment of £0.2m relates to store impairment. The recoverable amount was determined as the value in use, applying a discount rate of 10.0% (pre-tax).

Similar asset categories have been amalgamated into leasehold improvements and fixtures, fittings and equipment in the current year. The nature of this change is presentational under IAS 1.

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

11. Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 2 July 2022 were as follows:

	2022 Land and buildings £'m	2022 Motor vehicles, plant and equipment £'m	2022 Total £'m	2021 Total £'m
At the beginning of the period	254.7	7.3	262.0	283.3
Additions	30.9	4.4	35.3	25.5
Disposals	(0.1)	(0.1)	(0.2)	(0.1)
Impairment	–	–	–	(1.0)
Depreciation	(45.1)	(3.5)	(48.6)	(45.7)
At the end of the period	240.4	8.1	248.5	262.0

Right-of-use additions include £3.1m of lease modifications (2021: £1.3m).

Lease liabilities included in the Consolidated Statement of Financial Position at 2 July 2022 were as follows:

	2022 Land and buildings £'m	2022 Motor vehicles, plant and equipment £'m	2022 Total £'m	2021 Total £'m
At the beginning of the period	(286.1)	(7.2)	(293.3)	(314.4)
Additions	(31.5)	(4.4)	(35.9)	(26.9)
Disposals	–	0.1	0.1	0.1
Interest	(4.7)	(0.1)	(4.8)	(5.3)
Repayment of lease liabilities	52.2	3.6	55.8	53.2
At the end of the period	(270.1)	(8.0)	(278.1)	(293.3)

The discount rate applied across all lease liabilities ranged between 0.9% and 2.8% (2021: 1.0% and 2.1%). The discount rate reflects our incremental borrowing rate which we assess by considering the marginal rate on the Group's RCF, the Bank of England base rate, the yield on Government bonds and the term of the lease.

The maturity analysis of the lease liabilities is as follows:

	2022 £'m	2021 £'m
Current	(52.8)	(49.0)
Non-current	(225.3)	(244.3)
	(278.1)	(293.3)

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

	2022 £'m	2021 £'m
Less than one year	(57.1)	(53.7)
One to two years	(53.2)	(51.8)
Two to five years	(111.9)	(119.1)
Five to ten years	(68.3)	(78.2)
More than ten years	(5.0)	(10.1)
Total undiscounted lease liability	(295.5)	(312.9)

The average remaining lease term of our leasehold land and buildings is 5.2 years.

11. Leases continued

The following amounts have been recognised in the Consolidated Income Statement:

	2022 53 weeks Land and buildings £'m	2022 53 weeks Motor vehicles, plant and equipment £'m	2022 53 weeks Total £'m	2021 52 weeks Total £'m
Depreciation of right-of-use assets	**45.1**	**3.5**	**48.6**	45.7
Gain on disposal of right-of-use assets	**(0.1)**	**–**	**(0.1)**	–
Impairment of right-of-use assets	**–**	**–**	**–**	1.0
Interest expenses (included in financial expenses)	**4.7**	**0.1**	**4.8**	5.3
Expense relating to short-term leases	**0.5**	**0.1**	**0.6**	1.8

There was no trigger for impairment in the current year. The prior year's impairment of £1.0m relates to store impairment. The recoverable amount has been determined as the value in use applying a discount rate of 10.0% (pre-tax).

The total cash outflow for leases during the financial period was £55.0m (2021: £59.3m).

12. Deferred tax assets/liabilities

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 25.0% unless the asset/liability is expected to be realised or settled before the corporation tax rate increase in 2023 in which case the rate of 19.0% has been used.

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2022 £'m	2021 £'m	2022 £'m	2021 £'m	2022 £'m	2021 £'m
Property, plant and equipment	**0.7**	3.6	**–**	–	**0.7**	3.6
Share-based payments	**7.5**	6.5	**–**	–	**7.5**	6.5
Hedging	**–**	1.0	**(4.3)**	–	**(4.3)**	1.0
Other temporary differences	**0.2**	0.3	**–**	–	**0.2**	0.3
	8.4	11.4	**(4.3)**	–	**4.1**	11.4

	Assets		Liabilities		Net assets/(liabilities)	
	2022 £'m	2021 £'m	2022 £'m	2021 £'m	2022 £'m	2021 £'m
Deferred tax recoverable/(payable) after more than 12 months	**1.4**	4.6	**(0.2)**	–	**1.2**	4.6
Deferred tax recoverable/(payable) within 12 months	**7.2**	6.8	**(4.3)**	–	**2.9**	6.8
	8.6	11.4	**(4.5)**	–	**4.1**	11.4

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

12. Deferred tax assets/liabilities continued

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

	Balance at 28 June 2020 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 26 June 2021 £'m
Property, plant and equipment	2.5	1.1	–	3.6
Share-based payments	2.2	1.4	2.9	6.5
Hedging	(1.2)	–	2.2	1.0
Other temporary differences	0.7	(0.4)	–	0.3
	4.2	2.1	5.1	11.4

	Balance at 27 June 2021 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 2 July 2022 £'m
Property, plant and equipment	3.6	(2.9)	–	**0.7**
Share-based payments	6.5	0.2	0.8	**7.5**
Hedging	1.0	–	(5.3)	**(4.3)**
Other temporary differences	0.3	(0.1)	–	**0.2**
	11.4	(2.8)	(4.5)	**4.1**

13. Inventories

	2022 £'m	2021 £'m
Raw materials	**1.7**	–
Work in progress	**1.6**	–
Goods for resale	**219.7**	172.4
	223.0	172.4

Goods for resale includes a net realisable value provision of £21.4m (2021: £17.2m). Write-downs of inventories to net realisable value amounted to £20.1m (2021: £16.4m). These were recognised as an expense during the period and were included in cost of sales in the Consolidated Income Statement. As at 2 July 2022, included within the above is £10m relating to Sunflex.

14. Trade and other receivables

	2022 £'m	2021 £'m
Trade receivables	**2.9**	0.9
Other receivables	**9.5**	4.8
Prepayments and accrued income	**10.5**	6.1
	22.9	11.8

All trade receivables are due within one year from the end of the reporting period.

No impairment was incurred on trade and other receivables during the period and the expected credit loss provision held at period end is nil (2021: nil). No material amounts are overdue (2021: nil).

15. Cash and cash equivalents

	2022 £'m	2021 £'m
Cash at bank and in hand	**30.2**	128.6

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

16. Trade and other payables

	2022 £'m	2021 £'m
Trade payables	**98.3**	69.4
Accruals and deferred income	**86.8**	69.9
Taxation and social security	**34.0**	42.3
Other payables	**4.1**	0.2
	223.2	181.8

Other payables includes £3.1m payable for the acquisition of Sunflex (note 27).

17. Financial risk management

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. A formal process for reviewing and managing risk in the business is in place.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Group only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties, therefore credit risk is considered to be low.

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of an 'A' credit rating. The credit limit for the syndicate banks is up to £60m. All other parties are limited to £25m.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets. No collateral is held (2021: nil). At the period end the maximum exposure is detailed in the table below:

	2022 £'m	2021 £'m
Current		
Cash and cash equivalents	**30.2**	128.6
Trade and other receivables	**12.4**	5.7
Accrued income	**0.6**	0.3
Derivative financial instruments	**19.9**	0.4
Total current financial assets	**63.1**	135.0
Non-current		
Derivative financial instruments	**4.6**	0.3
Total financial assets	**67.7**	135.3

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

17. Financial risk management continued

CREDIT RISK

Trade and other receivables include rebates due from suppliers recognised as a reduction to cost of sales in the period to which they relate. The rebates are recovered through deductions from future payments to suppliers and therefore management is confident of the recoverability of these balances.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade and other receivables and accrued income. To measure the expected credit losses, trade and other receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. There is limited exposure to ECL due to the way the Group operates.

The Group will write off, either partially or in full, the gross carrying amount of a financial asset when there is no realistic prospect of recovery. This is usually the case when it is determined that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the Group may still choose to pursue enforcement in order to recover the amounts due.

On that basis, the loss allowance as at 26 June 2021 and 2 July 2022 was determined to not be significant for trade and other receivables, accrued income and cash and cash equivalents.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances. The Group manages this risk by continuously monitoring cash flow forecasts. Further details of the Group's available facilities can be found in the capital management section of this note.

All cash flows on financial liabilities for 2022 and 2021 are contractually due within one year with the exception of provisions, bank loans, derivative financial liabilities and lease liabilities. The details of lease liabilities are shown in note 11.

Total borrowings of £54.0m (2021: nil) reflect the level of facility drawdown at the period end on the Group's RCF.

INTEREST RATE RISK

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

During the period, if SONIA interest rates had been 100 basis points higher with all other variables held constant, post-tax profit would have been £0.1m lower (2021: nil impact).

FOREIGN CURRENCY RISK

All of the Group's revenues are in sterling. The majority of purchases are also in pounds sterling, but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just over 30% (2021: 30%) of stock purchases in the period ended 2 July 2022.

The Group uses various means to cover its exposure to US dollars including holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of US dollars. All the Group's foreign exchange transactions are designed to satisfy US dollar denominated liabilities. The maximum level of hedging coverage which will be undertaken is 100% of anticipated expenditure on a three-month horizon, stepping down to 75% on a four- to 12-month horizon and 50% on a 13- to 18-month horizon. There is a low level of coverage beyond the 18-month horizon.

Cash flow hedges are in place to manage foreign exchange rate risk arising from forecast purchases denominated in US dollars. At the Consolidated Statement of Financial Position date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was a £24.5m asset (2021: £5.2m liability) which relates to a commitment to purchase $369.0m (2021: $242.0m) for a fixed sterling amount. A fair value gain of £32.4m (2021: £17.7m loss) was recognised in other comprehensive income and no loss (2021: nil) was recognised on cash flow hedges during the period. In the period, a gain of £2.6m (2021: £5.9m loss) was recycled from the cash flow hedge reserve to inventory to offset foreign exchange movements on purchases. The remaining hedge reserve balance will be recycled to the Consolidated Income Statement to offset future purchases occurring after the Consolidated Statement of Financial Position date, the majority of which expire in the next 12 months.

The outstanding US dollar liabilities at the period end were $0.1m (2021: $0.1m).

17. Financial risk management continued

At the period end if GBP had strengthened by 10% against US dollar with all other variables held constant, post-tax profit would have been £0.7m higher (2021: £1.5m higher) as a result of foreign exchange gains on translation of US dollar denominated trade payables and cash and cash equivalents. Other components of equity would have been £2.5m higher (2021: £4.2m lower) as a result of a decrease in fair value of derivatives designated as cash flow hedges.

Conversely, if GBP had weakened by 10% against US dollar with all other variables held constant, post-tax profit for the period would have been £0.8m lower (2021: £1.2m lower) and other components of equity would have been £2.5m lower (2021: £6.3m higher).

The US dollar period end exchange rate applied in the above analysis is £1=$1.2087 (2021: £1=$1.3877).

CAPITAL MANAGEMENT

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

The Board's objective with respect to capital management is to ensure the Group continues as a going concern in order to optimise returns to shareholders. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

The Company has a syndicated RCF of £185m which is committed until 9 December 2025, which may be extended by a maximum of a further two years at Dunelm Group plc's request, subject to lender consent. There is also an optional accordion facility of £75m. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (Group net debt to be no greater than 2.5x Group EBITDA before exceptional items) and fixed charge cover (Group EBITDAR before exceptional items to be no less than 1.75x Group fixed charges), both of which were met comfortably as at 2 July 2022 as shown below. In addition, the Company maintains £10m of uncommitted overdraft facilities with one syndicate partner bank.

The gearing ratio and banking covenants were as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Total borrowings (note 18)	**54.0**	–
Less: unamortised debt issue costs (note 18)	**(1.2)**	(0.2)
Less: cash and cash equivalents (note 15)	**(30.2)**	(128.6)
Net debt/(cash)	**22.6**	(128.8)
Total equity	**178.3**	281.2
Total capital	**200.9**	152.4
Gearing ratio	**11.2%**	(84.5%)
Operating profit	**217.7**	163.1
Add: Depreciation and amortisation of property, plant and equipment and intangible assets (note 3)	**30.5**	31.8
Add: Loss on disposal and impairment of property, plant and equipment and intangible assets (note 3)	**0.3**	2.5
Adjusted EBITDA*/EBITDA	**248.5**	197.4
Leverage ratio	**0.09**	(0.65)
Adjusted EBITDA*/EBITDA	**248.5**	197.4
Rent plus RoUA depreciation**/Rent	**50.4**	53.9
EBITDAR	**298.9**	251.3
Net interest (note 5)	**4.9**	3.3
Rent plus RoUA depreciation**/Rent	**50.4**	53.9
Fixed charges	**55.3**	57.2
Fixed charge cover	**5.4**	4.4

* Adjusted EBITDA for 2022 definitions is EBITDA excluding Right of Use Asset Depreciation.

** In the post-IFRS16 calculations, rent plus right-of-use asset depreciation is used as a proxy to pre-IFRS16 rent to keep the pre- and post-IFRS16 calculations as comparable as possible.

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For the 53 weeks ended 2 July 2022

17. Financial risk management continued

In 2022 the banking covenants are calculated on a post-IFRS16 basis, whereas in 2021 the calculation was on a pre-IFRS16 basis. The reason for the change is that the definitions of the covenants were updated in the RCF agreement that was signed in December 2021 to be on a post-IFRS16 basis. If the 2021 banking covenants were to be calculated on a post-IFRS 16 basis then the leverage ratio would be (0.64) and the fixed charge cover would be 4.2.

DERIVATIVES: HEDGE INEFFECTIVENESS

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

MARKET RISK

The Group uses a combination of foreign currency options and foreign currency forwards to hedge its exposure to foreign currency risk.

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. It is discounted where material.

The intrinsic value of foreign currency options is determined with reference to the relevant spot market exchange rate. The differential between the contracted strike rate and the discounted spot market exchange rate is defined as the time value. It is discounted where material.

The changes in the forward element of the foreign currency forwards and the time value of the options that relate to hedged items are deferred in the hedging reserve.

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION AND PERFORMANCE

	2022 £'m	2021 £'m
Foreign currency forwards		
Carrying amount of asset/(liability)	**24.5**	(5.2)
Notional amount	**280.4**	174.0
Maturity date	**July 2022-June 2024**	July 2021-May 2023
Hedge ratio	**1:1**	1:1
Change in value of hedged item used to determine hedge effectiveness	**32.4**	17.7
Change in the value of hedging instruments	**(32.4)**	(17.7)
Weighted average hedged rate for the year (including forward points)	**£1:US$1.3426**	£1:US$1.3493

FAIR VALUES

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

17. Financial risk management continued

FAIR VALUE HIERARCHY

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

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

FINANCIAL ASSETS/(LIABILITIES)

The carrying value of all financial assets and financial liabilities was materially equal to their fair value.

At 26 June 2021	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	128.6	–	–	128.6
Trade and other receivables	5.7	–	–	5.7
Accrued income	0.3	–	–	0.3
Derivative financial instruments	–	–	0.7	0.7
Total financial assets	134.6	–	0.7	135.3
Trade and other payables	–	(69.6)	–	(69.6)
Accruals	–	(57.9)	–	(57.9)
Lease Liabilities	–	(293.3)	–	(293.3)
Bank loans	–	–	–	–
Provisions	–	(4.5)	–	(4.5)
Derivative financial instruments	–	–	(5.9)	(5.9)
Total financial liabilities	–	(425.3)	(5.9)	(431.2)
Net financial assets/(liabilities)	**134.6**	**(425.3)**	**(5.2)**	**(295.9)**

At 2 July 2022	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	**30.2**	**–**	**–**	**30.2**
Trade and other receivables	**12.4**	**–**	**–**	**12.4**
Accrued income	**0.6**	**–**	**–**	**0.6**
Derivative financial instruments	**–**	**–**	**24.5**	**24.5**
Total financial assets	**43.2**	**–**	**24.5**	**67.7**
Trade and other payables	**–**	**(102.4)**	**–**	**(102.4)**
Accruals	**–**	**(74.2)**	**–**	**(74.2)**
Lease liabilities	**–**	**(278.1)**	**–**	**(278.1)**
Bank loans	**–**	**(52.8)**	**–**	**(52.8)**
Provisions	**–**	**(5.5)**	**–**	**(5.5)**
Derivative financial instruments	**–**	**–**	**–**	**–**
Total financial liabilities	**–**	**(513.0)**	**–**	**(513.0)**
Net financial assets/(liabilities)	**43.2**	**(513.0)**	**24.5**	**(445.3)**

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

17. Financial risk management continued

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

	2022 £'m	2021 £'m
Sterling	**19.7**	122.4
US dollar	**10.4**	5.8
Euro	**0.1**	0.4
	30.2	128.6

18. Bank loans

	2022 £'m	2021 £'m
Total borrowings	**54.0**	–
Less: unamortised debt issue costs[1]	**(1.2)**	(0.2)
	52.8	(0.2)

1. Unamortised debt issue costs of £0.2m are included in other receivables as at 26 June 2021 as there was no debt at the period end.

Borrowings relate to the Group's syndicated RCF, as described in note 17. The carrying amount of bank borrowings is equal to fair value. The Group also has an accordion option with a maximum facility of £75m, as well as an overdraft facility of £10m.

The analysis below shows the reconciliation of net debt:

	2022 53 weeks £'m	2021 52 weeks £'m
Net cash at 27 June 2021 and 28 June 2020	**128.8**	45.4
Net (decrease)/increase in cash and cash equivalents (excluding foreign exchange revaluations)	**(99.5)**	41.0
Effect of foreign exchange (note 5)	**1.1**	(2.4)
Repayments of Revolving Credit Facility	**31.0**	45.0
Drawdowns of Revolving Credit Facility	**(85.0)**	–
Loan transaction costs	**1.4**	–
Change in net debt resulting from cash flows	**(151.0)**	83.6
Amortisation of debt issue costs (note 5)	**(0.4)**	(0.2)
Movement in net debt	**(151.4)**	83.4
Net debt represented by		
Cash and cash equivalents (note 15)	**30.2**	128.6
Non-current borrowings (note 18)	**(54.0)**	–
Net (debt)/cash including unamortised debt issue costs	**(23.8)**	128.6
Unamortised debt issue costs (note 18)	**1.2**	0.2
Net (debt)/cash at 2 July 2022 and 26 June 2021	**(22.6)**	128.8

19. Provisions

	Balance at 26 June 2021 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	Balance at 2 July 2022 £'m
Property-related	4.5	(0.1)	2.7	(1.6)	**5.5**

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

20. Issued share capital

	2022 Number of Ordinary Shares of 1p each	2021 Number of Ordinary Shares of 1p each
In issue at the start of the period	**202,833,931**	202,833,931
Issued during the period in respect of share option schemes	**592,904**	–
In issue at the end of the period	**203,426,835**	202,833,931

	2022		2021	
	Number of shares	£'m	Number of shares	£'m
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5.0**	500,000,000	5.0
Allotted, called up and fully paid	**203,426,835**	**2.0**	202,833,931	2.0

Proceeds received in relation to shares issued during the period were £0.1m (2021: £nil).

21. Treasury shares

	2022		2021	
	Number of shares	£'m	Number of shares	£'m
Outstanding at the beginning of the period	**160,319**	**1.4**	573,590	5.1
Purchased during the period	**2,500,000**	**28.3**	–	–
Reissued during the period in respect of share option schemes	**(974,119)**	**(12.2)**	(413,271)	(3.7)
Outstanding at the end of the period	**1,686,200**	**17.5**	160,319	1.4

The Group acquired 2,500,000 (2021: nil) shares through purchases on the London Stock Exchange during the period for a total value of £28.3m (2021: nil).

The Group reissued 974,119 (2021: 413,271) treasury shares during the period for a total value of £12.2m (2021: £3.7m).

Proceeds from the issue of treasury shares included in the Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity of £3.9m (2021: £1.8m) is the amount employees contributed.

The Group has the right to reissue the remaining treasury shares at a later date.

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

22. Share-based payments

The Group operates a number of share-based payment schemes as follows:

DUNELM GROUP SHARE OPTION PLAN (GSOP)

These options are granted to particular individuals and are dependent on the level of growth in the Group's diluted earnings per share relative to RPI as well as continuing employment with the Group.

The Dunelm GSOP provides options over shares, exercisable between three and ten years following their grant, to be allocated to Dunelm (Soft Furnishings) Ltd employees at the discretion of the Remuneration Committee. No options were granted to any Directors or changes made to existing entitlements in the year under review. There are no cash-settlement alternatives and they are therefore accounted for under IFRS 2 as equity-settled awards. Option prices are set at the prevailing market price at the time of grant. This is a legacy share option scheme and the last grants under this scheme were made in October 2016.

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

	2022		2021	
GSOP	No. of options	Weighted average exercise price (p)	No. of options	Weighted average exercise price (p)
Outstanding at beginning of year	**3,731**	**872.96**	3,731	872.96
Exercised	**(3,731)**	**(872.96)**	–	–
Outstanding at end of year	**–**	**–**	3,731	872.96
Exercisable at end of year	**–**	**–**	3,731	872.96

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is nil years (2021: 2.3 years).

DUNELM GROUP SAVINGS RELATED SHARE OPTION PLAN (SHARESAVE)

The Dunelm Group plc Savings Related Share Option Plan (Sharesave) scheme is open to all colleagues with eligible length of service. Invitations to participate in the scheme are issued annually and the scheme is 'approved' under HMRC rules. The current maximum monthly savings for the schemes detailed below is £500. Options are granted at the prevailing market rate less a discount of 20%. Options may be exercised under the scheme within six months of the completion of each three-year savings contract (from the grant date). There is provision for early exercise in certain circumstances such as death, disability, redundancy, and retirement. Sharesave options are also accounted for as equity-settled awards under IFRS 2.

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

	2022		2021	
Sharesave Plans	No. of options	Weighted average exercise price (p)	No. of options	Weighted average exercise price (p)
Outstanding at beginning of year	**1,571,890**	**651.20**	1,773,317	549.95
Granted	**632,092**	**1,046.00**	316,251	1,167.00
Exercised	**(807,250)**	**483.06**	(310,203)	585.64
Forfeited	**(214,220)**	**949.37**	(207,475)	670.00
Outstanding at end of year	**1,182,512**	**923.00**	1,571,890	651.20
Exercisable at end of year	**31,605**	**479.00**	28,461	602.00

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date. The figure of 31,605 options (2021: 28,461 options) excludes the provisions for early exercise explained above.

22. Share-based payments continued

DUNELM GROUP SAVINGS RELATED SHARE OPTION PLAN (SHARESAVE)

Options outstanding at 2 July 2022 are exercisable at prices ranging between 479.00p and 1,167.00p (2021: 479.00p and 1,167.00p) and have a weighted average remaining contractual life of 2.1 years (2021: 1.6 years), as analysed in the table below:

	2022		2021	
Sharesave Plans	**No. of options**	**Weighted average remaining contractual life (years)**	**No. of options**	**Weighted average remaining contractual life (years)**
Exercise price (pence):				
479.00	**45,502**	**–**	842,982	1.0
602.00	**–**	**–**	28,461	–
654.00	**370,906**	**1.0**	418,562	2.0
1046.00	**553,288**	**3.0**	–	–
1167.00	**212,816**	**2.0**	281,885	3.0
	1,182,512	**2.1**	1,571,890	1.6

LONG-TERM INCENTIVE PLAN (LTIP)

As explained in the Remuneration Report, the Group operates an equity-settled LTIP scheme for executive directors and other senior colleagues. Performance conditions for the LTIP awards are detailed in the Remuneration Report. LTIP options are also accounted for as equity-settled awards under IFRS 2.

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

LTIP Awards	**2022 No. of options**	**2021 No. of options**
Outstanding at beginning of year	**1,733,531**	1,741,497
Granted	**515,226**	424,430
Dividend equivalent awarded in the year	**17,866**	144,686
Exercised	**(497,830)**	(95,696)
Forfeited	**(303,126)**	(481,386)
Outstanding at end of year	**1,465,667**	1,733,531
Exercisable at end of year	**17,082**	5,795

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is 8.0 years (2021: 8.2 years).

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

22. Share-based payments continued

RESTRICTED STOCK AWARD (RSA)

These awards are granted to particular individuals and are dependent on continuing employment. There are no performance conditions attached to these awards. RSA options are also accounted for as equity-settled awards under IFRS 2.

The following table summarises the movements in nil cost RSA options during the year:

Restricted Stock Awards	2022 No. of options	2021 No. of options
Outstanding at beginning of year	**68,103**	34,200
Granted	**75,940**	44,479
Dividend equivalent awarded in the year	**2,765**	4,932
Exercised	**(10,308)**	(8,944)
Forfeited	**(12,956)**	(6,564)
Outstanding at end of year	**123,544**	68,103
Exercisable at end of year	**2,785**	1,456

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is 8.8 years (2021: 8.7 years).

BONUS DEFERRED SHARES AWARD

The Bonus Deferred Shares Award provides options over shares in Dunelm Group plc for colleagues of the Group as a discretionary bonus. This is an equity-settled share option scheme and there are no performance conditions attached to these awards, they are only dependent on continued employment. Under this arrangement, colleagues are awarded a number of options which is based on the cash value of the earned bonus award, determined by their achievement of a mixture of Company and individual performance metrics, divided by a share price value of 1,189.00p which was approved at the November 2020 AGM. The deferred shares awarded vest in September 2021 and/or September 2022, depending on colleague level.

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

Bonus Deferred Shares Award	2022 No. of options	2021 No. of options
Outstanding at beginning of year	**494,420**	–
Granted	**–**	509,927
Dividend equivalent awarded in the year	**9,608**	9,889
Exercised	**(252,488)**	–
Forfeited	**(93,142)**	(25,396)
Outstanding at end of year	**158,398**	494,420
Exercisable at end of year	**–**	–

The weighted average remaining contractual life of these options is 0.2 years (2021: 0.7 years).

22. Share-based payments continued

FAIR VALUE CALCULATIONS

The fair values of all share options granted are calculated at the date of grant using a Black-Scholes option pricing model. Expected volatility is determined by calculating the historical volatility of the Group's share price over a period equivalent to the expected life of an option which is aligned to its vesting period.

The following tables list the inputs to the model used for options granted in the periods ended 2 July 2022 and 26 June 2021 based on information at the date of grant:

Sharesave Plans	2022	2021
Share price at date of grant	**1,444.23p**	1,262.00p
Exercise price	**1,046.00p**	1,167.00p
Volatility	**43.54%**	44.11%
Expected life	**3 years**	3 years
Risk free rate	**0.63%**	(0.10%)
Dividend yield	**2.90%**	2.66%
Fair value per option	**424.30p**	332.40p

LTIP Awards	2022	2021
Share price at date of grant	**1,307.00p**	1,186.00p
Exercise price	**0.00p**	0.00p
Volatility	**43.65%**	43.83%
Expected life	**3 years**	3 years
Risk free rate	**0.84%**	0.01%
Dividend yield	**2.90%**	2.66%
Fair value per option	**977.40p**	909.00p

Bonus Deferred Shares	2022	2021
Share price at date of grant	**n/a**	1,186.00p
Exercise price	**n/a**	0.00p
Volatility	**n/a**	43.83%
Expected life	**n/a**	15-39 months
Risk free rate	**n/a**	0.01%
Dividend yield	**n/a**	2.66%
Fair value per option	**n/a**	1,089.30p-1,148.80p

Restricted Stock Awards	2022	2021
Share price at date of grant	**1,307.00p**	1,186.00p
Exercise price	**0.00p**	0.00p
Volatility	**46.25%-43.65%**	43.83%
Expected life	**2-3 years**	3 years
Risk free rate	**0.84%**	0.01%
Dividend yield	**2.90%**	2.66%
Fair value per option	**977.40p**	909.00p

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

23. Commitments

As at 2 July 2022, the Group had entered into capital contracts amounting to £4.7m (2021: £13.7m). Capital contracts as at 2 July 2022 include commitments for new stores and refits and last year also included a furniture warehouse and a new e-commerce warehouse.

24. Contingent liabilities

The Group had no contingent liabilities at the period end date (2021: none).

25. Related parties

IDENTITY OF RELATED PARTIES

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group. A list of subsidiaries can be found in note 4 to the Parent Company financial statements.

KEY MANAGEMENT PERSONNEL

The key management personnel of the Group comprise members of the Board of Directors and the Executive Board.

Directors of the Company and their close relatives control 42.9% (2021: 43.0%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 130 to 162. The remuneration of the key management personnel is set out below:

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries	**3.5**	3.0
Short term employee benefits	**4.2**	0.7
Post-employment benefits	**0.1**	0.2
Share-based payments	**2.9**	3.2
	10.7	7.1

Short term employee benefits include a cash bonus in 2022. In the prior year, the 2021 bonus awards to key management personnel were payable in deferred shares. As such, under IFRS 2, this expense was accounted for under share-based payments.

The amount of gains made by directors on the exercise of share options are disclosed in the Remuneration Report on page 154.

From time to time Directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees and values involved are trivial.

26. Ultimate controlling party

The Directors consider that there is no ultimate controlling party of Dunelm Group plc.

27. Business combination

On 3 May 2022, the Group acquired the trade and assets of Sunflex, a division of Hunter Douglas (UK) Limited for a cash consideration of £20.8m of which £17.7m had been paid as at 2 July 2022 and £3.1m was recognised within other payables.

Sunflex was a key supplier whose principal activity is that of manufacturing and supplying specialist curtain tracks, poles and blinds. It is this capability and specialist knowledge that will strengthen and broaden our product range.

Since the date of acquisition, the results of Sunflex have been included within the group consolidation. The operations do not qualify as a separate segment and results are not disclosed separately as they do not materially impact the Group's result.

If the acquisition had occurred on 26 June 2021, the revenue and profit generated would not be material to the consolidated position of the Group due to Sunflex previously being a supplier. As at 3 May 2022, £2.0m trade payable were due by Dunelm to Sunflex.

The purchase has been accounted for as a business combination. The fair value amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	3 May 2022 £'m
Intangible assets – brands	**0.5**
Freehold buildings	**9.2**
Property, plant and equipment	**0.4**
Inventories	**10.3**
Trade and other receivables	**3.8**
Trade and other payables	**(2.5)**
Accruals and deferred income	**(0.9)**
Total identifiable assets/(liabilities)	**20.8**
Cash consideration	**(20.8)**
Goodwill	**–**

28. Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Parent Company Statement of Financial Position

As at 2 July 2022

	Note	2 July 2022 £'m	26 June 2021 £'m
Non-current assets			
Investments in subsidiary undertakings	4	**64.8**	60.7
Deferred tax assets	5	**1.0**	1.8
Total non-current assets		**65.8**	62.5
Current assets			
Trade and other receivables	6	**98.3**	478.9
Total current assets		**98.3**	478.9
Total assets		**164.1**	541.4
Current liabilities			
Trade and other payables	7	**(0.3)**	(226.6)
Total current liabilities		**(0.3)**	(226.6)
Total liabilities		**(0.3)**	(226.6)
Net assets		**163.8**	314.8
Equity			
Issued share capital	11	**2.0**	2.0
Share premium account		**1.7**	1.6
Non-distributable reserves		**19.6**	15.5
Capital redemption reserve		**43.2**	43.2
Retained earnings		**97.3**	252.5
Total equity attributable to equity holders of the Parent		**163.8**	314.8

The Company made a profit after tax of £150.5m (2021: £24.5m).

The financial statements on pages 208 to 216 were approved by the Board of Directors on 14 September 2022 and were signed on its behalf by:

Karen Witts
Director

Company number 04708277

14 September 2022

Parent Company Statement of Cash Flows

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m
Cash flows from operating activities		
Profit before taxation		**151.3**
Dividend income		**(150.2)**
Net financial income		**(3.1)**
Operating profit		**(2.0)**
Share-based payments expense		**0.7**
Operating cash flows before movements in working capital		**(1.3)**
Decrease in trade and other receivables		**380.7**
Decrease in trade and other payables		**(226.2)**
Net movement in working capital		**154.5**
Net cash generated from operating activities		**153.2**
Cash flows from investing activities		
Interest received		**3.1**
Net cash used in investing activities		**3.1**
Cash flows from financing activities		
Proceeds from issue of treasury shares and ordinary shares		**3.9**
Purchase of treasury shares		**(28.3)**
Dividend received	15	**150.2**
Dividend paid		**(282.1)**
Net cash used in financing activities		**(156.3)**
Net (decrease)/increase in cash and cash equivalents		**0.0**
Cash and cash equivalents at the beginning of the period		**0.0**
Cash and cash equivalents at the end of the period		**0.0**

There were no cash movements in 2021, hence no comparatives have been included in the Statement of Cash Flows above.

Parent Company Statement of Changes in Equity

For the 53 weeks ended 2 July 2022

	Note	Issued share capital £'m	Share premium account £'m	Non-distributable reserves £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
As at 28 June 2020		**2.0**	**1.6**	**10.0**	**43.2**	**247.7**	**304.5**
Profit for the period		–	–	–	–	24.5	24.5
Total comprehensive income for the period		–	–	–	–	24.5	24.5
Proceeds from issue of treasury shares	12	–	–	–	–	1.8	1.8
Share-based payments	13	–	–	5.5	–	2.0	7.5
Deferred tax on share-based payments	5	–	–	–	–	0.8	0.8
Dividends	3	–	–	–	–	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		–	–	5.5	–	(19.7)	(14.2)
As at 26 June 2021		**2.0**	**1.6**	**15.5**	**43.2**	**252.5**	**314.8**
Profit for the period		–	–	–	–	150.5	150.5
Total comprehensive income for the period		–	–	–	–	150.5	150.5
Proceeds from issue of shares		–	0.1	–	–	–	0.1
Purchase of treasury shares	12	–	–	–	–	(28.3)	(28.3)
Proceeds from issue of treasury shares	12	–	–	–	–	3.9	3.9
Share-based payments	13	–	–	4.1	–	0.7	4.8
Deferred tax on share-based payments	5	–	–	–	–	(0.5)	(0.5)
Current corporation tax on share options exercised	8	–	–	–	–	0.6	0.6
Dividends	3	–	–	–	–	(282.1)	(282.1)
Total transactions with owners, recorded directly in equity		–	0.1	4.1	–	(305.7)	(301.5)
As at 2 July 2022		**2.0**	**1.7**	**19.6**	**43.2**	**97.3**	**163.8**

The non-distributable reserves' purpose is to reflect movements in share-based payments in respect of awards given by the Parent Company to employees of its subsidiaries.

Parent Company Accounting Policies

For the 53 weeks ended 2 July 2022

GENERAL INFORMATION

Dunelm Group plc (the 'Company') is incorporated and domiciled in the UK. Dunelm Group plc is a listed public company, limited by shares and the Company registration number is 04708277. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD.

BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with International Accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are presented on pages 208 to 216.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The annual financial statements are prepared under the historical cost convention. The financial statements are prepared in pounds sterling, rounded to the nearest 0.1 million.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Additional considerations relating to the potential downturn in the homewares market on the going concern assumptions are set out in the Group's Financial Statements on page 180.

SHARE-BASED PAYMENTS

Employees of the Company have been granted options for two equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

When the options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For newly issued shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Notes to the Parent Company Financial Statements

For the 53 weeks ended 2 July 2022

TAXATION

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax represents the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the Statement of Financial Position date, together with any adjustment to tax payable in respect of previous periods.

Deferred tax provides for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

DIVIDENDS

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

TRADE AND OTHER RECEIVABLES

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

SHARE CAPITAL

Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

INVESTMENTS

Investments in subsidiary undertakings are stated at the adjusted cost of the investment. IFRS 2 requires the Parent Company to recognise an increase in the cost of its investment in a subsidiary which has issued share options in the Parent Company's shares to its employees.

NEW STANDARDS AND INTERPRETATIONS

No new standards, amendments or interpretations, effective for the first time for the financial period beginning on or after 27 June 2021 have had a material impact on the financial statements of the Group.

Use of estimates and judgements

The presentation of the annual financial statements in conformity with IFRS as adopted by the EU requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant estimates or judgements in the Company Financial Statements.

1. Income Statement

The Company made a profit after tax of £150.5m (2021: £24.6m). The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and have not presented an Income Statement for the Company.

Disclosures relating to the fees paid to the Company's auditors are set out in note 3 in the Group's financial statements on page 187.

2. Employee costs

The Company's employees are the three Executive Directors and the Non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 130 to 162. Share-based payments details are given in note 13 on page 216.

3. Dividends and special distributions to shareholders

Disclosures relating to dividends and special distributions to shareholders are set out in note 7 in the Group's financial statements on page 189.

4. Investments in subsidiary undertakings

Shares in subsidiary undertakings:

	£'m
As at 28 June 2020	55.2
Share-based payments	5.5
As at 26 June 2021	60.7
Share-based payments	4.1
As at 2 July 2022	**64.8**

The share-based payment adjustment to investments reflects share option awards given by the Parent Company to employees of its subsidiaries.

The following were subsidiaries as at 2 July 2022:

Subsidiary	Proportion of ordinary shares held	Nature of business
Dunelm Limited	100%	Holding company
Dunelm (Soft Furnishings) Ltd*	100%	Retailer of soft furnishings
Dunelm Estates Limited*	100%	Dormant company
Zoncolan Limited*	100%	Dormant company
Fogarty Holdings Limited*	100%	Non-trading company
Globe Online Limited*	100%	Dormant company
Dunelm (Soft Furnishings) Londonderry Ltd*	100%	Non-trading company

* Share capital held by subsidiary undertaking.

Dunelm Group plc, the Parent Company, and its subsidiaries (excluding Dunelm (Soft Furnishings) Londonderry Ltd) are incorporated and domiciled in the UK. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD.
The registered address for Dunelm (Soft Furnishings) Londonderry Ltd is Faustina Retail Park, 35 Buncrana Road, Londonderry, Northern Ireland, BT48 8QN.

During the year, the subsidiary Achica Brand Management Limited (a company registered in Cyprus) was liquidated and is therefore no longer included in the Company's investments. The Company was disposed of at nil gain, nil loss.

Notes to the Parent Company Financial Statements continued

For the 53 weeks ended 2 July 2022

5. Deferred tax assets

	Assets	
	2022 £'m	2021 £'m
Employee benefits	**1.0**	1.8

The movement in deferred tax assets is as follows:

	Balance at 28 June 2020 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 26 June 2021 £'m
Employee benefits	0.6	0.4	0.8	1.8

	Balance at 27 June 2021 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 2 July 2022 £'m
Employee benefits	**1.8**	**(0.3)**	**(0.5)**	**1.0**

6. Trade and other receivables

	2022 £'m	2021 £'m
Amounts owed by group undertakings	**98.3**	478.9

Amounts owed by subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%. There is no security on these balances.

These amounts pose no liquidity or credit risk as they are owed by other Group undertakings and are expected to be settled by Group transactions.

7. Trade and other payables

	2022 £'m	2021 £'m
Amounts owed to group undertakings	**–**	225.5
Other taxation and social security	**0.3**	1.1
	0.3	226.6

Amounts owed to subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%. There is no security on these balances.

8. Taxation

	2022 53 weeks £'m	2021 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**0.6**	–
	0.6	–
Deferred taxation		
Origination of temporary differences	**0.2**	(0.4)
Total tax credit	**0.8**	(0.4)

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Profit before taxation	**151.3**	24.5
UK corporation tax at standard rate of 19.0% (2020: 19.0%)	**28.7**	4.7
Factors affecting the charge in the period:		
Income not subject to tax	**(28.5)**	(4.7)
Group relief	**0.6**	(0.4)
Tax credit	**0.8**	(0.4)

The UK Government substantively enacted an increase in the corporation tax rate to 25% effective from 1 April 2023. The deferred tax asset as at 2 July 2022 has been calculated based on the rate of 25% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19% has been used.

9. Interest bearing loans and borrowings

The Company's only interest bearing borrowings relate to intercompany loans which have interest charges of 2% and are not affected by changes in SONIA.

10. Financial risk management

CAPITAL MANAGEMENT

The Board's objective with respect to capital management is to ensure the Company continues as a going concern in order to optimise returns to shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

11. Issued share capital

Disclosures relating to issued share capital are set out in note 20 in the Group's financial statements on page 201.

12. Treasury shares

Disclosures relating to treasury shares are set out in note 21 in the Group's financial statements on page 201.

Notes to the Parent Company Financial Statements continued

For the 53 weeks ended 2 July 2022

13. Share-based payments

The Company operates the following share-based payment schemes for the CEO and CFO:

A. LONG-TERM INCENTIVE PLAN (LTIP)

As explained in the Remuneration Report, the Company operates an equity-settled LTIP scheme. Performance conditions for the LTIP awards are detailed in the Remuneration Report. LTIP options are also accounted for as equity-settled awards under IFRS 2.

B. BONUS DEFERRED SHARES AWARDS

The Bonus Deferred Shares Awards provides options over shares in Dunelm Group plc for participants as a discretionary bonus. This is an equity-settled share option scheme and there are no performance conditions attached to these awards, they are only dependent on continued employment. Under this arrangement, participants are awarded a number of options which is based on the cash value of the earned bonus award – determined by their achievement of a mixture of Company and individual performance metrics – divided by a share price value of 1,189.00p which was approved at the November 2020 AGM. The deferred shares awarded vest in September 2021 and September 2022.

14. Contingent liabilities

The Company had no contingent liabilities at the period end date (2021: none).

15. Related parties

Transactions between the Company and its subsidiaries were as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Dividends received	**150.2**	24.3
Net interest receivable	**3.1**	5.0
	153.3	29.3
Amounts owed by Group undertakings	**98.3**	478.9
Amounts due to Group undertakings	**–**	(225.5)
	98.3	253.4

KEY MANAGEMENT PERSONNEL

All employees of the Company are key management personnel.

Directors of the Company and their close relatives control 42.9% (2021: 43.0%) of the voting shares of the Company.

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries	**1.6**	1.5
Short term employee benefits	**1.8**	0.3
Post-employment benefits	**0.0**	0.0
Share-based payments	**0.9**	1.9
	4.3	3.7

The amount of gains made by directors on the exercise of share options are disclosed in the Renumeration Report on page 154.

16. Subsequent events

There are no reportable subsequent events for Dunelm Group plc.