In this report

See corporate.dunelm.com for more information and for our Sustainability Report 2023.

At a glance

We are the UK's No.1 homewares retailer, delivering value and joy to help more and more UK consumers create a home they love

£1.6bn
FY23 sales

£193m
FY23 profit before tax

£163m
FY23 total dividends paid

179
stores across the UK

No.1
Market leader in UK homewares

c.70,000
products to suit every style and budget

11,000+
committed colleagues

For more performance highlights please see page 12.

About us

100%

recycled glass vases from our Conscious Choice range

Our vision: to build the UK's most trusted and valuable brand for homewares & furniture

Our purpose:

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

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

Our shared values

Our shared values have evolved from our fundamental business principles developed more than a decade ago and reflect our attitudes and behaviours throughout Dunelm

- Stronger together
- Keep listening & learning
- Act like owners
- Long-term thinking

Read more on pages 72-73.

Seizing the opportunity

to be inspired

In this section


IN THIS HOUSE
EAT CHOCOLATE FOR BREAKFAST
DAILY NAPS ARE RECOMMENDED
LIFE HAPPENS,
COFFEE HELPS
COUNT THE MEMORIES...NOT THE CALORIES
SMILE WHILE YOU STILL HAVE TEETH

Driving the business forward sustainably

In my first set of full year results with Dunelm, I am delighted to report another year of strong sales growth and market share gains.

The last year has undoubtedly been challenging for UK consumers and businesses alike. I have been hugely impressed by the energy and enthusiasm with which our team has approached these challenges, delivering a strong performance for our stakeholders whilst continuing to think long-term and investing for the future in light of the many opportunities we see on the horizon. We have maintained a focus on all our key stakeholders: delighting our loyal customers, and attracting new ones, by delivering quality and value; strengthening relationships with our suppliers and partners; supporting our colleagues and the communities we serve; as well as generating strong shareholder returns. Alongside this, we are also making good progress towards our long-term sustainability goals.

This performance would not have been possible without the individual contributions of our more than 11,000 colleagues, across stores, logistics, manufacturing, customer service and support centres. I would like to thank them all for their ongoing hard work and dedication to the business and our customers, and for their contribution to our unique, inclusive and positive culture which continues to help us thrive.

Performance

FY23 saw record sales of £1.64bn, reflecting a strong performance in an extremely challenging environment. As ever, we believe that the strength and relevance of our product range is a significant advantage, helping us to provide outstanding value to our customers, to grow our sales and win market share.

Our sales grew by 6%[1], and our overall market share increased to 7.2%[2], with gross margin of 50.1%. Profit before tax was robust at £193m (FY22: £209m)[3], which is particularly pleasing given the impact of operating cost inflation and our ongoing investment in the business. Our profit before tax margin of 11.8% (FY22: 13.5%[3]) was robust, demonstrating the underlying resilience of the business and tight operational controls.

Dividends

Consistent and strong cash generation remains an impressive quality of Dunelm's business model. This year, the Board has proposed a final ordinary dividend of 27 pence per share, reflecting our strong profitability and ongoing confidence in the business.

> "The last year has undoubtedly been challenging for UK consumers and businesses alike. I have been hugely impressed by the energy and enthusiasm with which our team has approached these challenges."

1 For statutory purposes FY22 included a 53rd week. Sales growth shown is on a comparable 52-week basis. On a 53-week basis sales growth was 4%.

2 GlobalData UK combined homewares and furniture markets, excluding kitchen and bathroom furniture. Market share for the period July 2022 to June 2023 was 7.2%.

3 For statutory purposes FY22 included a 53rd week. FY22 PBT and PBT margin are shown on a comparable 52-week basis. On a 53-week basis FY22 PBT was £213m and PBT margin was 13.5%.

This brings the full-year ordinary dividend to 42 pence per share, an increase of 5% and within the range of 1.75x to 2.25x dividend cover[4] stated in our capital and dividend policy. We also paid a special dividend of 40 pence per share in April. In all, we returned £163m of cash in dividends during the year.

We have now returned more than £1bn[5] to shareholders in the last ten years, demonstrating our consistent performance and highly cash generative business model.

Doing the right thing

We build sustainability into all that we do, embedding a long-term mindset of doing the right thing through our decisions and processes, with a view to delivering for all our stakeholders. You will be able to read more detail in our upcoming 2023 Sustainability Report about our progress, objectives and future plans.

We strive to achieve product mastery across our categories, which increasingly involves innovation to make our products more sustainable. A fantastic example of this is Conscious Choice, a label we introduced in 2022 to showcase own brand products that are made from at least 50% (by weight) more sustainable materials than their comparable alternatives. Conscious Choice options now account for c.15% of own brand products across our categories and we have plans to expand this further.

We are also working in our stores and supply chain to reduce carbon emissions, continuing to replace gas fired heating equipment, putting in place energy management systems, and starting to use vehicles powered by more sustainable fuel, including electricity and compressed natural gas, in our distribution fleet. As a result, we have seen a further reduction in Scope 1 carbon intensity, ahead of our targets.

Combining sustainability with customer engagement in our communities is another positive way in which we reduce our impact on the planet, working towards circularity. We now offer a textiles take-back service in the majority of our stores, with over 70 tonnes per month of materials being returned by our customers. As we move towards product circularity, we extended the impact of this scheme by working with one of our suppliers to turn these recycled textiles, along with other recycled fibres, into products for our new 'Remade' range. This year we have also trialled a new Home to Home initiative, which rehouses our customers' pre-loved homewares.

We are still at an early stage in our sustainability journey, and recognise there is much more to do, but we are pleased with the progress being made and the commitment from colleagues across the business in this important area.

Board

I was delighted to join the Board as Chair Designate last September and take on the role of Chair in January. I am very pleased with the diverse experience we have across both our Executive and Non-Executive Directors and how this continues to contribute to our performance.

I would like to thank and congratulate Andy Harrison, who stepped down as Chair in January having joined the Board in 2014. Andy oversaw a period of growth, particularly in organisational capability, which left a very strong base from which we can build going forward.

Seizing the opportunity

I am proud of what the business has achieved in my first year, and also of its aspirations for the future. We are very mindful that the consumer environment remains challenging and uncertain in the near term. With the support of our brilliant colleagues, we believe that we are well positioned to seize the opportunity to bring value and joy to our growing base of customers across our total retail system. As has been the case throughout Dunelm's history, we will continue to invest wisely and to deliver for all our stakeholders, in order to keep growing the business sustainably, for the long term.

Alison Brittain
Chair
20 September 2023

First impressions

I have long been a Dunelm customer and in that capacity I had a great deal of affection and admiration for the business. Having joined the Board last year, I thought it would be useful to share some of my early reflections.

One of my immediate impressions is of being hugely impressed by the strong culture within the business. Dunelm is a company that truly stands by its values: stronger together; keep listening and learning; act like owners; and long-term thinking. We have a team of highly motivated colleagues who show great commitment to the Company and its purpose.

The ambition of the Company and our colleagues continues to impress me. Dunelm has consistently grown throughout its history, and there is huge appetite for that to continue, both through our store channels and also by improving our digital offering to fully take advantage of our total retail system. This also extends to continuously raising the bar on our product ranges, aiming to offer customers outstanding value products at all price points, with the best designs, materials and sustainability credentials. The team here are rightly proud of Dunelm's heritage, while also being focused on looking forward and continuously improving how we deliver for customers.

Finally, the Company and the management team strive for Dunelm to be a force for good. Our values are incredibly important to us, and while it is vital that we continue to grow profitably, the team prides itself on running an organisation that makes a positive contribution for its stakeholders. I feel very proud to be a part of the Dunelm team and am excited as we look forward to further progress in the years to come.

4 Dividend cover is calculated as earnings per share divided by the total ordinary dividend relating to the financial year.

5 Ordinary dividends plus special dividends plus special distributions.

The UK's market leader in homewares...

We are the UK's market leader in homewares, with a specialist offering for customers across our much-loved superstores and digital platform dunelm.com.

Where we are today

Homewares market

11.0%

FY23 homewares market share[1]
+70bps

Furniture market

2.0%

FY23 furniture market share[1]
Unchanged

Combined market

7.2%

FY23 combined market share[1]
+40bps

36%

Digital share of total sales

1 GlobalData UK homewares and furniture markets, July 2022 to June 2023. Furniture excludes kitchen and bathroom furniture.

The customer opportunity

During the year we updated our research into consumers' attitudes to the home and home shopping, giving us much deeper insight into our most valuable customers to support our next phase of growth.

Overall four key themes have emerged which are helping us seize the opportunity to acquire and serve more customers:

Varied attitudes to home

Focus on the home continues to be high, but for different reasons: style, sanctuary, entertainment and family vary widely in importance for different groups.

Differing perceptions of value

Value is important for all, but there are increasingly differing perceptions on price, quality and use of credit in the current environment.

Gaps in brand awareness

Dunelm brand awareness still under-indexes in London and amongst younger age groups.

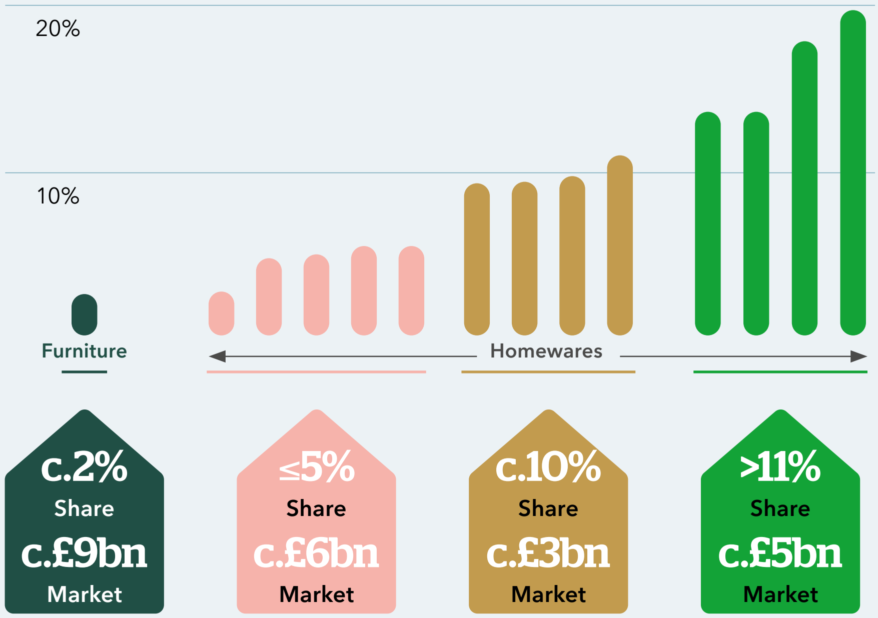
Under-appreciation of category breadth

Dunelm is well-loved, but often across a limited part of the range, even for customers with high brand awareness.

...with an exciting runway for growth

We have a significant opportunity to continue growing our share of all sub-categories of the highly fragmented homewares and furniture markets.

Dunelm market share by category[2]



We operate in the large homewares and furniture markets, with a combined size of c.£24bn[1]. Each of these markets comprises a significant number of sub-categories, often with different and fragmented competitors, in which we currently have varying levels of market share. We believe we have a significant runway for further growth, and that through our entrepreneurial approach of testing and learning, we can grow share in all these categories.

2 Each bar represents a Dunelm homewares or furniture category which in total represent c.80% of total sales, mapped to GlobalData market sizes for the period January 2022 to December 2022. Excludes certain Dunelm categories which are not part of the GlobalData homewares and furniture markets e.g. rugs. The furniture market excludes kitchen and bathroom furniture.

The market opportunity

Even in our most established categories we have the opportunity to grow our share despite being market leaders. We will optimise our ranges through product innovation, including offering more sustainable options and making our customers' shopping experiences easier and more convenient.

We also have an opportunity to gain share in the remaining homewares categories, where we are currently less well established, by developing our product mastery. We are confident that our relatively lower product maturity gives significant headroom for further growth and share gain.

Whilst we have grown our share of the furniture market in recent years, our overall share remains low, presenting a substantial opportunity for growth. We have been building a stronger customer offer and operating model to help realise this opportunity.

How we generate sustainable value for all stakeholders

Our long-term thinking

We remain ambitious about being a good company that focuses on growing sustainably. This means adopting a culture of making decisions for the long term to create enduring financial and social value for our stakeholders, while reducing our environmental impacts.

Our customer proposition

We will deliver our purpose by being *Customer 1st*; striving to improve our offer for savvy home-lover customers.

Value & choice
Great product quality & style for every budget

Friendly & expert
Service that is non-judgemental & knowledgeable

Fast & convenient
Everything easy to find, buy & use

Good & circular
Positive choices for people & the environment

Read more in our CEO's review on page 13.

Stakeholder value creation

Customers

Improving our in-store and digital services and experiences to raise the bar on our customer offer and deliver value and joy.

2.8%[1]
growth in active customer numbers

Colleagues

Ongoing investment in social and financial wellbeing, communication, diversity, equality and opportunities to learn in an ambitious and inclusive organisation.

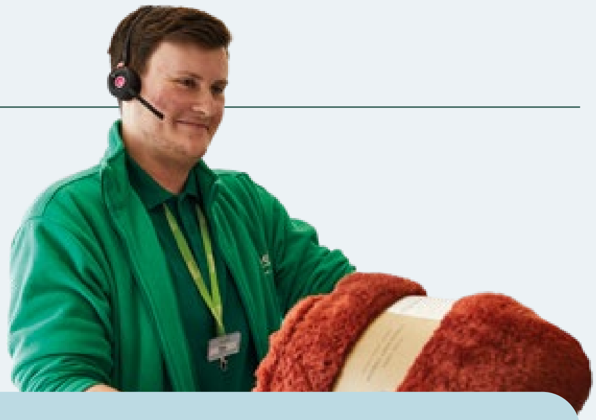
82%
participation in our latest colleague engagement survey

Communities

Creating mutual benefits by expanding our community communications, social media interactions and meaningful local fundraising initiatives.

61%
own brand products available for take-back service

1 Growth in unique active customers who have transacted at least once in the 12 months to June 2023. Management estimates using Barclays data.



Our competitive advantages

We have an advantaged business model which helps set us apart from others in a competitive and fragmented UK homewares market.

Well-known brand with broad appeal
Our brand is ambitious and inclusive, appealing to a broad range of home-lover customers across different regions, ages and incomes.

Product mastery credentials
We design and develop the majority of our products in-house, allowing us to offer relevant and curated ranges and to adapt quickly to the changing needs of our customers.

Strong colleague culture
Our friendly and knowledgeable colleagues are the heart of our business, driven by our purpose and shared values to create an environment for all to thrive.

Cost-effective total retail system
Our total retail system offers customers the combination of enjoying friendly service in stores with the convenience of our digital channels. Our low-cost (mainly leased) store portfolio is complemented by a maturing digital channel, allowing us to benefit from a cost-effective total retail system.

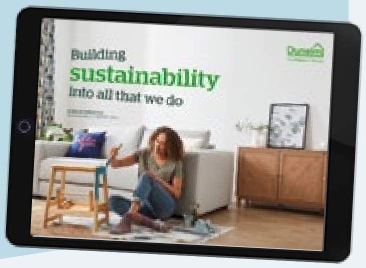
Financial strength
We have a highly cash-generative model and our deep-rooted founder mentality keeps us focused on operational grip to deliver sustainable profitable growth.

Runway for growth
We have a relatively small share of large, fragmented markets and are confident of the very significant opportunities for us to gain further share to support our growth ambitions.

Doing the right thing

We aim to think and operate in a responsible, sustainable and ethical way – taking decisions while evaluating the risks and opportunities that our actions might have on our colleagues, the planet, and other stakeholders; and doing the right thing to support the relationships that we need for long-term growth.

Read more in our sustainability section on page 26 and online in our Sustainability Report 2023.



Read more about stakeholder engagement on page 30.

Suppliers

Strengthening engagement to promote long-term relationships, based on integrity and transparency, that are focused on social, environmental and product quality standards.

99%
invoices paid on time

Planet

Target-setting and actions to reduce carbon emissions across our operations and supply chain, with increasing focus on the use of more sustainable materials.

32%
reduction in Scope 1 carbon intensity since FY19

Shareholders

Timely and transparent financial and ESG communication to optimise capital allocation decisions while remaining focused on financial discipline and performance.

£163m
total dividends paid in the year

How we will seize the opportunity

Our vision is to build the UK's most trusted and valuable brand for homewares and furniture. We are focused on continuing to deliver sustainable, profitable growth to create value for our stakeholders and see a clear runway for further growth.

Our *Customer 1st* proposition remains at the heart of the business and our ability to deliver is powered by **three core strategic** drivers which underpin our plans.

1 2 3

Aligned with these drivers is our ambition to be a good company and build sustainability into all that we do. We also continue to invest in digitalising and developing our foundations to improve our customer offer and make our operations more efficient.

1

Product mastery

Product mastery encapsulates the deep expertise we are developing across our categories, from creative design to responsible sourcing via our committed supplier partners.

We are passionate about offering our customers outstanding value and quality for every space, style and budget. With the majority of our products being own brand and exclusive ranges, we are innovative and agile in our product development, working closely with our suppliers. This allows us to create product ranges which excite our customers whilst meeting our exacting quality, ethical and environmental standards.

c.15%

of own brand product range by stock-keeping unit (SKU) branded Conscious Choice[1]

c.20,000

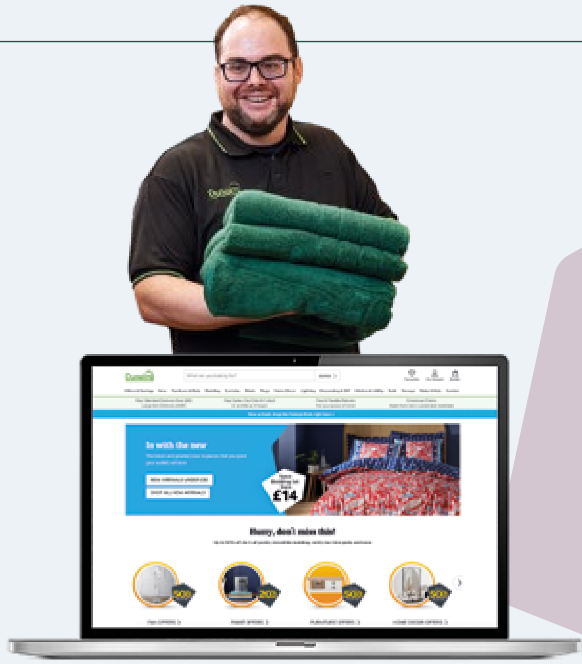
new products added to our online range, giving customers even more choice

Generating value...

We work hard to operate an effective and efficient business model, harnessing the talents of our colleagues and combining these with technology to improve our offer. This facilitates our relentless focus on offering outstanding value and quality across our product range.

Read more about how we are generating value in our CEO's review on page 13.

1 To be part of our Conscious Choice range, every product must be made from at least 50% more sustainable materials (by weight) compared to conventional alternatives.



Our total retail system is people-led, tech-powered, and efficient.

Brilliant stores serving their local communities x **Digital channels** optimised for our customers x **A marketing ecosystem** to grow and service our audience

2

Total retail system

Our thriving total retail system combines the advantages of physical and digital retail in a seamless offer which gives choice to our customers in how they shop.

We continue to invest in technology to power this system and empower our colleagues. Digitalisation encompasses everything from improving our shopping experience, to increasing operational productivity, to leveraging data and insights to refine our proposition.

82%

our highest-ever participation rate in our colleague engagement survey

3

36%

Digital sales mix

1.1m

community followers

Culture and identity

We have developed a strong culture as an ambitious and inclusive organisation.

Maintaining the strength of our culture and identity is essential to the long-term sustainability of our business. Our shared values embody what we stand for – we remind our long-standing colleagues of the importance of our values and we instil these in new joiners. We are entrepreneurial, inclusive, adaptable and resourceful in a workplace that welcomes all.

...and joy

We are raising the bar on our proposition, with a greater focus on bringing joy to more customers. Joy comes in many forms, from providing a non-judgemental, knowledgeable and friendly service in store, to ensuring fast and convenient home delivery solutions. Joy also comes through offering more choices that are positive for the environment, and more products with personality, such as those found in our Natural History Museum and Disney ranges.

Read more about how we are delivering joy in our CEO's review on page 13.

Performance summary 2023

Financial highlights

Total sales

£1,639m

Profit before tax

£193m

FY22: £213m

Free cash flow

£160m

FY22: £153m

Digital sales mix

36%

FY22: 35%

Gross margin

50.1%

FY22: 51.2%

Diluted earnings per share

75.0p

FY22: 83.6p

Ordinary dividends

42.0p

FY22: 40.0p

Operational highlights

Active customer growth

+2.8%[1]

FY22: +8.5%

Market share

7.2%[2]

FY22: 6.8%

1 Growth in unique active customers who have transacted at least once in the 12 months to June 2023. Management estimates using Barclays data.

2 GlobalData UK homewares and furniture markets, July 2022 to June 2023. Furniture excludes kitchen and bathroom furniture.

Read more in the Alternative Performance Measures table on page 172.

Our FY23 focus areas and what we achieved

Sustainability

- Launched and grew our Conscious Choice range, which now makes up c.15% of own brand products
- Launched 'Remade', our first step towards product circularity using post-consumer waste
- Ongoing investment in our colleagues' learning and development

Product development

- Focused on innovative design to broaden range and maintain value
- Introduced c.20,000 additional products
- Improved commercial support through enhanced data management

Customer understanding

- Developed customer data platform
- Improved understanding of cross-channel profile matching
- Started leveraging data to improve our 'single-customer' view

Post-sales experience

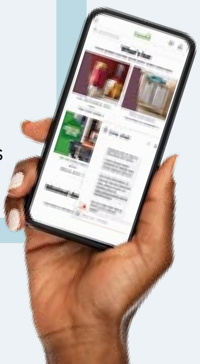
- Shortened delivery lead times and reduced 'split deliveries'
- Improved tracking data and customer communications
- Trialled parcel shop collections in London and click and collect lockers

Data and insight

- Strengthened in-house skills and resource
- Enhanced data platforms and capabilities used to optimise decision-making
- Evolved personalised customer marketing, based on behavioural insight

Shopping experience

- Diversified payment options via new online payment platform
- Trialled bookable consultations and live chat, improving access to colleague expertise
- Upgraded store experience through ten refits and three new stores (including relocations)



Seizing the opportunity, with another record year of sales

We delivered another strong performance in FY23. In a difficult environment for our customers, where cost-of-living pressures were front and centre, we sharpened our focus on relevance and value.

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

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

FY23 Review

A strong performance with relevance and value at its core

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

Total sales growth

+6%

(Comparable 52-week basis)

Market share gains

+40bps

(Combined homewares and furniture markets)

Nick Wilkinson
Chief Executive Officer

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

By keeping relevance and value at the heart of our proposition, total sales grew by 6% against the comparable 52-week period in FY22 (which also included a particularly strong Q1 as Covid restrictions eased). Total sales were 49% higher than FY19 (the last full year uninterrupted by the pandemic). Compared to FY22, we had 2.8% more active customers[1] and our market share in the combined homewares and furniture markets increased by 40bps in challenging market conditions[2].

Gross margin of 50.1% (FY22: 51.2%[3]) was tightly managed through the year and we stayed true to our principle of instilling operational grip across the business. We saw more normalised customer behaviour during our Sale events and carefully balanced the impact of higher cost prices with our commitment to value. This resulted in a robust PBT performance of £193m (FY22: £209m on a comparable 52-week basis), which was pleasing given the tough backdrop and reflected both tight control of margin amidst inflation in our operating costs and our ongoing commitment to investment for the future.

We generated strong free cash flow of £160m (FY22: £153m), allowing us to declare a final dividend of 27p, bringing the total ordinary dividend for the year to 42p, a year-on-year increase of 5%, reflecting our confidence in the future performance of the business. We returned a total of £163m to shareholders during the year, including a special dividend of 40p declared at the interim results. This brings the total returned to shareholders over the last decade to over £1bn[4].

Delivering for all our stakeholders

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

Our committed colleagues are at the heart of our business. We understand that the current environment is difficult for many of them, so during the year we increased our support on financial wellbeing, with progressive pay increases, additional support funds and advice on a range of financial matters. We have also invested in learning and development opportunities to promote a 'learning for life' mindset to help colleagues to develop their careers. This continued focus on colleague development saw us retain 87% of our colleagues through the year[5]. Listening and learning is one of our shared values and we undertake a twice-yearly colleague survey. In FY23, we upgraded our colleague engagement platform, making it two-way and encouraging colleagues to give direct feedback to their line managers. We achieved a participation rate of 82%, making it our most comprehensive survey to date and enabling us to achieve a deeper level of understanding of our colleagues and to take more targeted action.

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

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

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

As we learn more about how to reduce our impact on the planet, progress on our Pathway to Zero[6] plan continues. We are making good progress on reducing our carbon emissions, with our decarbonisation programme in stores contributing to a further reduction in Scope 1 carbon intensity this year. We are also transitioning our company car fleet to hybrid or electric vehicles. We extended our Conscious Choice ranges, which are made from more sustainable materials, to c.15% of our own brand range. We launched our first 'Remade' products, using materials including those from our take-back schemes, our first step towards product circularity. During FY23 we moved our environmental accreditation to Better Cotton, who are industry leaders in this area. As a result this was a year of transition during which we did not achieve our target. We expect to see a significant improvement in FY24 as we complete our transition and remain committed to sourcing c.100% more responsible cotton by 2025. Finally, we have now reduced our use of virgin plastic packaging by 36% compared to FY20 by both reducing the amount of packaging we are using and increasing the recycled content.

1 Growth in unique active customers who have transacted at least once in the 12 months to June 2023. Management estimates using Barclays data.
2 GlobalData UK combined homewares and furniture markets, excluding kitchen and bathroom furniture. Market share for the period July 2022 to June 2023 was 7.2%.
3 For statutory purposes FY22 included a 53rd week. Gross margin is shown on a comparable 52-week basis. On a 53-week basis FY22 gross margin was 51.2%.
4 Ordinary dividends plus special dividends plus special distributions.
5 Retention is the percentage of colleagues from the start of the financial year (July 2022) who remained employed until the end of the financial year (June 2023), excluding any planned leavers.
6 Our Pathway to Zero commitments are described in more detail in the sustainability section of our corporate website at https://corporate.dunelm.com/sustainability.

During the year, we submitted our targets to the Science Based Targets initiative (SBTi) and were pleased to receive confirmation, after the year end, that our near-term and net-zero targets have been approved by the SBTi[7]. This will see Dunelm align to the latest climate science from the Intergovernmental Panel on Climate Change (IPCC) by limiting the global temperature rise to 1.5°C.

Seizing the opportunity

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

Whilst we are the homewares market leader, we still hold only a c.7% share of the UK homewares and furniture market that is worth a total of c.£24bn[2]. This significant market is highly fragmented, giving us the opportunity to serve many different product categories and multiple customer missions. Our most established categories have higher market shares, which we are confident of growing further still; at the same time we have an opportunity to increase our share in those more nascent categories where we are currently less well established.

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

We will deliver our purpose by being *Customer 1st*, striving to improve our offer for savvy home-lover customers.

By focusing on our proposition to deliver more value and joy to our customers, we are confident in our plans to continue growing our sales and gaining market share.

Value & choice

We will continue to offer customers relevant products with outstanding value and choice. Every customer has a different perception of what value means to them but we know our products must be practical, attractive, affordable and, increasingly, offer a sustainable reason to buy them.

Friendly & expert

Whether in store, at the end of a phone (or email) or making a delivery to a home, we train our colleagues to be friendly and helpful (and track how well our customers think they do). Our investment in technology and data gives them additional tools to advise on product choice and availability more efficiently.

Fast & convenient

We aim to provide an easy and seamless online and in-store customer shopping and delivery experience – personable, knowledgeable, efficient and glitch-free from start to finish. Information about our products and their attributes is transparent, including how to care for them and – if need be – how to return them effortlessly.

Good & circular

We are making it easier for our customers to make thoughtful choices by using more sustainable materials, by building circularity into our product design and by communicating these initiatives more clearly to our customers. This includes our commitment to treating our own colleagues and people in our supply chains fairly and with respect.

7 Our targets approved by the SBTi are as follows. Overall Net-Zero Target: Dunelm Group PLC commits to reach net-zero greenhouse gas emissions across the value chain by FY40 from a FY19 base year. Near-Term Targets: Dunelm Group PLC commits to reduce absolute Scopes 1 and 2 GHG emissions by 50% by FY30 from a FY19 base year. Dunelm Group PLC also commits to reduce absolute Scope 3 GHG emissions by 50% within the same timeframe. Long-Term Targets: Dunelm commits to reduce absolute Scope 1, 2 and 3 GHG emissions by 90% by FY40 from a FY19 base year.

A plan for sustainable growth

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

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

1 Strengthening our customer offer

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

Value

We work tirelessly on our range architecture to offer customers value at all price points. A good example of this is in our range of Egyptian cotton towels, where we held prices a year ago despite cost prices increasing. At the same time, we introduced a new 'Super Soft' range in our lowest priced 'good' quality tier. These initiatives resulted in gains in our volume share of the bathroom textiles category.

We also demonstrate value across the range by reducing prices as input costs fall. During the year we reduced prices on a number of our furniture lines and lowered prices on many products across other categories in the spring.

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

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

Joy

Alongside outstanding value, we are equally focused on delivering joy for our customers. While shoppers will work hard to be savvy, looking for ways to

Seizing the opportunity to strengthen our customer offer

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

Generating value and joy

Sustainability
Introduced more sustainable materials while maintaining prices.

Price drops
Over 1,000 lines reduced in the spring.

Curated range growth
Increased range by c.20,000 to c.70,000 product lines.

Innovation
New compositions introduced in cushions including towelling, beading, sequin embroidery and wool blends.

Improving range architecture
Held prices on Egyptian cotton towels despite cost price increases whilst introducing new 'good' price point.

Extended guarantees

Our Egyptian cotton towel collection uses more responsibly sourced cotton and comes with a five-year guarantee.

save and balancing price and quality to meet their budget, they are also looking for their experiences and purchases to bring them joy.

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

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

2 Extending and digitalising our total retail system

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

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

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

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

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

Seizing the opportunity to extend and digitalise our total retail system

One of the key advantages of our business model is what we call our total retail system, combining the benefits of physical stores with the convenience of online shopping, and the reach of our marketing ecosystem. At the same time, we continue to digitalise our total retail system to improve our customer offer and increase the efficiency of our operations.

Accelerating openings: Superstore openings since FY19

Recent store openings, outside of our traditional size and location criteria, have demonstrated strong payback. For each of the next two years we expect to accelerate openings to five to ten new (or relocated) stores.

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

3 Evolving our marketing ecosystem

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

At present, Dunelm is typically only top of mind (1st, 2nd or 3rd mention) for around half of the product categories we offer, demonstrating the breadth of the opportunity.

We can reach these target audiences more effectively through our ever-evolving marketing ecosystem. We continue to make progress towards a single combined view of our store and online customers, with our online payments system to be rolled out to stores in the first half of this financial year. In the meantime we have a significant database of online customers and those store customers who have provided an email address. We are combining data from multiple sources, including demographics and previous purchasing behaviour, to begin a more targeted and personalised level of marketing, including optimising the timing of customer communications and customer-specific product recommendations within marketing emails.

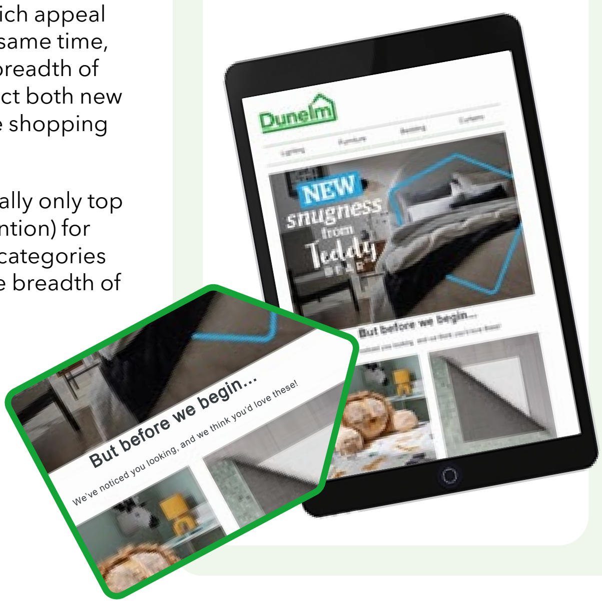
We are also testing a more customised website, where paid search will lead to a personalised dunelm.com landing page with a greater range of options beyond the specifically searched-for product. This activity is at an early stage and being approached with our usual test and learn mindset, but we believe it provides exciting opportunities for a better customer experience and future growth.

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

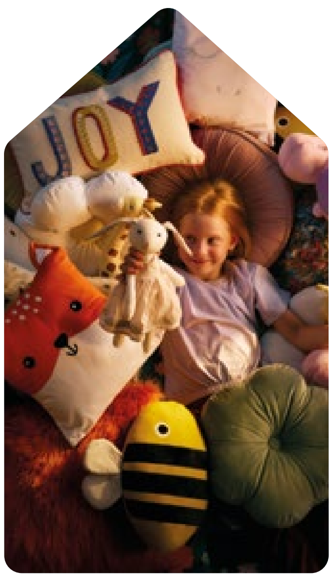
Seizing the opportunity to evolve our marketing ecosystem

During the year we deepened our understanding of consumer attitudes to the home and home shopping, giving us greater insight into the customer opportunity for our next phase of growth. We can reach these target audiences more effectively through our ever-evolving marketing ecosystem.

Personalisation presents an exciting opportunity to improve our customer proposition and drive profitable growth.



New brand campaign launches this autumn to extend our reach.



50% recycled

plastic from Plastic Bank® is used to make the Quallofil® Blue fibre seat filling in our Marlow armchair. The chairs also have recyclable feet and frames.

Building sustainability into all that we do

We strive to make decisions that are guided by our purpose and underpinned by our shared values that create value for our stakeholders in a balanced and ethical way. We are becoming bolder in delivering meaningful initiatives across the business to build sustainability into all that we do.

Our Conscious Choice range continues to expand. To qualify for this range, each product must be made from at least 50% more sustainable materials (by weight) compared to conventional alternatives. Conscious Choice options now represent c.15% of our own brand product ranges and we are working on further category extensions. We have been introducing recycled materials into our textiles ranges using, for example, recycled polyester in cushion fillings and bedding ranges. We are equally excited by the opportunities for further product differentiation in our non-textiles range, by using materials that are less carbon-hungry (such as recycled steel and aluminium) in saucepans and lighting. Our goal is to launch these products at competitive price points, as we believe sustainability should be accessible to all. We take a holistic approach to achieving this – for example, in the design of packaging to reduce transport costs, waste disposal costs and (in the case of plastic packaging) tax.

Our nationwide textiles take-back scheme continues to gain momentum. In February 2023, we launched a new product range called 'Remade' in our Conscious Choice assortment, made of materials coming from pre-loved textiles such as those generated from our take-back scheme. This initiative reflects our commitment to and first step towards product circularity, by recycling returned materials and developing products from end-of-life items.

We 'do the right thing' by looking after our colleagues – we support their mental and financial wellbeing, invest in learning and training opportunities and aim to make them feel 'at home' in a diverse and inclusive workplace.

We continue to support our store communities through local fundraising initiatives and by opening up our retail and cafe spaces to community groups and small businesses. We trialled a successful summer 'Delivering Joy' campaign on the back of our popular winter events and we are looking at how we can create wider social value in our communities.

Finally, we do all the above in an ethical and responsible way, keeping our house in order through mandatory training in responsible business conduct (including product safety protocols, anti-bribery, prevention of modern day slavery, data protection and responsible marketing and communications), and by promoting (and auditing) responsible supply chain practices.

For more information, see page 26 and online in our Sustainability Report 2023.

Summary and Outlook

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

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

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

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

Nick Wilkinson
Chief Executive Officer
20 September 2023

Measuring our progress

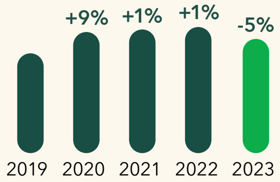
The Board uses a range of financial and non-financial key performance indicators (KPIs) to measure overall Group performance and progress against our strategic priorities and to determine CEO and CFO remuneration.

Non-financial

Employee net promoter score (eNPS)

Year-on-year improvement %pts

-5%pts



Listening and learning is one of our shared values and we undertake an annual colleague engagement survey to derive an eNPS score. In FY23, we upgraded our colleague engagement platform, allowing colleagues to interact directly with their line managers. Our year-on-year eNPS fell by 5%pts, returning to its pre-pandemic high point. Participation was particularly high at 82% (FY22: 78%) enabling us to better understand our colleagues and to take more targeted action.

Why this measure is important
This measure rates our colleagues' experience with us and the survey helps us understand where we need to improve.

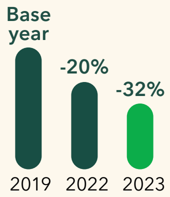
Scope
We compare results from the May survey each year. However, due to Covid the May 2020 survey was postponed, and in FY20 we compared the November 2019 and November 2018 surveys and in FY21, the May 2021 and November 2019 surveys.

Scope 1 intensity reduction[1]

Reduction versus base year and Scope 1 tCO_2e/£1m Group revenue

-32%

LTIP



We continue to make good progress in reducing our carbon intensity, with our decarbonisation programme in stores contributing to a further reduction in Scope 1 emissions this year. We are also transitioning our company car fleet to hybrid or electric vehicles. Since the year end we introduced our first compressed natural gas vehicles in our trunking network, helping us to continue to reduce our carbon emissions in FY24.

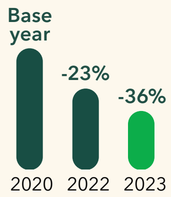
Why this measure is important
This measure helps us to understand how successful we are in reducing our impact on the environment and achieving our long-term carbon reduction targets.

Scope
This metric is for Scope 1 emissions only. Scope 2 emissions for FY23 are negligible due to the purchase of renewable electricity. For further details on all carbon emissions, see our TCFD report on pages 40 to 47.

Reduction in virgin plastic packaging of own brand products (by weight per £1 sales) versus base year[1]

-36%

LTIP



We have achieved a 36% reduction in virgin plastic packaging in FY23 against our FY20 base. We have both reduced the amount of packaging we are using, for example by introducing thinner plastics or alternative materials, and increased the recycled content.

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

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

Percentage of own brand products for which we offer an easy-to-use take-back service[1]

61%

LTIP

Our take-back service has continued to prove popular with our customers in stores. We are now collecting over 70 tonnes of textiles per month and we improved our collection and sorting processes during the year to help with our journey towards product circularity. During the year we also trialled the take-back of other homewares products in a selection of stores.

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

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

Percentage of own brand cotton products which meet our 'More Responsibly Sourced Cotton' standard[1,2]

26%

LTIP

During FY23, we moved our environmental accreditation to Better Cotton, who are industry leaders in this area. We remain committed to sourcing c.100% more responsible cotton by 2025. However, FY23 was a year of transition during which we were registering and accrediting suppliers to Better Cotton. We expect to see a significant improvement in FY24 as the remainder of our suppliers complete this process and our new approach is more established across our supply base.

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

Scope
In FY23, we became Better Cotton members and moved to their verification for our Spring/Summer 2023 products. As Autumn/Winter 2022 was a transition season, these sales were excluded. This approach is for FY23 only.

Ethnic diversity of our role-model leaders New

% of role-model leaders from an ethnically diverse background

3.8%

LTIP

Whilst we believe our colleague base is representative of wider society, our role-model leaders do not currently show the same level of representation.

Why this measure is important
At Dunelm we strive to be an inclusive organisation. We believe that having a colleague base that is representative of wider society will ultimately lead to a better proposition for our customers.

Scope
Our role-model leaders are defined as 'Heads of' and above and include our regional and store coaches. We currently have nearly 300 of these roles across the organisation and we measure the proportion of these colleagues that come from ethnically diverse backgrounds.

1 Bases of reporting for these metrics are available at corporate.dunelm.com.
2 No comparative figures are presented for this KPI due to changes in the calculation methodology. For details, please refer to the basis of reporting documents at corporate.dunelm.com.

Remuneration measures

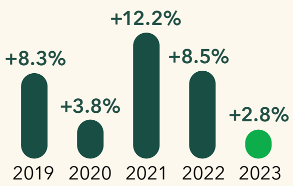
Details of measures used for FY23 bonus and LTIP outcomes can be found on pages 105 to 107 of the Remuneration Report. Further information on the performance criteria that apply to the FY24-26 LTIP award can be found on pages 115 to 116.

Bonus LTIP

Unique active customer growth

% growth

+2.8%



We have grown our active customers by 2.8% as we continued to attract new customers into our stores and online during a challenging year. We have seen broad based growth across age and income groups as well as particularly strong customer retention.

Why this measure is important
We use this metric to measure the growth in our active customer base and therefore our ability to reach new customers. It is important as it underpins our growth in sales. This measure combines our active store and online customers.

Scope
Growth in unique active customers who have shopped in the last 12 months, based on management estimates using Barclays data.

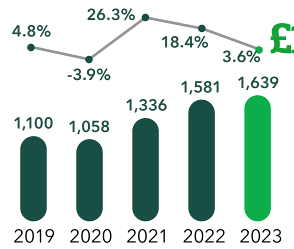
Financial

Total revenue

£m and growth %

£1,639m

Bonus



We achieved strong revenue growth of 3.6% by offering customers relevant product throughout the year, from items to help them save on energy bills during the winter to everyday essential items offering great value for money.

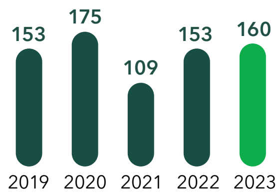
Why this measure is important
We use total revenue as an indicator of how relevant we are to our customers, as it demonstrates how successful we are at selling the right products through the most convenient channels.

Scope
FY22 included a 53rd week for statutory reporting purposes. On a comparable 52-week basis sales growth was 5.5%.

Free cash flow

£m

£160m



We remain a strongly cash generative business with free cash flow of £160m. We converted 81% of operating profit to free cash flow while continuing to invest in new stores and refit activity.

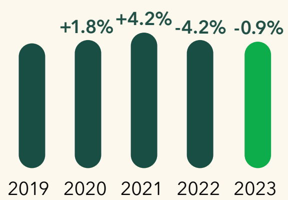
Why this measure is important
Dunelm is highly cash generative. This measure allows the Board to monitor cash flows to support investment decisions for long-term profitability, or to return surplus cash to shareholders.

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

Net promoter score (NPS)

Year-on-year improvement %pts

-0.9%pts



NPS was relatively stable during FY23. We saw similar or improved year-on-year scores in three of the four quarters, with service in the second quarter being impacted by exceptional demand for our winter ranges.

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

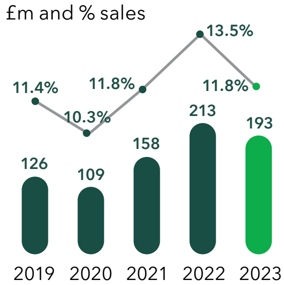
Scope
We measure customer NPS across the different channels that our customers shop with us and the metric above is a weighted average.

Profit before tax

£m and % sales

£193m

Bonus



Profit before tax (PBT) of £193m was 9.4% lower than FY22, as expected, with FY22 benefitting from an extra week of trading, an additional Sale event and pent-up demand following the final Covid lockdown. Gross margin was closer to historical levels and we maintained tight control of operating costs despite inflationary pressures, particularly on wages.

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

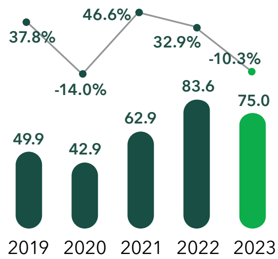
Scope
FY22 included a 53rd week for statutory reporting purposes. On a comparable 52-week basis PBT fell by 7.8% between FY22 and FY23.

Diluted earnings per share

pence and growth %

75.0p

LTIP



Diluted earnings of 75.0p was 10.3% lower than FY22 reflecting the lower profit before tax in the year and an increase in the rate of corporation tax.

Why this measure is important
Earnings per share is a key measure for shareholders and one of the performance criteria for awards under our LTIPs.

Scope
FY22 included a 53rd week for statutory reporting purposes. On a comparable 52-week basis EPS fell by 8.6% between FY22 and FY23.

Focus on delivering outstanding value

We delivered another strong performance in FY23 with growth in sales, customer numbers and market share, and tight operational grip. Our significant free cash flow allowed us to return £163m to shareholders.

Total sales

£1.64bn

FY22: £1.58bn

Total ordinary dividend

42p

FY22: 40p

Karen Witts
Chief Financial Officer

Total sales for the period to 1 July 2023 increased by 5.5% to £1,639m on a comparable 52-week basis (FY22 52w: £1,553m, FY22 53w: £1,581m). Compared to FY19 (the last fully comparable year before the pandemic), total sales grew by 49% (FY19: £1,100m).

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

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

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

Revenue

	FY23 (52 weeks)	YoY (52w v 52w)	YoY (52w v 53w)
Total Group sales	**£1,638.8m**	+5.5%	+3.6%
Digital % total sales	**36%**	+1ppt	+1ppt
Active customer growth[1]	**N/A**	+2.8%	
Homewares market share[2]	**11.0%**	+70bps	
Furniture market share[2]	**2.0%**	+0bps	

Our broad product offer continues to resonate well with our customers and the number of active customers increased by 2.8%[1] in FY23, with an increase in customer retention. We were pleased to see higher growth in the younger (16 to 24 years) and lower income (<£20k) groups, reflecting our growing appeal and focus on value.

We continued to gain market share, with our sales growing year-on-year and our share increasing by 40bps to 7.2%[2] against a combined market for furniture and homewares which was broadly flat. We were pleased to grow share in homewares by a further 70bps to 11.0%[2]. Our market share in furniture, where we have been building a stronger customer offer and operating model, was broadly flat. Sales across our furniture categories increased by 4% year-on-year, with a particularly strong performance in upholstery ranges being partly offset by lower sales in cabinet categories.

Gross margin

Gross margin of 50.1% was in line with expectations and 110bps lower than last year (FY22 52w: 51.2%, FY22 53w: 51.2%), reflecting both a return to more normal patterns of customer behaviour in our Sale events as well as the impact of higher input cost prices.

We have good visibility of FY24 input costs. We plan our purchasing for each season, which helps us manage changes in raw material prices, freight costs and foreign exchange within our margin rates. Looking ahead, we will continue to balance the impact of these with our commitment to offering outstanding value to our customers.

We expect a net tailwind from these factors this year, as well as the sustainable benefit from the operational actions we have taken in recent years, and therefore expect gross margin in FY24 to be c.100bps higher than FY23.

Operating costs

Total operating costs were £622m (FY22 52w: £582m, FY22 53w: £592m), representing an operating cost:sales ratio of 38.0% (FY22 52w: 37.5%, FY22 53w: 37.4%).

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

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

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

Profit and earnings per share

Operating profit of £199m was £15m lower than the comparable period in FY22 (FY22 52w: £214m, FY22 53w: £218m), against a tough backdrop and reflected both tight control of margin amidst inflation in our operating costs and our ongoing commitment to investment for the future.

Net finance costs of £6m (FY22 52w: £5m, FY22 53w: £5m) included interest on IFRS 16 lease liabilities of £5m (FY22 52w: £5m, FY22 53w: £5m).

Profit before tax in the period was £193m (FY22 52w: £209m, FY22 53w: £213m), a reduction of £16m year-on-year on a comparable 52-week basis. Profit after tax of £152m (FY22 52w: £168m, FY22 53w: £171m) reflected an effective tax rate of 21.2% (FY22: 19.5%). The increase in the effective tax rate is broadly in line with the increase to the UK headline rate of corporation tax, which moved from 19% to 25% for the final three months of the year. The effective tax rate was 70bps higher than the UK headline rate, due to our usual items of disallowable expenditures.

In FY24 we expect PBT to be higher than FY23, and the effective tax rate to continue to trend slightly above the headline rate of 25% from FY24.

Basic earnings per share (EPS) for the period was 75.2 pence (FY22 52w: 83.0 pence, FY22 53w: 84.5 pence). Diluted earnings per share was 75.0 pence (FY22 52w: 82.1 pence, FY22 53w: 83.6 pence).

1 Growth in unique active customers who have transacted at least once in the 12 months to June 2023. Management estimates using Barclays data.
2 GlobalData UK homewares and furniture markets, July 2022 to June 2023. Furniture excludes kitchen and bathroom furniture. FY22 has been restated.

CFO's review continued

Cash generation and net cash

In the period, the Group generated £160m of free cash flow (FY22: £153m), with strong conversion of operating profit to free cash flow of 81% (FY22: 70%).

	FY23 (52 weeks) £m	FY22 (53 weeks) £m
Operating profit	**198.8**	217.7
Depreciation and amortisation[1]	**79.4**	79.3
Net movement in working capital	**(4.2)**	(14.8)
Share-based payments	**4.8**	4.8
Tax paid	**(38.2)**	(35.2)
Net cash generated from operating activities	**240.6**	251.8
Capex and business combinations	**(21.8)**	(41.7)
Net interest and loan transaction costs[2]	**(1.1)**	(2.1)
Interest paid on lease liabilities	**(5.3)**	(4.8)
Repayment of principal element of lease liabilities	**(52.0)**	(50.2)
Free cash flow	**160.4**	153.0

There was a small working capital outflow of £4m in the period (FY22: £15m outflow). The prior year outflow reflected the decision to build inventory in order to mitigate the risk of further supply chain disruption. Whilst inventories at the end of FY23 of £211m (FY22: £223m) were lower than FY22, the resulting working capital inflow was broadly offset by a reduction in payables due to lower accruals, including freight accruals. We expect working capital in FY24 to be broadly stable.

Total capital investment of £22m (FY22: £42m) primarily related to £19m spent on the three new stores opened in the period, refits of ten existing stores, and our decarbonisation initiatives. FY22 included £18m paid to acquire the trade and assets of Sunflex, a division of Hunter Douglas (UK) Limited.

We expect to increase the rate of new store openings to five to ten (including relocations) in FY24, therefore capital expenditure will increase to c.£30-40m.

Cash tax paid was £38m (FY22: £35m) reflecting the higher effective tax rate. FY22 also included cash receipts in relation to research and development claims made at the end of FY21.

In the period, the Group spent £7m (FY22: £28m) purchasing shares to be held in treasury to satisfy future obligations under its employee share schemes. The Group held 1.7m shares in treasury as at 1 July 2023.

After total dividend payments in the period of £163m (FY22: £282m), the Group ended the year with net debt[3] of £31m (FY22: £24m).

Banking agreements

At the year end date, the Group had in place a £185m sustainability-linked unsecured revolving credit facility ('RCF'). The terms of the RCF included covenants in respect of leverage (net debt[3] to be no greater than 2.5× adjusted EBITDA[4]) and fixed charge cover (EBITDAR[5] to be no less than 1.75× fixed charges[6]), both of which were met comfortably as at 1 July 2023.

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

1 Including impairment and loss on disposal.
2 Excluding interest on lease liabilities.
3 Excluding lease liabilities. Full definition provided in the table of alternative performance measures.
4 Adjusted EBITDA defined as EBITDA less depreciation on right-of-use assets.
5 EBITDAR defined as EBITDA plus rent.
6 Fixed charges are defined as net interest costs plus right-of-use asset depreciation plus rent.

Our Tax Strategy

	FY23 £m	FY22 £m
Net VAT collected	**164.7**	163.3
Payroll taxes including National Insurance[7]	**56.2**	50.2
Corporation tax	**38.2**	35.2
Plastic packaging tax	**0.1**	–
Total tax contributions	**259.2**	248.7

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

Tax Strategy available on corporate.dunelm.com

Capital and dividend policies

The Board policy on capital structure targets an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.2× and 0.6× the last 12 months' EBITDA[8]. The Group's dividend policy targets ordinary dividend cover of between 1.75× and 2.25× earnings per share during the financial year to which the dividend relates.

The Board will continue to consider returning surplus cash to shareholders if average net debt, excluding lease liabilities, over a period, consistently falls below the minimum target of 0.2× EBITDA[8], subject to known and anticipated investment and expenditure plans at the time.

Capital and dividend policies

- Target average net debt between 0.2× and 0.6× the last 12 months' EBITDA[8]
- Ordinary dividend cover of between 1.75× and 2.25× earnings per share during the financial year to which the dividend relates
- Return surplus cash if net debt consistently falls below the minimum target of 0.2×EBITDA[8]

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

Dividends

The Board has proposed a final ordinary dividend of 27 pence per share, recognising our strong performance in the year and our ongoing confidence in the business. This takes the full year ordinary dividend to 42 pence per share, 5% ahead of the 40 pence per share paid in FY22, with dividend cover[9] of 1.8×, which is within the range of our stated policy. The final dividend will be paid on 20 November 2023 to shareholders on the register on 27 October 2023, subject to it being approved by shareholders at the AGM.

We paid total dividends of £163m in the year, including a special dividend of £81m.

Karen Witts
Chief Financial Officer
20 September 2023

7 All Dunelm colleagues are based in the United Kingdom, except for 50 colleagues who work in our store in Jersey. Payroll taxes for FY22 have been restated.

8 EBITDA defined as operating profit plus depreciation and amortisation of property, plant and equipment and intangible assets plus loss on disposal and impairment of property, plant and equipment and intangible assets plus depreciation on right-of-use assets.

9 Dividend cover is calculated as earnings per share divided by the total ordinary dividend relating to the financial year.

Building sustainability into all that we do

We are taking action to embed sustainability in the business and to give our stakeholders more information and choice.

REMADE

In May 2023, we launched a range of 21 Remade cushions and throws, which use recycled fibres, such as those collected through our textiles take-back services.

Our progress in FY23

Customers

We have developed many more **sustainable choices** for customers, both across our product range and in other services we provide. In FY23, we:

- Launched and grew our Conscious Choice[1] range to c.15% of own brand products by SKU and created an information hub on our website.
- Increased focus on 'care and repair' and other upcycling options.
- Collected c.70 tonnes a month of pre-loved textiles and used some of these in our Remade range.

Colleagues

Our **learning-thriving-belonging** people strategy supports our commitment to making our colleagues feel 'at home' wherever they work. In FY23, we:

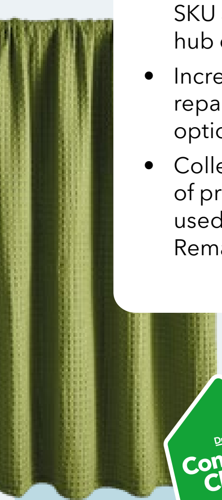
- Invested in learning and development opportunities to strengthen our leadership capabilities and promote a 'learning for life' mindset.
- Increased support on financial wellbeing given ongoing cost-of-living pressures.
- Continued focus on colleague development and retention, which increased to 87%.[2]

Communities

We continued to support communities in and around our stores through various **local initiatives** and **in-store services**. In FY23, we:

- Collected and distributed c.62,000 gifts during our winter 'Delivering Joy' campaign (a threefold increase).
- Welcomed small businesses and community groups to make use of space in our stores and Pausa cafes.
- Raised over £800k for charities, including over £700k for our Group charity partner, Mind.

In aid of mind



Dunelm Conscious Choice

Conscious Choice

Since its launch in August 2022, we have grown our Conscious Choice[1] range to c.15% of own brand products.

MORE SUSTAINABLE MATERIALS

UNWANTED TEXTILES? WE'LL TAKE THEM!

'Find your happy place' is the central slogan for our employer value proposition.

1 To be part of our Conscious Choice range, every product must be made from at least 50% more sustainable materials (by weight) compared to conventional alternatives.

2 Retention is the percentage of colleagues from the start of the financial year (July 2022) who remained employed until the end of the financial year (June 2023), excluding any planned leavers.

Protecting our business

Our strong corporate and ESG governance frameworks, holistic approach to risk management, well-established codes of conduct and policies and Group-wide focus on health and safety help to protect our stakeholders and preserve value in our business.

Whilst the Board has overall responsibility for the Group's sustainability framework and strategy, responsibilities are delegated to the CEO and Executive Team, supported by steering groups as set out on page 64. This includes the Group's Risk and Resilience Committee, which helps to keep the Board and Audit and Risk Committee informed of new or emerging risks (including those related to sustainability) as they relate to the Group. There is also a continued emphasis at Dunelm on 'doing the right thing', guided by our purpose and consistent with our shared values (see pages 1 and 73).

For more information about our approach to sustainability, progress and performance against our sustainability metrics, see our Sustainability Report 2023, available at corporate.dunelm.com.

Planet

Our **improve-innovate-advocate** approach helps us focus on things in our control, while collaborating with others in the industry to progress our net zero commitments. In FY23, we:

- Reduced Scope 1 carbon intensity and plastic packaging, ahead of targets.
- Submitted carbon reduction and net-zero targets to the SBTi for validation with approval received post year-end[3].
- Used more recycled materials in our products to lower our environmental impact and to support product circularity.

Suppliers

We reorganised our commercial processes so that **product quality is reviewed alongside ethical and environmental supply chain standards**, whilst increasing engagement with our suppliers. In FY23, we:

- Joined Better Cotton, industry leaders in sustainably sourced cotton.
- Engaged with key suppliers on 'Better Manufacturing', ethical and packaging standards.
- Increased the number of unannounced ethical audits, resulting in corrective action, and further increased our visibility of supply chain participants.

Shareholders

We shared our **sustainable and ethical performance** with shareholders, rating agencies and banks to help them make more informed investment decisions. In FY23, we:

- Undertook our first third-party materiality assessment, gaining perspectives from key stakeholders – including investors and analysts – on material ESG areas.
- Reviewed progress against ESG metrics linked to our loan facility (applicable only for FY23).
- Continued to engage with ESG rating agencies.

100% recycled glass

Our Pride and Joy table lamp uses recycled glass that saves energy during the production process when compared with virgin glass.

Seat at the table

We continued our advocacy work with: Textiles 2030, Better Cotton, the Sustainable Logistics Forum, the British Retail Consortium, the Aldersgate Group, and we joined the Sustainable Apparel Coalition.

3 Please see our corporate website for our full target wording.

Materiality assessment

In FY23, we undertook a materiality assessment, working with an independent third party to understand the views of our stakeholders on our most material environmental, social and governance ('ESG') topics.

We engage regularly with our key stakeholders and believe we have a fair understanding of what resonates with them. However, we also recognise the importance of applying a more structured approach to understanding how stakeholders view our ESG risks and opportunities. Given greater external scrutiny in this area and the emergence of more prescriptive sustainability reporting frameworks, in FY23 we carried out our first, externally-led materiality assessment.

The purpose of this exercise was to gain insight into stakeholder perceptions on how we manage our most material ESG risks and opportunities. We present a summary of the methodology in the table to the right and a representation of our findings to date in the matrix on page 29 opposite.

While the research did not bring about any major surprises, it elicited debate and made us think more about why, how and when we might communicate more on these topics – internally and externally. Having completed the research in June 2023, our next task is to utilise this work to analyse further the potential impact of ESG risks and opportunities over the short, medium and long term, to review the metrics that we use and to consider how this work could shape the development of our overall sustainability framework and strategy.

Process overview

We engaged a third-party specialist to review our most material ESG topics with our stakeholders and to create an informed assessment as a base for further analysis of related risks and opportunities. We outline below the steps taken so far.

Desktop audit

- Desktop assessment of company, peer group and industry.
- Review of global benchmarks and media coverage to identify sector issues.
- With Dunelm input, developed list of 25 ESG topics for the survey.

Stakeholder identification

- Stakeholder groups mapped.
- Quantitative survey and qualitative interviewee lists determined.

Quantitative survey

- Online survey sent: 90 responses from colleagues (including the senior leadership team and Group Board), suppliers, customers, investors and analysts.
- Stakeholders asked to review relative impact of ESG topics on Dunelm's performance and viability.
- Risks and opportunities identified and plotted on matrix by internal and external stakeholders (see opposite page).

Qualitative interviews

- Follow-up qualitative interview conducted with 24 internal and external stakeholders.
- Sessions allowed 'free comment', allowing deeper scrutiny of current management approaches.
- Insight used to identify perceived 'managed' and 'unmanaged' risks, and opportunities.

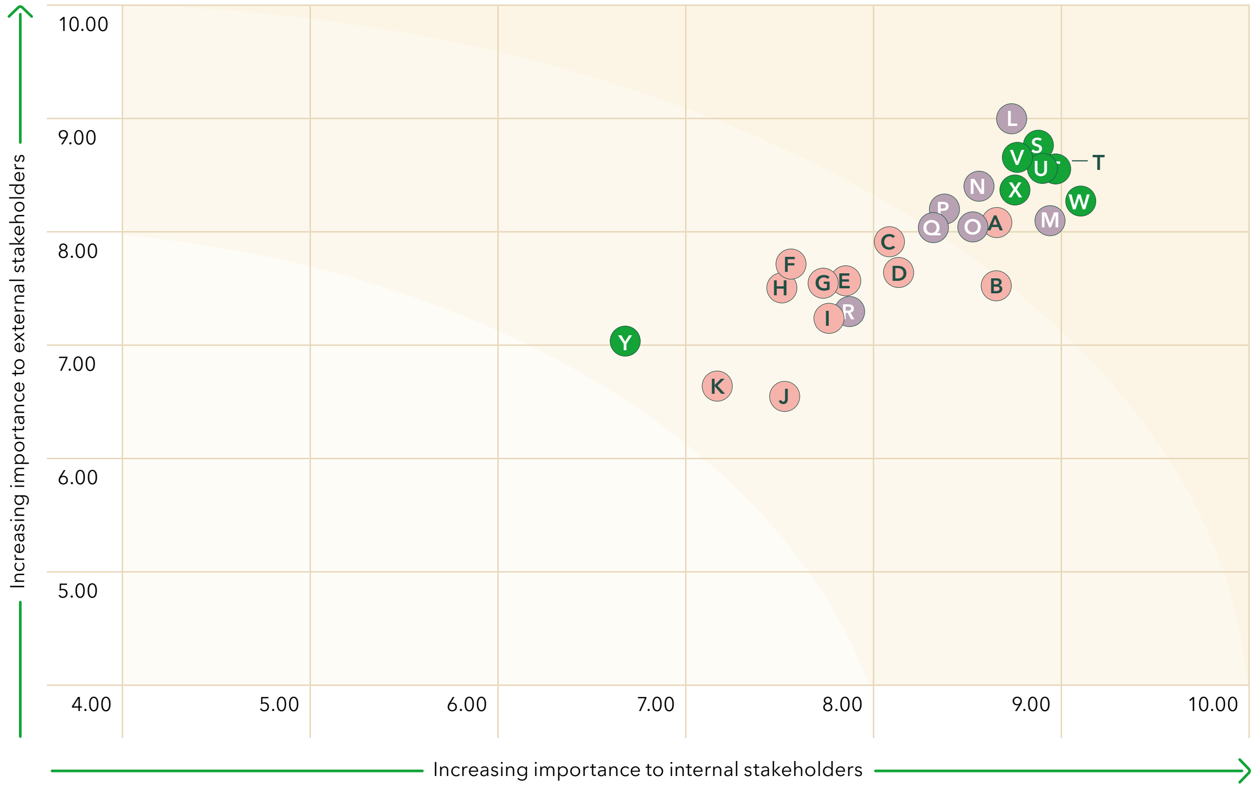
Findings report

- Findings presented internally, including: degree of stakeholder consensus, ESG disclosure gap analysis, initial strategic and KPI recommendations.
- Findings discussed in workshop attended by Executive Team, a Non-Executive Director, other members of the senior leadership team, the Head of Climate Change and the Head of Product Quality and Compliance.

Ongoing work and next steps

- Internal work to assess potential impacts and opportunities to inform a more time-bound materiality assessment.
- Analysis of findings to inform sustainability strategy, Group strategic focus, performance metrics and communications.

Materiality matrix



Environment

- **A** Responsible sourcing and traceability
- **B** Carbon footprint
- **C** Plastics and packaging
- **D** Energy use
- **E** Sustainability of product offering
- **F** Chemical safety
- **G** Waste management
- **H** Resource management
- **I** Climate change and decarbonisation
- **J** Water use
- **K** Biodiversity

Social

- **L** Customer engagement and satisfaction
- **M** Health, safety and wellbeing
- **N** Employee rights
- **O** Diversity, equity and inclusivity
- **P** Talent acquisition and development
- **Q** Employee engagement
- **R** Community engagement and investment

Governance

- **S** Product safety and quality
- **T** Financial performance
- **U** Data privacy and cyber security
- **V** Human rights and supply chain management
- **W** Business ethics
- **X** Corporate governance and risk management
- **Y** Industry engagement and public advocacy

Source: Buchanan Communications Ltd./Dunelm

STRATEGIC REPORT

Stakeholder engagement

We seek to build long-term relationships with our key stakeholders based on fairness and respect, consistent with our Code of Business Conduct, and our shared values and culture.

Key stakeholders

By understanding what our key stakeholders care about, and considering their perspectives, we believe that we can build more meaningful relationships and take fully informed decisions that create value for the long term.

We engage with a wide range of stakeholders in the day-to-day running of our business. Our key stakeholders are those who we know are highly likely to be affected by our actions and decisions, and vice versa. Typically, we engage with these stakeholder groups regularly at an operational level, with responsibility held by members of the Executive Team, and this is described in the following pages 31 to 34. We also set out how the Board is kept informed about the interests of our key stakeholders, as well as how our Board members engage with them directly. Pages 68 to 71 in the Governance Report provide further detail as to how important stakeholder feedback is presented to the Board for discussion and debate, as well as some examples of how the Board uses outcomes of stakeholder engagement in its decision-making. Examples of metrics used by the Board to measure the effectiveness of our engagement are set out below.

In May 2023, we undertook research with a third party to understand stakeholder perceptions relating to our most material environmental, social and governance ('ESG') topics and more information about this research can be found on pages 28 to 29. Stakeholder feedback from this exercise has been included in the 'what they care about' entries on the following pages.

In addition to key stakeholders, we acknowledge the importance of other stakeholder groups on page 34.

Our S172(1) Companies Act 2006 confirmation statement is on page 35.

Examples of metrics used by the Board to measure the effectiveness of our engagement:

Customers
- Unique active customer growth
- Total revenue
- NPS
- Safety scores

Colleagues
- eNPS
- RIDDOR[1] incidents
- Gender pay gap reporting
- Retention
- Whistleblowing

Communities
- Monies raised for good causes
- Take-back
- Diversity

Suppliers
- % Tier 1 factories audited
- % products with responsibly sourced raw materials
- Whistleblowing
- CO_2 emissions

Shareholders
- Share price movements
- Free cash flow
- Profitability
- AGM voting outcomes

1 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Customers

2.8%[2]

growth in unique active customers shopping with us online and in store

What they care about

- Value, style, choice and quality.
- Product safety.
- A great shopping experience and responsive customer services.
- Responsible use and protection of personal data.
- Ethical and sustainable sourcing.

Key management responsibility

Customer Director

Why we engage

Our business revolves around our customers. We aim to be *Customer 1st*, striving to improve our customer offer. We seek to achieve this by delivering great products, services and experiences. Engagement improves our customer insight which, in turn, influences our strategic focus areas and capital allocation. Ongoing investment in customer data and analysis allows us to respond more quickly and accurately to develop relevant product ranges and services, helps drive brand awareness and grow our customer base.

How we engage day-to-day

- During the shopping experience and at point of sale in store, with feedback being shared as appropriate within the business.
- By means of our customer service team and the channels by which it communicates with our customers.
- Social media channels.
- Customer focus groups/panels.
- Customer surveys.

How the Board engages

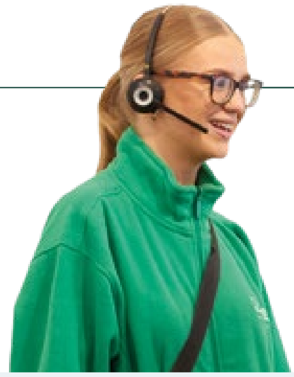
- Conducts store visits and reviews online experience.
- Receives customer insights report at every Board meeting.
- Monitors customer KPIs (including NPS) and challenges management to ensure the customer proposition remains at the forefront of all development activities.
- Receives regular updates on health and safety, product quality and ethics, sustainability and data protection.

How we have listened and learned – highlights in FY23

- Reviewed value for money across all categories and price points, lowering prices on over 1,000 lines.
- Launched and grew our 'Conscious Choice' range to c.15% of own brand products.
- Refreshed our Group-wide policy on data protection and privacy and continued to invest in data security.
- Launched collaboration with Airtasker to help customers put their flatpack furniture together.
- Updated our health and safety policy and continued the rollout of a new training course for store coaches and team leaders.
- Opened new stores outside of our traditional size and locations.
- Continued to develop our ethical audit programme, which covers suppliers of own brand products.

2 Growth in unique active customers who have transacted at least once in the 12 months to June 2023. Management estimate using Barclays data.

Stakeholder engagement continued



National Colleague Voice ('NCV')

Our colleague representative body, NCV, has been running for four years. Members represent a range of ages, ethnicities, genders, locations, tenures and levels of seniority across Dunelm.

During FY23, we held five meetings, each attended by Nick Wilkinson and members of the People team. Marion Sears, who is our designated Non-Executive Director ('NED') for colleague matters, attended and other NEDs often joined, alongside presenters (as appropriate).

Each meeting comprises three parts: a business performance update from Nick, a 'What's on your mind?' item for members to raise concerns, and a 'Big Topic' where we communicate and seek feedback on important matters. In FY23, these were financial wellbeing, community and charity, colleague safety, sustainability, and reward.

The aim is to stimulate discussion and debate, with representatives acting as strong advocates for their colleagues. This is achieved by encouraging reps to ask their wider teams for views both generally and on the chosen 'Big Topic' in advance of meetings. After each meeting, members share feedback with colleagues and views and concerns raised are presented to the Board.

The NCV is a valuable forum for colleagues to engage, be listened to and see action as a result. For example, following the community and charity session, we increased communication of our initiatives and ways in which colleagues could participate and support. And after our colleague safety session, we trialled new security-related initiatives. The NCV has also been an important part of the dialogue on colleague pay and reward, as detailed further on pages 71 and 118.

Colleagues

11,000+
colleagues

What they care about

- Fair pay and reward.
- Opportunities for progression.
- A safe, inclusive and diverse workplace.
- Personal data protection.
- Opportunities to be listened to and make a difference.

Key management responsibility

Stores and People Director

Why we engage

Committed and ambitious colleagues are at the heart of our business. We engage with them to understand how best to recruit, retain, motivate and reward them, including helping with their mental and financial wellbeing. We also use this information to make better decisions for our customers and communities and to support our strategic growth.

How we engage day-to-day

- Annual colleague engagement survey, followed by targeted pulse survey.
- Two-way 'always on' communication via our *Home Comforts* intranet, on which we also publish regular CEO updates, known as 'Nick's Note'.
- Colleagues represented through our NCV (see left for more information) and our Local and Regional Colleague Voice networks (see our Sustainability Report 2023 for more details).
- Store colleague roadshow.
- Weekly/monthly colleague 'huddles' at every store/for each business area.
- 24/7 independent, confidential whistleblowing hotline.
- End of year events reflect on the past year and look ahead to the new financial year.

How the Board engages

- Visits stores and other sites.
- The designated NED for colleague matters and CEO attend NCV meetings and report to the Board.
- Receives People update in each CEO report to the Board.
- Receives overview of whistleblowing reports.
- Reviews key outcomes and actions from colleague engagement survey.
- Reviews a more detailed colleague dashboard (including key metrics) presented by the Stores and People Director at least twice per year.
- Discusses the gender pay gap disclosure.

How we have listened and learned – highlights in FY23

- Invested in learning and career development opportunities to strengthen our employer value proposition, 'grow' talent and improve succession planning.
- Piloted mentoring schemes across the business to help with professional development.
- Ongoing focus on colleague financial health and support given cost-of-living pressures.
- Taken a carefully considered approach to colleague pay and reward decisions for FY23.
- Personalised our benefits system to help colleagues easily locate their benefits and find information to make informed choices.
- Signed up to the 'Menopause Workplace Pledge' and issued our new menopause policy.
- Updated parenthood policies.
- Introduced pump/quick lift trucks at our logistics site to make it easier and more efficient to raise pallets/totes.
- Improved the quality of uniform for colleagues at our logistics sites.
- Increased communication about our charity and community activities.

Communities

185+

local community catchment areas served by our stores and sites

What they care about

- Charitable initiatives.
- Services that support the community and local area.
- Local employment and volunteering opportunities.
- A business they are proud to have in their neighbourhood.

Key management responsibility

Customer Director

Why we engage

By understanding local community needs and concerns we build awareness and trust, help evolve our customer offer, strengthen our local reputation and provide another reason for people to shop with us. We have also learned how much our customers and colleagues benefit from being involved in meaningful local initiatives and by having direct means of communication with their local store.

How we engage day-to-day

- Community champions for each region facilitate the sharing of internal and external feedback, learnings and ideas.
- Daily interaction with local store communities via individual store Facebook groups (organised by locally appointed community champions).
- Feedback from local businesses and community groups who use space in stores and Pausa cafes.
- Regular meetings with our Group charity partner, Mind.

How the Board engages

- Receives updates on charity and community initiatives.
- Reviews community-related KPIs, including level of take-back and monies raised for good causes.

How we have listened and learned – highlights in FY23

- Expanded our 'Delivering Joy' campaign, achieving a threefold increase in the number of donated gifts.
- Launched 'Home to Home' trial for customers to donate pre-loved homewares to be redistributed to those in need.
- Expanded use of our Pausa cafes by small businesses and community groups.
- Raised over £700k for Mind.
- Enhanced processes for our textiles take-back services.

Suppliers

1,200+

stock and non-stock suppliers

What they care about

- Fair trading and prompt payment terms.
- Collaborating to maintain high ethical standards and deliver on sustainability initiatives.
- Long-term relationships.
- A growth opportunity for their business.

Key management responsibility

Director of Commercial and Supply Chain

Why we engage

We work closely with our suppliers and manufacturers worldwide to develop relationships and business growth opportunities through regular engagement, and to ensure that we are aligned on the importance of upholding our high quality, ethical and environmental standards.

How we engage day-to-day

- Hold annual stock supplier conference and regular webinars.
- Regular supplier meetings.
- Regular contact for our committed stock suppliers with our design and commercial teams, as well as our product quality, compliance and sustainability teams.
- Dedicated procurement function engages with non-stock suppliers.

How the Board engages

- Receives updates on ethical trading, product quality, modern slavery, supplier payment terms and whistleblowing reports.
- Receives updates on progress against sustainability metrics.
- Ad hoc supplier meetings.

How we have listened and learned – highlights in FY23

- Held webinars with our key suppliers on 'Better Manufacturing', ethical standards and packaging.
- Undertook more ethical audits.
- Reviewed our protocols for non-compliance.
- Provided greater access to shared resources.
- Continued to collaborate on sustainability initiatives.
- Implemented new stock supplier portal to support improved ways of working.

Stakeholder engagement continued

Shareholders

1,900+

shareholders including the Adderley family

What they care about

- Strategy, performance and outlook.
- Strong leadership.
- Culture and shared values conducive to good governance and high standards of business ethics.
- Executive remuneration.
- ESG risks and opportunities.

Key management responsibility

CEO and CFO

Why we engage

Meaningful engagement is key to building trust and driving long-term success. It enables us to better understand our investors' priorities and concerns.

We help our shareholders and their representatives to have a good understanding of our business model, strategy, investment opportunities and culture, and we aim to be transparent and comply with shareholder governance requirements.

How we engage day-to-day

- Executive Directors meet with investors during the year.
- Arranged store visits.
- Discuss ESG-related matters on request.
- Via our corporate website.

How the Board engages

- Chair seeks regular engagement with major shareholders on governance and performance against strategy.
- Consults as appropriate, including in FY23 on the proposed new Remuneration Policy.
- Attends results presentations and the AGM.
- Non-Executive Directors are available to discuss any matter with shareholders on request.
- Reviews AGM voting, shareholder comments and proxy reports. Reviews investor roadshow feedback.
- Governance and other meetings arranged as appropriate.

How we have listened and learned – highlights in FY23

- Held more than 70 meetings with shareholders (excluding our largest shareholder) during the year.
- Completed externally-facilitated materiality assessment to gain perspectives from key stakeholders on material ESG topics (including investors and analysts).
- Included feedback from Remuneration Policy consultation within Board discussions.
- 89.98% of issued share capital voted at FY22 AGM.

Other stakeholders

We work with a number of other stakeholders whose relationships are important to the day-to-day running of our business. These stakeholders tend to impact our business more than we impact theirs and, in some cases, engagement may be one-way. We monitor and evaluate these relationships regularly and the Board is informed as required. In all cases, our approach is to seek to build long-term trusted relationships based on fairness and respect, consistent with our Code of Business Conduct and our values.

Other stakeholders with whom we engage include:

- Local and national UK Government bodies, including HMRC.
- Regulators, including Leicestershire County Council and Charnwood Borough Council with whom we have a Primary Authority relationship, and other bodies such as the Health and Safety Executive, Trading Standards and Environmental Health officers.
- Banks and other financial institutions.
- A trusted team of professional advisers (for example, brokers, financial PR, accountancy and recruitment firms, environment and sustainability advisers).
- Shareholder representative bodies, ESG investment and credit ratings agencies and potential investors.
- Other business support providers (e.g. logistics, landlords (as the majority of our stores are leased), technology and construction/store development companies).
- Industry bodies and working groups, such as Textiles 2030, Better Cotton and the British Retail Consortium.

Section 172 statement

Decisions made by the Board must balance the occasional conflicting needs and priorities of our key stakeholders, whilst also ensuring they promote the long-term success of the Group.

This duty is enshrined in section 172 of the Companies Act 2006 ('s.172') which requires a director of a company to act in good faith and promote the success of the company for the benefit of its members as a whole. In doing so, they must also have regard (amongst other things) to a range of factors set out in section 172(1) of the Companies Act, including the interests of stakeholders.

Engagement with stakeholders plays a hugely important role in ensuring that our Directors fully understand their needs and make well-informed decisions that consider different priorities. We recognise that not every decision will benefit all stakeholders, and we inevitably have to make trade-offs between stakeholder groups from time to time. By taking account of the Company's purpose and values together with its strategic aims, and closely following our decision-making process, we aim to make sure that our decisions are fair and consistent.

The preceding pages on stakeholder engagement and pages 68 to 71 of the Governance Report provide examples of how the Directors performed their s.172 duties during the year.

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

Signed for and on behalf of the Board

Nick Wilkinson
CEO

The table below outlines other areas of this report that set out how the Board has had regard to s.172 factors when making decisions:

s.172 factor	Where to find more information	Page
(a) likely consequences of any decisions in the long term	→ Chair's statement	4
	→ Business model	8
	→ CEO review	13
	→ Stakeholder engagement	30
	→ Board activities	68
(b) interests of the company's employees	→ Stakeholder engagement	30
	→ NF&SI statement	36
	→ Board activities	68
	→ Remuneration Committee report	88
(c) need to foster the company's business relationships with suppliers, customers and others	→ Business model	8
	→ Stakeholder engagement	30
(d) impact of the company's operations on the community and environment	→ CEO review	13
	→ Sustainability	26
	→ TCFD report	40
	→ Board activities	68
(e) desirability of the company maintaining a reputation for high standards of business conduct	→ Sustainability	26
	→ TCFD report	40
	→ Risk management	48
	→ Governance report	58
(f) need to act fairly as between members of the company	→ Business model	8
	→ Stakeholder engagement	30
	→ Directors' report	119

Non-financial and sustainability information statement FY23

In the following pages, we present information relating to the non-financial reporting requirements as contained in sections 414CA and 414CB of the Companies Act 2006. These include our commitment to and management of environmental and social matters (as listed in the requirements) and how these impact our business and key stakeholders. We include links to some of our relevant policies and references to where additional information can be found both within and outside this report.

Our business model is on pages 8-9.

£820k

FY22: £632k

raised in FY23 through Group charity and fundraising events

Customers

Some of our relevant policies (see website: corporate.dunelm.com)

- Data Security and Privacy Policy
- Health and Safety Policy

Where to find more information and outcomes in this report	Page/s
→ Customer proposition in the CEO Review	8, 15
→ Customer net promoter score	21
→ Stakeholder engagement and s.172 statement	31,35
→ Principal risks	50–54

Additional information outside this report

- Sustainability Report 2023

Our approach

Our vision is to build the UK's most trusted and valuable brand for homewares and furniture. We have a legal and moral obligation to develop and sell products that are safe to use (and safe to eat from our Pausa cafes) and that are accurately and fairly labelled, marketed and sold to our customers. We must also provide a safe environment for our customers to shop – whether in store, online or receiving home deliveries. As we increase our customer engagement, we have a responsibility to look after and treat our customers' personal data and information with respect and integrity. Increasingly, we are giving our customers the option to choose from a range of products that are sourced 'more responsibly' (with strict qualifying criteria set).

Our outcomes

Alongside measuring customer numbers and shopping frequency, we predominantly measure the outcomes relevant to our approach through our Customer Net Promoter Score (NPS).

Colleagues

Some of our relevant policies (see website: corporate.dunelm.com)

- Data Security and Privacy Policy
- Health and Safety Policy
- Equality and Diversity Policy
- Whistleblowing Policy
- Anti-corruption and Anti-bribery Policy
- Domestic Abuse Policy
- Colleague Code of Conduct
- Code of Business Conduct

Where to find more information and outcomes in this report	Page/s
→ Culture and values	1, 73
→ Chair's statement	4-5
→ CEO's review	13–19
→ Employee eNPS KPI	20
→ Sustainability	26–27
→ Stakeholder engagement, s.172 statement and the 'Board's approach to s.172' in the Governance report	32, 35, 68
→ Principal risks	50–54
→ 'Diversity and inclusion' in Nominations Committee report	78–79
→ Remuneration Committee report	88–118

Additional information outside this report

- Sustainability Report 2023
- Gender Pay Report 2023

Our approach

We are committed to treating our colleagues fairly, to reward them appropriately for the work they do and to give them opportunities to develop and learn. We want them to be heard and feel connected to our business and to feel 'at home' in a safe and inclusive working environment. We continue to support their mental and financial wellbeing – particularly given the pressures on our colleagues in the current UK economic environment.

Our commitment to protecting colleagues can be found in our Code of Business Conduct and Colleague Code of Conduct. All colleagues are obliged to comply with our Anti-corruption and Anti-bribery Policy and are trained upon induction.

We continue to focus on achieving diversity and gender balance across all levels of the business and, in FY23, we introduced an ethnicity leadership metric to our Long-Term Incentive Plan. Our median gender pay gap of 4.3% and our mean gender pay gap of 19.1% reflect that 70% of our colleagues are women, 90% of whom are in hourly-paid, predominantly store roles (see table below).

We work with our colleague network groups to understand possible barriers and challenges to progression and have adapted policies as a result. We have expanded our apprenticeship programme to improve social mobility.

Our outcomes

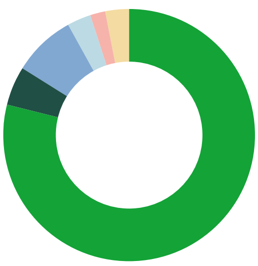
Alongside a number of colleague and culture metrics (including colleague retention and promotion from within) we predominantly measure the outcomes of the above through our Employee Net Promoter Score (eNPS).

Gender breakdown, year-end FY23 versus year-end FY22

	Female			Male			
	FY23	FY22	Change	FY23	FY22	Change	Total FY23
Group Board	5	4	+1	6	7	-1	**11**
	45%	36%	+9%pts	55%	64%	-9%pts	
Senior management[1]	17	14	+3	17	17	0	**34**
	50%	45%	+5%pts	50%	55%	-5%pts	
Store colleagues	6,499	6,362	+137	2,351	2,237	+114	**8,850**
	73%	74%	-1%pts	27%	26%	+1%pts	
All colleagues	7,669	7,410	+259	3,828	3,614	+214	**11,497**
	67%	67%	0%pts	33%	33%	0%pts	

1 Senior management for these purposes means our Executive Team (excluding Executive Directors who sit on the Group Board) and members of our Dunelm leadership team.

Ethnicity data



Note: This data covers 80% of all colleagues.

Board and Executive Team ethnicity data is on page 79.

Communities

Some of our relevant policies (see website: corporate.dunelm.com)

- Tax Strategy
- Responsible Cotton Policy
- Responsible Timber Policy

Where to find more information and outcomes in this report	Page/s
→ Chair's statement	4–5
→ CEO's review	13–19
→ Sustainability	26–27
→ Stakeholder engagement and s.172 statement	33, 35
→ Principal risks	50–54

Additional information outside this report

- Sustainability Report 2023

Our approach

We are increasingly making more meaningful connections to support thriving, purpose-driven communities in and around our stores and other sites. We want to be known as the brand that puts community at the heart of its business to help people feel more at home by expanding community initiatives and services (including our take-back services which are highly popular and valued by our store communities). Alongside promoting Group-wide fundraising activities we encourage colleagues to support local charities, businesses and community groups. We are also committed to full compliance with all statutory tax obligations and full disclosure to tax authorities.

Our outcomes

At a Group level we track the amount of Group and colleague fundraising and Group cash charity contributions. Informally, we monitor the number of store Facebook group followers and the number of small businesses and community groups that we support at the store level.

Non-financial and sustainability information statement FY23 continued

Suppliers

Some of our relevant policies (see website: corporate.dunelm.com)

- Whistleblowing Policy
- Slavery and Human Trafficking Statement
- Anti-corruption and Anti-bribery Policy
- Ethical Code of Conduct for Suppliers and Partners
- Responsible Animal Welfare Policy
- Responsible Cotton Policy
- Responsible Palm Oil Sourcing Policy
- Responsible Timber Policy
- Competition Law Policy

Where to find more information and outcomes in this report	Page/s
→ 'More responsibly sourced cotton' KPI	20
→ Sustainability	26–27
→ Stakeholder engagement and s.172 statement	33, 35
→ Principal risks	50–54

Additional information outside this report

- Sustainability Report 2023

Our approach

We have a responsibility to protect and respect human rights and to uphold high ethical standards in our supply chains. We set out our minimum expectations in our Ethical Code of Conduct for Suppliers and Partners that applies to all businesses involved in the production of goods for Dunelm and we use a risk-based approach in our ethical auditing programme to monitor supply chain practices against our standards. We aim to work collaboratively with suppliers to achieve continuous improvement through increased engagement and education – including environmental and product quality standards, alongside ethical considerations. We are committed to treating our suppliers properly in accordance with agreed terms and conditions and to paying them promptly.

Our outcomes

We have set a Group target to increase the percentage of own brand products that meet our 'More Responsibly Sourced Cotton' standard (which covers both ethical and environmental standards) as set out in our policy. We have also set sustainability metrics for other sourcing material areas such as timber and palm oil.

Planet

Some of our relevant policies (see website: corporate.dunelm.com)

- Environmental Policy
- Plastic and Packaging Policy

Where to find more information and outcomes in this report	Page/s
→ Reduction in Scope 1 carbon intensity KPI	20
→ Reduction in virgin plastic packaging of own brand products KPI	20
→ s.172 statement	35
→ Task Force on Climate-related Financial Disclosures report	40–47
→ Streamlined Energy and Carbon Reporting	46
→ Principal risks	50–54
→ Chair's introduction in the Governance report	58-59
→ 'Board's approach to s.172 and sustainability update' in the Governance report	68, 71
→ 'Sustainability reporting' in Audit and Risk Committee	85
→ ESG metrics within Executive remuneration	107, 116

Additional information outside this report

- Sustainability Report 2023

36%

reduction in virgin plastic versus an FY20 baseline.

59%

recycled steel content

We have switched to using recycled steel in our new galley easy fit pendant light to reduce the carbon impact of its raw materials.

Our approach

Our investment in resources to focus on Pathway to Zero (a pillar of our overall approach to sustainability) has increased the level of awareness across the business for the need to take urgent action to reduce our impacts on the planet. Our goal is to reduce our absolute greenhouse gas ('GHG') emissions by 50% by FY30 against a FY19 baseline. We support the British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040, and we are a partner member of Textiles 2030, with a commitment to meet their carbon and water footprint reduction targets. We remain focused on reducing operational waste, including plastics and other packaging, and exploring product circularity solutions.

Our outcomes

We have made considerable progress in better understanding the most significant sources of GHG emissions along our supply chains, using our improve-innovate-advocate approach. However, we need to act faster to hit our published targets. Metrics relating to plastic packaging and Scope 1 carbon emissions intensity are set as Group KPIs to maintain our focus. Although we are still at an early stage, we are making good headway in our product circularity plans.

Greenhouse gas emissions and Streamlined Energy and Carbon Reporting information can be found on page 46.

BIO-CNG

In July 2023, we moved our Home Delivery Network trunking vehicles to bio-compressed natural gas (BIO-CNG) from diesel.

Shareholders

Some of our relevant policies (see website: corporate.dunelm.com)	
• Capital and Dividend Policy	
• Employment of Former Employees of the External Auditor Policy	
• Tax Strategy	
• Anti-corruption and Anti-bribery Policy	
Where to find more information and outcomes in this report	**Page/s**
→ Stakeholder engagement and s.172 statement	34–35
→ Principal risks	50–54
→ 'Board's approach to s.172' in the Governance report	68
→ 'Sustainability reporting' in Audit and Risk Committee	85
→ ESG metrics in Executive remuneration	107, 116
Additional information outside this report	
• Sustainability Report 2023	

Our approach

We strive to provide our shareholders with as clear a picture as possible of our business and our prospects – both financial and non-financial – in order to enable them to make informed investment decisions. We give various opportunities for shareholders to meet our Board and management through scheduled meetings and on request. We provide regular overviews of our governance arrangements and our progress in non-financial reporting.

Our outcomes

Our focus on sustainable returns has led to progressive ordinary and special dividends. We have returned over £1bn to shareholders through dividends over the last 10 years[1].

Principal risks by key stakeholder group

Our principal risks are listed on pages 50 to 54. We summarise how these map to our key stakeholder groups below.

- **Customers**
  - Customer offer
  - Product reputation and trust
  - IT systems, data and cyber security
  - Business change
  - Regulatory and compliance
  - Supply chain resilience
  - Climate change and environment
- **Colleagues**
  - People and culture
  - IT systems, data and cyber security
  - Business change
  - Regulatory and compliance
  - Supply chain resilience
  - Climate change and environment
  - Finance and treasury
- **Communities**
  - Customer offer
- **Suppliers**
  - Customer offer
  - Product reputation and trust
  - Business change
  - Regulatory and compliance
  - Supply chain resilience
  - Climate change and environment
- **Planet**
  - Product reputation and trust
  - Regulatory and compliance
  - Climate change and environment
- **Shareholders**
  - Customer offer
  - People and culture
  - IT systems, data and cyber security
  - Business change
  - Regulatory and compliance
  - Climate change and environment
  - Finance and treasury

See corporate.dunelm.com for more information and for our Sustainability Report 2023.

1 Ordinary dividends plus special dividends plus special distributions.

STRATEGIC REPORT

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

The Board recognises the risks and opportunities posed by climate change to the Group's business model and strategy.

Climate change has been considered a principal risk for the Group since FY19 and the current view of this risk is described in detail on page 53. Following publication of the first voluntary TCFD report in FY21, the Group released its first full report in FY22 and remains committed to improving its disclosures in line with evolving requirements. This year, for example, we evolved our TCFD reporting to include an updated FY19 Scope 3 baseline which is Greenhouse Gas Protocol compliant and based on more robust data and assumptions than the high-level view reported in FY22. We have also included the estimated impact of mitigations in our climate scenario modelling for transition risks, in line with our carbon reduction targets. We continue to consider the potential financial impacts of climate change in the cash flow scenario modelling within our viability statement on page 55 and in our accounting policies note on page 141 of the financial statements.

Governance

Governance a) Board's oversight of climate-related risks and opportunities

The Board takes overall responsibility for our Pathway to Zero climate change roadmap. It considers our approach, strategy, risk management and performance, receiving regular updates on progress against our climate-related KPIs. There is a minimum of two Pathway to Zero deep dives with the Board each year, led by our Head of Climate Change. This year, in October 2022 and March 2023, the Board received detailed updates on our emerging Scope 3 roadmap, as well as our broader Pathway to Zero strategy, looking at circularity, carbon and community, and our approach to governance and reporting (see page 71 for more detail).

The Board is supported by three committees: the Audit and Risk Committee, Remuneration Committee and Nominations Committee. The Audit and Risk Committee formally reviews principal risks twice a year and TCFD, ESG processes and reporting to verify non-financial KPIs annually.

The Remuneration Committee reviews and approves Executive Director and Executive Team remuneration, including climate-related targets in performance-related pay. The Nominations Committee sets specifications for new Board roles and has oversight of the Talent Committee to ensure necessary talent and skills are available to deliver our Pathway to Zero strategy.

The Board continues to listen and learn about the implications of climate change on the Group's business model. Board members are also regularly updated on our wider sustainability strategy, including our long-term carbon emissions reduction targets, and progress against them, as well as other related topics such as water reduction and product circularity.

The Audit and Risk Committee regularly receives an update on upcoming sustainability reporting requirements and Dunelm's planned approach. In FY23, they also received an internal audit report on the assessment of Dunelm's processes and controls relating to our sustainability strategy, materiality and target-setting activities which highlighted several recommendations which were already being actioned.

Governance b) Management's role in assessing and managing climate-related risks and opportunities
Our CEO, Nick Wilkinson, leads the Group's climate-related activities and chairs the Pathway to Zero Steering Group. Meetings are held six times a year and include the CFO, Commercial & Supply Chain Director, Customer Director, Group General Counsel and Company Secretary and the Head of Climate Change.

The Executive Team receives regular updates on our climate-related KPIs and reviews the principal risks prior to the Group Board review. The management-level Risk and Resilience Committee is chaired by our CFO, Karen Witts, and provides oversight and review of risks, including climate change and environment risk. The Talent Committee is chaired by our Stores and People Director, and ensures that we have the correct capability in place to meet our ambitions in this area.

Climate change considerations are increasingly integrated into day-to-day business activities: an assessment of energy efficiency and carbon impact is included in all new store and store refit proposals; our product design team is focused on increasing the use of less carbon intensive materials such as recycled cotton and polyester; and we continue to reduce packaging or use more sustainable packaging. In FY23, we became Better Cotton members, we have continued to develop plans to introduce lower emission fuels into our HGV fleet, with our first CNG vehicles going live just after our FY23 year end in July 2023, and we introduced Remade, a range of cushions and throws using textile materials such as those recovered from stores as part of our customer textile take-back scheme.

As climate-related considerations become increasingly central to our business, we are developing them into 'business as usual' protocols within our strategy and financial planning. An example of this is that we will be devoting time once a quarter in our Performance Executive meetings to focus specifically on sustainability, including climate change.

Strategy

Strategy a) Climate-related risks and opportunities identified over the short, medium and long term
Our purpose – To help create the joy of truly feeling at home, now and for generations to come – is deliberately forward-looking, and when combined with our business model (see pages 8 to 9), is designed to encapsulate our desire to have a positive impact on our communities and the planet, now and in the future. It is underpinned by our commitment to remain ambitious about being a good company and building sustainability into all that we do. A key component of our customer proposition is 'good & circular' which we describe as being 'positive choices for people and the environment'.

Over the last two years, Dunelm has engaged external TCFD consultants to support the identification of potential physical risks and opportunities (relating to extreme weather events and long-term chronic shifts in global temperatures and precipitation) and transition risks and opportunities (relating to changes in regulation, carbon pricing, consumer demand changes and reputational damage) and to determine their financial materiality. To identify material risks, we reviewed the existing risks and opportunities in our risk registers and considered additional risks and opportunities based on a systematic peer comparison and sector review. Each identified risk and opportunity was then scored on the basis of its potential impact, likelihood and velocity to determine its relative materiality, integrating stakeholder insights and secondary data. The top-ranked risks and opportunities were then subject to detailed scenario analysis and financial impact quantification to enable the Group t o assess the potential impact on the business' future profitability.

Following this work, six material risks and opportunities were selected for deep-dive risk modelling and financial impact analysis. We used a range of internal and external data sources, including the Network for Greening the Financial System (NGFS) v3.0, the International Energy Agency (IEA) World Economic Outlook 2022 and the Intergovernmental Panel on Climate Change's (IPCC) Sixth Assessment Report (AR6) – Model Intercomparison Project Phase 6 (CMIP6) climate models, and applied a number of assumptions. In FY23, we enhanced our financial modelling to include the impact of current mitigating actions and planned activities, using business growth forecasts, market research, commodity pricing forecasts and climate forecasts to create ranges of financial impacts.

Financial impact ranges: We have used financial impact ranges, which are the same as we use for our corporate risk management process.

Impact	Financial range (Annual Profit before tax)
Low	Less than £5m
Medium	Between £5m and £50m
High	Greater than £50m

Time horizons: We have used the three time horizons described below:

Time period	Years	Reason
Short	2023–2030	Aligned to our 50% carbon reduction target and strategic plan
Medium	2030–2040	Aligned to our net zero target and to capture transition risks and opportunities
Long	2040–2050	Longer term to capture physical risks and opportunities

TCFD continued

Climate scenarios: We undertook climate risk and opportunity analysis under three climate scenarios outlined below:

Global Net Zero 2050

Scenario
Limits global warming to 1.5°C by 2100, with stringent and immediately introduced climate policies and emissions reductions to achieve net zero emissions by 2050.

Transition Risk
Transition risks are extreme under this scenario in the short to medium terms, unless mitigated.

Physical Risk
Physical risks will be the least extreme under this scenario.

Delayed Transition

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

Transition Risk
This scenario presents a significant transition risk in the medium to long term, given the speed and severity of the response required when implemented.

Physical Risk
Physical risks will be higher than the Global Net Zero 2050 scenario due to warming greater than 2°C instead of well below.

Business as usual (BAU)

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

Transition Risk
Limited transition risks expected due to lack of policy changes and regulation.

Physical Risk
The most extreme physical risk impacts in this scenario.

There is a high degree of inherent uncertainty in the modelling outcomes given the complex interactions arising under the different climate change scenarios. That said, the information shown represents the Group's best efforts in understanding the potential impacts of climate change on its financial position and performance.

Strategy b) Impact of climate-related risks and opportunities on business, strategy and financial planning

In preparing the financial statements, the Directors have considered the cash flow impacts of climate change on a number of key estimates within the financial statements, including:

- The impact of climate change on the going concern basis of preparation and the viability of the Group over the next five years.
- The impact on potential impairment triggers, and where a trigger is identified, the impact on the value in use of the related non-current assets.

Furthermore, our five-year strategic planning process considers the investment required to develop our business processes to ensure that we are making progress against our climate change targets. We also consider the impact of climate change on commodity prices as part of our strategic planning process.

We are committed to reducing our carbon emissions, both in our direct operations and also in our supply chain, which accounts for c.99% of our carbon emissions (see the table on page 46 for the breakdown of our emissions). We work in partnership with our suppliers to support them in various ways to help reduce supply chain emissions. We have developed and launched our Better Manufacturing programme which focuses on lowering carbon emissions during the product manufacturing stage, and in FY23 we held our first 'Introduction to Net Zero' workshops which were attended by key suppliers. We have recently invested in a supplier data platform and a tool to enable us to complete product life-cycle assessments, both of which focus our attention on reducing carbon in the most impactful areas and improve the robustness of data to enhance the accuracy of our reporting. We continue to advocate at an industry level through organisations such as the British Retail Consortium, Better Cotton and Textiles 2030 to accelerate the reduction of carbon emissions in our supply chains.

Whilst we have a high level roadmap for the reduction of our emissions in line with our FY30 target of a 50% reduction in emissions against our FY19 baseline, in FY24 we are planning to produce a more detailed net zero transition plan in line with the Transition Plan Taskforce ('TPT') guidance. This plan will set out our climate-related ambitions and the actionable steps we are taking to support our transition to a low-carbon economy and to meet our targets, including our overall emissions reduction targets and actions to mitigate climate risk. We plan to publish a standalone net zero transition plan in line with the timeframes set by the TPT.

Strategy c) Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Our commitment to 'building sustainability into all that we do' ensures that climate change considerations are integrated into our business activities. The work we have carried out has confirmed that we are focused on the most material climate risks to us as a business.

The scenario analysis that we have completed and updated this year, together with the mitigating actions we are currently taking, brings a high degree of confidence in the long-term resilience of the business.

The table below highlights the material climate change risks and opportunities that we have considered, and includes an overview of our current and future actions against these risks.

Our focus for FY24 will be on further exploring each risk identified and working with relevant business teams to develop our risk management and mitigation plans, as well as continued horizon scanning to identify any additional emerging risks or opportunities.

Transition risks and opportunities

Risk and opportunities summary description	Potential impact (pre-mitigation)	Potential impact (post-mitigation)	Business readiness	Related metrics and targets
Policy & Legal Global Net Zero scenario most significant impact in short to medium term				
Impact of carbon taxes on Dunelm suppliers				
Introduction of a carbon price could lead to an increase in the cost of products with high GHG emissions; this could negatively impact profits due to taxation on Dunelm or taxation on suppliers passed on to Dunelm in product cost.	High in short to medium term	Medium in short term Low in medium to long term	• Actively engaging with our suppliers to support the reduction of their carbon emissions through setting aligned carbon reduction targets and sourcing better quality data. • In FY24, we are planning to produce a detailed transition plan in line with the Transition Plan Taskforce guidelines.	Carbon emissions metrics and targets
Extension of producer responsibility: increased cost of existing packaging regime and extension to additional product categories such as textiles				
Extended Producer Responsibility (EPR) fees are being introduced in the UK from January 2024. We have assumed that EPR costs will increase in line with the carbon price and that an EPR-type scheme for textiles will be introduced in 2025.	High in the short, medium and long term (assuming prices increase in line with the carbon tax price increase).	Not yet fully modelled for textiles as scheme not currently proposed (but no exemptions assumed).	• Estimated cost of packaging EPR included in strategic plan. • Increasing recycled content in packaging (both plastic and cardboard). • Monitoring extension to other categories beyond textiles. • Increasing recycled content of Dunelm product range including using materials such as those from our take-back scheme.	Nature and packaging metrics and targets
Market BAU scenario most impactful for this risk as fuel prices increase the most in the outer years				
Changes to fuel prices caused by climate-related market disruption or increased taxation				
Changing market dynamics and decarbonisation trends impact both fuel prices and the transition to non-fossil fuel alternatives, leading to increased fuel costs across the delivery network.	Medium across all timeframes	Low across all timeframes as we assume a degree of offset through a range of operational actions.	• Moved trunking vehicles from diesel to CNG, which produce >85% fewer emissions than the diesel equivalent. • Trialling electric vehicles in our fitter van fleet and using one fully electric 44 tonne vehicle in partnership with DHL. • Working with our key logistics suppliers to support their transition from diesel to non-fossil fuel alternatives.	Carbon emissions metrics and targets

TCFD continued

Transition risks and opportunities continued

Risk and opportunities summary description	Potential impact (pre-mitigation)	Potential impact (post-mitigation)	Business readiness	Related metrics and targets
Reputation Global Net Zero scenario most significant impact in medium to long term				
Reputational damage due to failure to act on sustainability trends				
If Dunelm fails to continue to move towards using more sustainable raw materials and reduce carbon emissions then we might lose customers who switch to retailers who they consider to be more sustainable; we could also struggle to retain and attract colleagues and to secure funding.	No impact in the short term in all scenarios, reflecting Dunelm's current position versus the market. High in the medium to long term in both the Global Net Zero and Delayed Transition scenarios if other retailers outpace Dunelm in sustainability.	See opportunity below in relation to increasing market share by demonstrating leadership in addressing climate change and sustainability.	• We have set ambitious climate change reduction targets. • Starting to use lower-impact materials in our products and moving towards a more circular sourcing model to enhance our competitive advantage.	Carbon, nature, water stress, packaging and circular metrics and targets
Increased market share by demonstrating leadership in addressing climate change and sustainability				
If Dunelm demonstrates leadership in addressing climate change and delivering its climate change reduction targets, whilst other retailers do not, we might gain market share from customers actively moving towards shopping at Dunelm.	Medium in the short term in all scenarios. Medium in the medium and long term in the BAU scenario, but not a differentiator in the medium or long term in the Global Net Zero or Delayed Transition scenarios as it is assumed that other retailers also take similar action.	N/A	• Increasing our communication to customers and colleagues around the increasing sustainability credentials of our range, including Conscious Choice. • Working in collaboration with our suppliers to reduce their carbon emissions and create a more circular sourcing model.	Carbon, nature, water stress, packaging and circular metrics and targets

Physical risks

Risk and opportunities summary description	Potential impact (pre-mitigation)	Potential impact (post-mitigation)	Business readiness	Related metrics and targets
Physical Risks BAU scenario most impactful				
Physical risks (drought, flooding, wildfires, etc.) impact the availability of raw materials such as cotton or timber, or impact manufacturing sites and logistics in countries from which we source our products				
Physical risks mainly manifest themselves in our supply chain as none of our UK store or depot footprints are in areas at high risk of flooding. Physical risks in our supply chain are already being experienced, for example the recent floods in Pakistan.	Medium in the short, medium and long term	Not modelled as changes in sourcing strategy are not currently defined	• We are undertaking a detailed exercise to map where our raw materials originate. • In FY24, we will overlay our nature-related impacts on these maps to better inform sourcing decisions and help suppliers to build resilience. • Working with the Textiles 2030 group of retailers to support actions to mitigate these risks and to move towards a more circular sourcing model, which is being built into our product design process.	Nature and water stress metrics and targets

Risk Management

Risk Management a) Processes for identifying and assessing climate-related risks

In FY21, we completed a detailed climate change risk register with the support of the Carbon Trust. In FY22, we refined this risk register with external TCFD consultants, and quantified the most significant risks by likelihood and potential impact on our business. In FY23, we used the same external TCFD consultants to review these risks and also to consider our mitigation plans. This work confirmed that directionally we have identified and understood the most significant risks and that we are addressing these through the mitigating actions we are taking and planning to take.

In FY23, we also conducted our first external materiality assessment, which was a stakeholder-led study into Dunelm's sustainability-focused risk and opportunities including climate-related risks and opportunities. This materiality assessment was developed using information from a quantitative survey followed up with qualitative interviews across a range of our key stakeholder groups. The output of this study was mapped against the climate-related risks already identified through previous exercises, and reassuringly, there were no material omissions identified. For further details on this activity see pages 28 to 29.

Risk Management b) Processes for managing climate-related risks

Climate change and environment risk is classified as a principal risk in our risk register. Our detailed climate change risk register and quantification feeds into this process and is owned by our Head of Climate Change. Our Pathway to Zero Steering Group uses this climate change risk register to inform its actions. Our CEO, Head of Climate Change and other leaders throughout the Group continue to work with expert external advisers such as the British Retail Consortium (BRC), WRAP, Textiles 2030, the Aldersgate Group and others to keep up to date with regulatory and best practice developments.

Risk Management c) Processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

As one of our principal risks, climate change and environment risk is discussed formally with our Executive Team, Risk and Resilience Committee, Audit and Risk Committee and Group Board as part of the twice-yearly formal review of principal risks. The Risk and Resilience Committee also conducts at least one deep dive review into climate risks each year.

The principal risks are considered by management in connection with the assessment of the viability of the business over the longer term, with these considerations informing the Viability Statement in this report (page 55). Further details on the assessment of our climate change and environment risk can be found on page 53. Our overall risk management framework and supporting processes can be found on pages 48 to 54.

Metrics and Targets

Metrics and Targets a) Metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process

The metrics we use to assess climate-related risks and opportunities are set out in the table on page 47. We have chosen these metrics because they relate directly to our material climate risks and opportunities, and because they are where we can make the biggest potential impact. In setting our metrics and targets, we have ensured that they are in line with the Paris Agreement and aligned to a 1.5°C pathway, the UK's commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019 and other relevant legislation, as well as the British Retail Consortium's Climate Action Roadmap which we support. The carbon, cotton and water metrics are aligned to the Textiles 2030 voluntary agreement, which we have signed up to as members (and now a partner). These topics are also important to our colleagues, customers and society more broadly.

Metrics and Targets b) Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the related risks

In FY23, we undertook a full review of our FY19 baseline for our Scope 3 emissions and updated this using more robust data and assumptions available following our continued investment in this area. Our updated FY19 baseline is fully compliant with the Greenhouse Gas Protocol, which includes an adjustment for the acquisition of the Sunflex business in FY22. We submitted this updated baseline, along with our reduction targets, to the Science Based Targets initiative ('SBTi') for validation and received confirmation of approval in September 2023, post year-end[1]. We have defined and reported on our full target boundary for Scope 3 emissions. We have determined indirect use phase of sold products emissions to be outside of our target boundary, however we have measured and reported these indirect emissions based on materiality and in line with the principles of transparency and completeness in the GHG protocol.

For our FY19 baseline and FY23 Scope 3 emissions we have used an entirely spend-based calculation methodology for our most material category of purchased goods and services. Throughout FY23 we have developed our data management plan and will begin transitioning away from an entirely spend-based approach in FY24. This will include increasing the amount of supplier-specific data that we are gathering and completing life-cycle assessments across a broad range of our products. We intend to incorporate this more accurate data into our reporting from FY24 onwards.

1 Please see our corporate website for our full target wording.

TCFD continued

In FY23, we reduced our overall Scope 1 carbon emissions by 0.2% from our FY19 baseline despite the strong sales growth of 49% over the period. We have achieved this through our gas boiler replacement programme in stores (which is on track to be completed by FY30) and the ongoing transition of our company car fleet to fully electric or hybrid. However, we realise that we need to do more to hit our FY30 target of a 50% absolute reduction against our FY19 baseline. We moved our trunking vehicles from diesel to compressed natural gas in July 2023, which should reduce emissions from these vehicles by >85%. In addition, we are trialling electric vans in our Made to Measure fitter fleet and using a fully electric 44-tonne vehicle for deliveries to stores in partnership with DHL. We are actively looking for more opportunities to reduce emissions within our vehicle fleet in line with the innovation of the fleet industry.

Our Scope 2 emissions increased slightly in the year due to the acquisition of the Sunflex business towards the end of FY22. However, we transitioned this business to renewable electricity and from October 2022 all of our electricity supply is from renewable sources.

The Scope 3 emissions in our target boundary have increased by 30% since FY19, mainly due to the 49% increase in sales in that time period.

Currently we are using spend-based data for our purchased goods and services emissions, which are 62% of the Scope 3 emissions within our target boundary. Due to the limitations with this approach, we will not be able to recognise any progress that our suppliers are making in reducing their emissions until we transition to more specific supplier and product-based information. We are moving towards this in FY24 as we have invested in a supplier data platform and are currently conducting product life-cycle assessments as well as working in partnership with our suppliers to support them on their transition to net zero.

	FY19 (updated) Emissions (tCO_2e)	FY20 Emissions (tCO_2e)	FY21 Emissions (tCO_2e)	FY22 Emissions (tCO_2e)	FY23 Emissions (tCO_2e)
Scope 1	7,059	7,108	8,633	7,902	7,044
Scope 2 (market-based)	10,861	8,757	268	21	27
Scope 3					
Purchased goods and services	449,762	N/A	N/A	N/A	557,924
Use of sold products (direct use phase only)	164,736	N/A	N/A	N/A	238,774
Upstream transportation & distribution	30,296	N/A	N/A	N/A	43,449
End-of-life treatment of sold products	26,873	N/A	N/A	N/A	33,986
All other categories combined[1]	16,240	N/A	N/A	N/A	19,785
Total Scope 3 within target boundary[2]	**687,907**	N/A	N/A	N/A	**893,918**
Total Scope 3 (including indirect use phase of use of sold products)	*1,012,190*	N/A	N/A	N/A	*1,385,812*

Streamlined Energy and Carbon Reporting emissions by source

	FY19 MWh	FY20 MWh	FY21 MWh	FY22 MWh	FY23 MWh
Purchase of energy	57,167	50,547	53,158	51,980	51,415
Vehicles on company business	4,061	3,720	4,382	3,979	3,398
Vehicles in the Home Delivery Network	9,467	12,198	15,959	15,773	15,725

1 All other categories includes capital goods, fuel & energy-related activities, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation & distribution, processing of sold products, downstream leased assets, franchises and investments.

2 Target boundary for Scope 3 excludes the indirect use of sold products.

Metrics and Targets c) Targets used to manage climate-related risks and opportunities and performance against targets

In response to the Net-Zero Standard set by SBTi, we submitted our net zero 1.5-degree aligned targets across all Scopes to be validated by SBTi, and received confirmation of approval in September 2023, post year-end[1]. As members of the BRC and Textiles 2030, we also have targets aligned to cotton and water usage metrics. We have long-term remuneration targets for Executive Directors over a range of sustainability metrics. These vary from year to year, but include Scope 1 carbon emissions, plastic packaging, more responsibly sourced cotton and take-back % (see page 107 for more details).

Climate-related risk	Metric and target	Baseline	Progress
Carbon emissions	Reduce absolute Scope 1 carbon emissions by 50% against an FY19 baseline by FY30	7,059 tCO_2e in FY19	7,044 tCO_2e in FY23, which is a 0.2% reduction on the FY19 baseline reflecting the progress made (see Scope 1 commentary on pages 45 to 46).
	Reduce Scope 1 carbon emission intensity against FY19 baseline[2]	6.4 tCO_2e/£1m Group revenue in FY19	32% reduction in FY23 to 4.3 tCO_2e/£1m Group revenue (20% reduction on the FY19 baseline in FY22).
	Purchase 100% renewable electricity every year	N/A	99.7% in FY23 for the year on average but 100% from October 2022 onwards (99.7% in FY22).
	Reduce absolute Scope 3 carbon emissions in our target boundary[3] by 50% against an FY19 baseline by FY30	687,907 tCO_2e in FY19	893,918 tCO_2e in FY23. Absolute Scope 3 carbon emissions have increased by 30% due to sales and spend increasing by 49%. There is, however, an intensity reduction of 11%. We have plans to transition away from entirely spend-based data towards more product and supplier-specific data for Scope 3.
Water stress	Reduce aggregate water footprint in own brand textile products by 30% by 2030	Calendar year (CY) 2019	This target reduction is in line with our commitment to Textiles 2030. We have carried out our baseline water footprint using the WRAP water footprint tool and have just received our CY2022 footprint which we are assessing.
Nature	100% of own brand cotton more responsibly sourced by 2025[2]	N/A	26% in FY23. During FY23, we moved our environmental accreditation to Better Cotton, who are industry leaders in this area. We remain committed to sourcing c.100% more responsible cotton by 2025. However, FY23 was a year of transition during which we were registering and accrediting suppliers to Better Cotton. We expect to see a significant improvement in FY24 as the remainder of our suppliers complete this process and our new approach is more established across our supply base.
	50% more responsibly sourced timber by FY25	N/A	We are currently working towards obtaining robust weight-based data ahead of publishing, which should be in FY24.
Packaging	30% less virgin packaging in own brand range by 2025 measured by weight per £1 sales[2]	2.2g per £1 sales in FY20	36% reduction in FY23 (FY22: 23% reduction). We have both reduced the absolute amount of plastic packaging used per item and also increased the recycled content in our plastic packaging.
Circular economy	Easy to use take-back service in place for 50% of our own brand products[2]	N/A	61% in FY23 (FY22: 61%). Our take-back service has continued to prove popular with our customers in stores. We are now collecting over 70 tonnes of textiles per month and we improved our collection and sorting processes during the year to help with our journey towards product circularity. We have been trialling take-back of other homewares items in a selection of stores.

1 Please see our corporate website for our full target wording.
2 Limited assurance provided by Ernst & Young LLP for FY23 and applicable to our Revolving Credit Facility (not applicable beyond FY23) and LTIPs as relevant.
3 Target boundary for Scope 3 excludes the indirect use phase of use of sold products.

Listing Rule 9.8.6R Compliance Statement

Dunelm Group plc has complied with all of the requirements of LR 9.8.6R by including climate-related financial disclosures in this section (and in the information available at the locations referenced therein) consistent with the TCFD Recommendations and Recommended Disclosures.

Independent Assurance

We engaged Ernst & Young LLP to provide limited assurance for FY23 over the key performance metrics which are marked with a 2 in the table above. The full assurance statement and the Basis of Reporting documents that were applied in preparing these metrics can be found online on our corporate website: corporate.dunelm.com.

Our approach to risk management

Risk governance

The Board as a whole takes responsibility for the management of risk throughout the Group and ensures that our strategic objectives are in line with our risk appetite. It is supported by the Audit and Risk Committee, which monitors the ongoing effectiveness of our risk management framework and receives independent assurance on the effectiveness of our approach to risk management and internal control systems through the activities of internal audit.

For more information on the management of our internal controls see page 85.

There is a formal process for setting the risk appetite and for identifying, assessing, and reviewing risks, as described below and opposite. Risks inevitably evolve and change over time and the Board acknowledges that the risk management framework, and our system of internal controls, are designed to manage such risks appropriately, rather than eliminate them.

Risk management

We have an established Risk and Resilience Committee ('R&R Committee') which is chaired by the CFO and meets monthly. It comprises risk owners from various business areas and senior representatives from our compliance functions. In addition, a representative from internal audit attends the meetings to provide additional insight and challenge.

The R&R Committee's key purpose is to develop and review the risk management framework to ensure that it is effective and assist the Board and Audit and Risk Committee in their oversight of risk management. At each meeting there is a review of leading and lagging key risk indicators ('KRIs') associated with Dunelm's principal risks enabling management to discuss and take proactive steps to further mitigate as may be appropriate. In addition, a different deep dive topic is presented at each meeting – these typically cover principal or key operational risks that are trending upwards or retain a high residual risk impact. Meetings also consider progress against action plans arising from internal audit reviews, updates from key compliance areas (such as data protection, cyber security, product quality and ethics and food safety) and horizon scanning. A summary of the R&R Committee's activities and findings is reported on a regular basis to the Audit and Risk Committee.

Individual risks

Individual members of the Executive Team and senior leadership have responsibility for managing the risks and mitigating controls for their respective business areas. They do this by maintaining their own operational risk registers and are responsible for ensuring that any material issues or trends are escalated to the R&R Committee as appropriate.

Risk identification and prioritisation

We adopt a top-down and bottom-up approach to ensure that there is an overarching view of Group risks. This is considered monthly by way of the KRIs presented to the R&R Committee, but also more formally by way of a biannual review of the key operational risks (presented by each respective operational risk register owner), as well as the Group's principal risks (presented by each respective principal risk owner). As part of the assessment, the key operational risks are mapped to the principal risks to enable appropriate challenge to those risks identified as most material to the Group. The assessment considers both the inherent risk (before mitigation) and residual risk (after mitigation is applied). The output of the assessment is reported to the Audit and Risk Committee for challenge and consideration ahead of being presented to the Board for review and approval.

Risk appetite

The Board sets the risk appetite for the Group, taking into consideration the expectations of its shareholders and other stakeholders. The clear articulation of our risk appetite provides for an effective mechanism to inform investment decisions, facilitate the discussion of risk, set parameters within which objectives must be delivered, and support the awareness of risk by our colleagues and partners. The Board reviewed the Group risk appetite in July 2023 and confirmed that it remains appropriate.

Principal risks and uncertainties

The Board confirms that a robust assessment of the principal risks facing the Group has been carried out, including emerging risks and those that would threaten its business model, future performance, solvency, or liquidity.

In conducting such a review, we identified two principal risks where the potential impact is deemed to be increasing.

The IT systems, data, and cyber risk is considered to be increasing due to the rise in malware and phishing attacks targeting organisations of all types. These activities pose a serious challenge to the security and integrity of our digital infrastructure. Combating these threats remains a priority and we continue to invest in proactive measures to protect the business.

This year we separated business change risk from the IT systems, data, and cyber risk to reflect our ongoing investment in change programmes that are key to our strategy and the delivery of further growth and efficiencies. We consider this an increasing risk in the short term as we take on larger and more complex projects. However, it is anticipated that the risk will stabilise as we continue to deliver.

We also removed catastrophic business events as a standalone principal risk. The impact of, and approach that we would take to, large disruptive events has been considered as part of our review and ongoing management of each of the other principal risks. Our approach is supported, amongst other things, by learnings from our response to the pandemic and our business continuity plans.

The Board's assessment of the principal risks and uncertainties facing the Group as at the date of this report and how we mitigate them is set out on pages 50 to 54. The principal risks are not set out in any order of priority and do not represent all risks associated with the Group's activities. Additional risks that are not currently deemed principal risks are nevertheless monitored for their impact on the Group.

Risk management framework

Risk governance and oversight

Group Board

- Overall responsibility for the risk management framework.
- Sets the risk appetite for the Group.
- Responsible for ensuring that effective internal control and risk management systems are embedded within the business.
- Conducts annual assessment of principal risks.

Audit and Risk Committee

- Responsible for assessing the ongoing effectiveness of the Group's risk management framework, controls and processes.
- Approves the internal audit programme and undertakes an independent review of action plans to mitigate and manage material risks.
- Reviews the Group risk register.

Top-down review of risks

Bottom-up review of risks

Risk management

Risk and Resilience Committee

- Responsible for developing and reviewing the risk management framework and processes.
- Supports the Board and Audit and Risk Committee in their oversight of risk management.
- Conducts reviews of the principal risks.
- Identifies and manages risks as they arise.
- Monitors Key Risk Indicators.
- Provides forum to assess progress under action plans to mitigate and manage risks.
- Conducts deep dives into areas of operational risk.
- Reviews management information on key compliance areas such as health and safety, data protection and information security.

Risk and control owners

Individual Executive Team and operational risk owners

- Primary responsibility for identifying, assessing and managing risk in area of responsibility within risk appetite.
- Maintain operational risk register in area of responsibility.
- Escalate key risks and concerns as appropriate.

Independent assurance

Internal audit

- Provides independent assurance to the Board, Audit and Risk Committee and management on the effectiveness of risk management and internal control systems.
- Conducts independent audits of risks to the business in accordance with risk-based internal audit programme.

Risk-based reviews

- Conducts specialist third-party reviews as required.

Principal risks and uncertainties

At a glance

Principal risks	Risk trend
Customer offer	Stable
Product reputation and trust	Stable
Business change	Increasing
People and culture	Stable
IT systems, data and cyber security	Increasing
Regulatory and compliance	Stable
Climate change and environment	Stable
Supply chain resilience	Stable
Finance and treasury	Stable

Strategic drivers

1 Product mastery

2 Total retail system

3 Culture and identity

Stakeholder groups

Customers

Colleagues

Communities

Suppliers

Planet

Shareholders

Risk trend

Stable

Increasing

Decreasing

Customer offer

Description of risk

Ongoing external uncertainty and inflationary pressure on consumers has led to significant change in consumer behaviour. Failure to respond to changing consumer needs and to maintain a competitive offer (value & choice, friendly & expert, fast & convenient and good & circular) will undermine our ambition to increase market share and drive profitable and sustainable growth.

Stakeholder groups

Customers, Suppliers, Shareholders, Communities

Risk trend

Stable

Link to strategy

1 2 3

Risk owner

Customer Director

How we mitigate

- Increased utilisation of customer and market insights enabling us to understand more about our existing and potential new customers and adapt as appropriate to their changing needs.
- Ongoing review and development of our strategy to become a more trusted and valuable brand (see pages 8 and 9 for business model).
- Continued investment in digitalising our business to improve our customer offer.
- Focus on new product development, particularly own brand, in both existing and new categories, as well as continued product innovation in existing categories with 'sustainability' being a key element to strengthen our customer offer.
- Ongoing review of supply chain capacity and capability, investing as needed.
- Continued expansion of our range of products to appeal to every budget and style and regular review of price points.
- Ongoing focus on engagement through social media and community involvement.

Product reputation and trust

Description of risk

Our stakeholders expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Our customers are increasingly aware of the environmental and social impact of their purchases and want to know that our products have been responsibly sourced and that their environmental impact is minimised.

Failure by our suppliers to uphold our approach to business ethics, regulatory compliance, human rights (including safety and modern slavery) and the environment may undermine or damage our reputation as a responsible retailer, and result in a loss of confidence in Dunelm.

Stakeholder groups

Risk trend

Link to strategy

1 2 3

Risk owner

Director of Commercial and Supply Chain

How we mitigate

- Mandatory training, a range of policies and our Ethical Code of Conduct for Suppliers and Partners govern, amongst other things, the quality of products and production processes, and our expectations in relation to responsible sourcing, anti-bribery and corruption and modern slavery.
- Monitoring of our expectations on business practices, product quality and compliance with applicable regulations undertaken by a dedicated team, assisted by third-party due diligence checks and our ethical audit programme.
- Provision of enhanced training to commercial teams and suppliers on identifying and utilising sustainable materials in our products and packaging.
- Conduct regular supplier conferences and awareness training at which compliance with policies and the Ethical Code of Conduct for Suppliers and Partners is a key topic.
- Focus on collation of data from suppliers in connection with sustainability targets for products and packaging.
- Regular review by senior management of product recalls and product safety-related issues, with clear procedures in place to enable swift action to be taken as appropriate.
- Whistleblowing procedure and independently administered helpline enables concerns to be raised in confidence.

Business change

Description of risk

Dunelm recognises that there is a huge opportunity in digitalising the business and has invested and will continue to invest in system improvements to drive growth and efficiency.

Failing to successfully introduce and deliver wider technology and new systems across the business and leverage the data generated to further improve our proposition and operations could result in reduced operational efficiency, competitiveness, relevance and growth. Furthermore, failure to deliver the expected objectives on time and on budget could impact delivery of the planned business benefits.

Stakeholder groups

Risk trend

Link to strategy

1 2 3

Risk owner

Chief Technology and Information Officer

How we mitigate

- Continued investment in digitalisation aligned to strategic priorities.
- Structured and disciplined delivery methodology applied to business change programmes, led by experienced project managers.
- Detailed management oversight to monitor progress and cost.
- Dedicated resource allocated to key change programmes, supported by additional, external expertise as needed.
- Regular review of roadmaps and workstream prioritisation by cross-functional leaders to ensure ongoing alignment with delivery of strategy.
- Focus on building and developing strong third-party relationships to enable effective collaboration, communication and ongoing delivery.
- Ongoing simplification and rationalisation of processes and systems.
- Regular reviews of progress using appropriate KPIs with all stakeholders, including identification and management of risks to delivery.

Principal risks and uncertainties continued

People and culture

Description of risk

Our business could be adversely impacted if we fail to attract, retain, and develop colleagues with the appropriate skills, capabilities and diverse backgrounds.

Failing to embed and live our values could impact business performance, the delivery of our purpose and the long-term sustainability of our business.

Stakeholder groups

Risk trend

Link to strategy

3

Risk owner

Stores and People Director

How we mitigate

- Regular review by the Executive Team and the Group Board of colleague 'dashboard' and KPIs, including attrition and recruitment rates. Such reviews also include an assessment of capabilities to ensure that we continue to have the right skillsets in the business to deliver our strategy.
- Continued focus on training, development and mentoring opportunities, with emphasis on 'growing our own' talent, driven by the management-level Talent Committee.
- Ongoing review and development of our total employee value and reward proposition, assisted by benchmarking exercises as appropriate.
- Enhanced mental and financial wellbeing programmes and initiatives to support colleagues including introduction of targeted support relating to parenthood, pregnancy loss, and menopause.
- Regular communication with colleagues through engagement surveys, National, Regional and Local Colleague Voice meetings, D&I networks and huddles. Utilising feedback to understand colleague perception of culture and implementing actions based on the output.
- Commitment to increasing diversity across the Group.
- Continuing to 'bring our shared values to life' under our behavioural framework project.

IT systems, data and cyber security

Description of risk

Our IT systems and infrastructure are critical to managing our operations, interacting with customers, and trading successfully.

A key system being unavailable or suffering a security breach could lead to operational difficulties, loss of sales and productivity, legal and regulatory penalties due to loss of personal data, reputational damage, and loss of stakeholder trust.

Stakeholder groups

Risk trend

Link to strategy

2

Risk owner

Chief Technology and Information Officer

How we mitigate

- Continued investment and roadmap for further investment in systems development and security.
- Ongoing programme of work to decommission outdated applications, platforms, and infrastructure.
- Onboarding of new suppliers or suppliers undergoing contract renewal requires an assessment of the robustness of their security and data protection controls.
- Data protection and information security policies and procedures in place and governed by subject matter experts, including a dedicated, specialist information security team, data protection officer and head of data management.
- Mandatory training and ongoing awareness programmes keep colleagues informed and aware of data protection and information security risks.
- Security Operations Centre and vulnerability management service tools provide increased visibility of security events and enable vulnerabilities to be monitored and quickly addressed. In addition, periodic systems vulnerability and penetration testing carried out.
- Restricted access to sensitive data.
- Regular review and testing of incident and crisis management plans, and business continuity plans, which includes reviewing the resilience of and disaster recovery for IT systems.
- Data and reporting used to track system performance, utilisation, and vulnerability across our IT estate, with regular reviews undertaken and delivery of resulting actions monitored.

Regulatory and compliance

Description of risk

We operate in an increasingly regulated environment and must comply with a wide range of laws, regulations, and standards.

Failure to comply with or to take appropriate steps to prevent a breach of these requirements could result in formal investigations, legal and financial penalties, reputational damage and loss of business.

Stakeholder groups

Risk trend

↔

Link to strategy

1 3

Risk owner

Group General Counsel and Company Secretary

How we mitigate

- Suite of compliance policies in place which are reviewed regularly and governed by subject matter experts. Group-wide mandatory training provided for high-risk compliance areas such as health and safety, anti-bribery and corruption, data protection and cyber security, with additional training undertaken as required or as may be appropriate to a specific role.
- Data trends for high-risk compliance areas and KPIs monitored and reviewed by the Risk and Resilience Committee, as well as cross-functional steering groups (such as Pathway to Zero).
- Dedicated teams for product quality and ethics, sustainability and health and safety, supported by in-house legal team.
- Whistleblowing procedure and independently administered helpline enables concerns to be raised in confidence.
- Compliance with policies and Ethical Code of Conduct for Suppliers and Partners monitored via our ethical audit programme.
- Regular health and safety meetings for each of the retail and distribution centres. Health and safety reports, including audit outcomes, reviewed by the Risk and Resilience Committee and the Board on a regular basis, with in-depth presentation made by the Head of Health & Safety to the Board at least annually.
- Continued focus on food hygiene and allergen awareness in our Pausa cafes by way of regularly reviewed operating guidelines, compulsory colleague training and regular audits.
- Ongoing horizon scanning and monitoring of legislative and regulatory developments and announcements in relation to prospective change.

Climate change and environment

Description of risk

Failure to positively change our impact on the environment would fall short of the expectations of our customers, colleagues, shareholders, and other stakeholders which could lead to reputational damage and financial loss.

In addition, an inability to anticipate and mitigate climate change and other environmental risks could cause disruption in the availability and quality of raw materials such as cotton and timber, affecting production capacity, product quality, and overall supply chain resilience. This, and potential transition risks related to environmental taxation, could result in higher costs, delays, and potential loss of customers.

Stakeholder groups

Risk trend

↔

Link to strategy

1 2 3

Risk owner

Chief Executive Officer

How we mitigate

- Annualised targets in place to reduce emissions, energy usage and waste to landfill, and increase recycling in our operations.
- Pathway to Zero Steering Group (chaired by the CEO) oversees progress against environmental targets and climate change work with support from external advisers (as required).
- Updates on progress towards targets/commitments, including emerging risks, challenges and opportunities under our climate change roadmap, regularly provided to the Board.
- Regular review of standards and policies that govern our approach to high-risk raw material types and routes. Increased use of lower-impact raw materials in products and ongoing work with our suppliers to move towards a more circular design and business model.
- Implemented initiatives to shift vehicles from traditional fossil fuels to more sustainable alternatives.
- Sustainability targets built into Executive Director long-term incentives.
- Active engagement with suppliers and partners on the collation of data required to assess delivery against carbon reduction targets.
- Dedicated sustainability team.
- Regular horizon scanning conducted to keep abreast of regulatory change and stakeholder sentiment.

Further information can be found in the TCFD report on pages 40 to 47.

Principal risks and uncertainties continued

Supply chain resilience

Description of risk
We are dependent on complex global supply chains and fulfilment solutions to deliver products to our customers. Instability in the global supply chain or failure of a key supplier may impact our ability to effectively manage stock and satisfy customer demand.

Stakeholder groups

Risk trend

Link to strategy
2

Risk owner
Director of Commercial and Supply Chain

How we mitigate
- Ongoing review of supply chain strategy to ensure capacity is in line with long-term financial plan.
- Detailed budgeting and forecasting processes match capacity to demand, and are reviewed weekly by a cross-functional team.
- Continuous monitoring of demand and stock visibility.
- Regular review and testing of incident and crisis management plans, and business continuity plans.
- Dedicated procurement team oversees process for tendering and negotiating with supply chain suppliers and ensures that appropriate due diligence is carried out on existing and prospective third-party partners.
- Active management of key supplier relationships to enable early warnings of disruption and agree mitigating actions.
- Active engagement with suppliers and partners on the collation of data required to assess delivery against carbon reduction targets.
- Ongoing focus on initiatives to improve efficiency in the delivery process.

Finance and treasury

Description of risk
Progress against business objectives may be constrained by a lack of short-term funding or access to long-term capital.

Stakeholder groups

Risk trend

Link to strategy
1 2 3

Risk owner
Chief Financial Officer

How we mitigate
- Maintain relationships with a syndicate of committed partner banks to ensure appropriate funding is available.
- Revolving Credit Facility of £250m in place, extended until September 2027.
- Group treasury policy governs levels of debt, cash management strategies and foreign exchange exposures.
- Hedging for foreign exchange and freight and energy prices agreed in advance, to help mitigate volatility and aid margin management.
- Continued focus on cost discipline through capital investment approval process and ongoing scrutiny of discretionary expenditure.
- Treasury and Capital Committee ensures appropriate governance around matters such as funding, dividends, foreign exchange, and energy hedging.
- Ongoing focus on actions to improve controls around stock and cash management, stock purchasing and forecasting.

Emerging risks and opportunities

Risks continue to evolve and change, and an awareness of emerging risks is important in driving effective strategic planning. Understanding the potential implications of emerging risks and monitoring them enables us to consider them appropriately within our decision-making processes.

We identify emerging risks by reviewing customer and market metrics and insights, relevant publications and consultation papers, with the assistance of both internal and external subject matter experts.

While no significant emerging principal risks were identified in the year, we recognise that there is a high level of ongoing uncertainty in the economy and continue to closely monitor the potential impact so far as it relates to Dunelm. We also continue to consider the impact of technological change and monitor the pace of regulatory change and stakeholder sentiment in relation to environmental and other sustainability-related matters.

Going concern and viability statement

At the time of approving the financial statements, the Board of Directors is required to formally assess that the business has adequate resources to continue in operational existence and as such can continue to adopt the 'going concern' basis of accounting. The Board is also required to state that it 'has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due' (the 'Viability Statement'). To support this statement, the Board has considered the Group's current financial position, its strategy, the market outlook and its principal risks. As the Group runs a five-year planning process, the Board has reviewed viability over a five-year period. The base case for this review is the five-year plan presented to and approved by the Directors in May 2023.

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

Modelling potential downside scenarios

In their consideration of going concern and the future viability of the Group, the Directors have reviewed future profit forecasts and cash projections, which reflect their experience in managing the business. Both scenarios modelled assume that variable costs would reduce as sales reduce.

The 'market downturn' scenario assumes a change in consumer spending away from homewares, due to inflationary pressures, with FY24 showing no sales growth on FY23 and 8% lower growth in FY25 than in the base case scenario. In addition, a lower margin than base case is assumed throughout the five-year period. This 'market downturn' scenario does not include any mitigating cost reduction actions, which would be taken if such a downturn occurred, and assumes the continuation of dividend payments in line with our current dividend policy. In this 'market downturn' scenario, the Group would not breach any of its financial covenants.

The 'deeper market downturn' scenario assumes a 5% sales decline in FY24 compared to FY23 and 8% lower growth in FY25 than in the base case. A more severe margin erosion is assumed in this scenario compared to the 'market downturn' scenario and margin erosion continues throughout the five-year period. Similar to the 'market downturn' scenario, we have assumed no cost mitigation and the continuation of dividend payments in line with our current dividend policy. As with the 'market downturn' scenario, the Group would not breach any of its financial covenants.

The Directors continue to assess the risks that climate change poses to the business via modelling and disclosures in line with the Task Force on Climate-related Financial Disclosures. The Group will actively manage and mitigate these risks as required within the existing enterprise risk management processes (as outlined on page 45). Climate change is not expected to have a significant impact on the Group's going concern assessment or on the viability of the Group over the next five years.

Reverse stress testing

To provide additional assurance around the Group's viability, two reverse stress tests have been modelled, similar to the reverse stress testing carried out at the end of FY22. In both of these reverse stress tests we have assumed that variable costs would reduce in line with sales, that we would be able to save £20m per annum of fixed costs and that we would reduce the level of capital investment to £10m per annum and suspend the payment of dividends. In the first reverse stress test, we have modelled the sales decline required to breach either of the current covenants in the Revolving Credit Facility (RCF). A sales reduction of 23% in FY24 and 28% in FY25 from the base case would be required for covenants to be breached by the end of FY25. In the second reverse stress test scenario, we have modelled the level of sales reduction required to breach the RCF limit of £250m. This would require a reduction in sales of 47% in both FY24 and FY25 from the base case to effectively run out of funding by the end of FY25, assuming reasonable mitigating actions have been implemented.

Financing

The Group's banking agreements and associated covenants are set out in the CFO's Review and include a £250m RCF (maturing in September 2027 with a two-year extension option, subject to lender consent), an accordion option with a maximum facility of £100m and a £10m uncommitted overdraft.

The Group ended the financial year with net debt of £31m. The financial covenants are tested in line with our December interim reporting and June year-end reporting. These covenants are met with significant headroom. In both downside scenarios, the Group continues to forecast compliance with all financial covenants throughout the going concern and viability period.

Going concern and viability conclusion

In both downside scenarios Dunelm has sufficient liquidity to continue trading, including maintaining the payment of dividends in line with its dividend policy and comfortably meeting its financial covenants. The reverse stress modelling has demonstrated that a sales reduction of 23% in FY24 and 28% in FY25 from the base case is required to breach covenants by the end of FY25 and a 47% sales reduction is required to breach the RCF limit by the end of FY25, assuming reasonable mitigating actions have been implemented. Even in such an event, management would follow a similar course of action to that initially undertaken during the recent Covid-19 pandemic. Such actions could include further reductions in discretionary spend (e.g. marketing and travel) and capital investment in new stores and refits, and reducing headcount.

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

Strategic Report

This report was reviewed and signed by order of the Board on 20 September 2023.

Nick Wilkinson
Chief Executive Officer
20 September 2023