



**Dunelm**

The Home of Homes

Dunelm Group plc

# Annual Report and Accounts

for the period ended 29 June 2019

Stock code: DNLM



The **Home** of Homes

At Dunelm, we love homes and are just as obsessed by the products that go in them. We're the UK's No. 1 homewares retailer offering our customers a wide range of products to enhance every room in their home. We focus on **style, quality and value** and are always working hard to make our customers' lives a little easier.

**Our purpose is to help everyone create a home they love.**

## Investment proposition

### 01 Well positioned for growth

Our growth record has been strong with 40 consecutive years of increased sales and we're always looking out for ways to sell more to our customers. We have a significant opportunity to continue to grow in the UK as we become the customer's number one choice for homewares and furniture.

- Market leader in the UK homewares market with 8.7% share\*. Opportunity to consolidate leadership position in a fragmented sector
- Opportunity to accelerate the growth of our online business with an expanded range, and improved delivery options, attracting new customers and evolving our model for the future
- Significant growth potential in furniture where our share is around 1% of the market

\* GlobalData Retail research (September 2019).

### 02 Customer offer

We are always looking for ways to enhance our customer offer. We want to be famous for style, as well as quality and value. We're always looking and listening to ensure we make our customer experience as inspiring and easy as possible.

- We're well known for offering great value and quality across our broad product ranges. We will introduce more fashion and style-led ranges, and leverage our own brands to drive consideration and conversion across our categories
- Investments in our multichannel capability means customers can increasingly shop how and whenever they choose with next day/day of choice home delivery or same day collection in store
- Our great colleagues really make Dunelm different. We're proud to offer friendly and knowledgeable service to our customers



We're a multichannel retailer with 170 superstores, two high street stores and our website, [dunelm.com](https://dunelm.com), featuring extended ranges and delivery convenience (home delivery and reserve & collect) via multi-device functionality and our own delivery fleet.

We are really proud of our business culture and we like to do things our own way. We're committed to our suppliers and making Dunelm a great place to work for our colleagues.

### 03 Operating model

Our low cost operating model provides a solid platform for continued growth. We've invested intelligently over the years and remain agile enough to respond quickly to changes in the marketplace.

- We're not held back by an overpriced or oversized retail estate. In fact, we know we can still open more stores in key locations across the UK
- Our focus on cost and reducing waste ensures that we run a lean business and allows us to reinvest for growth and maintain great pricing for our customers
- We've grown up with many of our suppliers. Their skills and experience complement our own. We are committed to maintaining great relationships and working with our suppliers to create a more efficient supply chain

### 04 Long term value creation

We make decisions for the long term. We always want to do the right thing for our business and stakeholders.

- As a highly cash generative business with a conservative capital structure, we have the ability to reinvest and/or distribute our free cash flow each year
- As a large employer and a responsible business, we care about our communities and environment too. We have increased our charitable contributions, reduced emissions and improved our waste management
- Our progressive distribution policy has increased dividend per share each year since floating on the London Stock Exchange in 2006

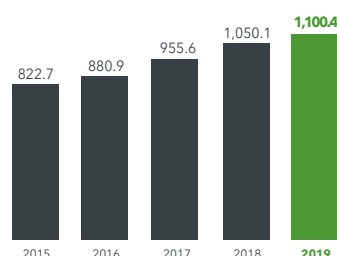
Read more online at: <https://corporate.dunelm.com>

# Highlights

## Revenue £m

**+4.8%**

(2018: +9.9%)

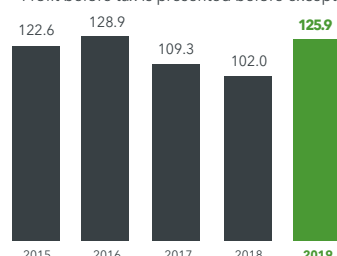


## Profit before tax\* £m

**+23.4%**

(2018: -6.7%)

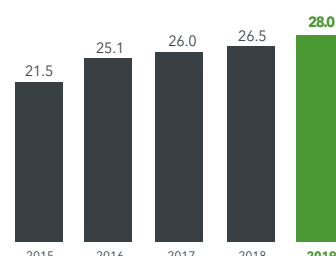
\* Profit before tax is presented before exceptional costs.



## Dividend per share pence

**+5.7%**

(2018: +1.9%)



## Operational highlights

- Focus on core Dunelm, with improved customer proposition offering more choice, style and value
- Continuing growth in brand awareness and consideration helped drive an 8.5% increase in unique active customers\*
- Ongoing development of digital capabilities with further plans in progress to enhance the multichannel customer experience
- Increased homewares market share† by 0.6ppt

\* Unique active customer numbers reflects internal analysis based on Barclays data.

† GlobalData Retail research (September 2019).

## Financial highlights

- Total like-for-like (LFL<sup>‡</sup>) sales increased by 10.7% with strong growth both in stores (7.7%) and online (35.1%)
- Profit before tax of £125.9m up 23.4% (vs FY18 underlying profit before tax), reflecting higher sales, improved gross margins (+160bps) and better operational grip
- Excellent cash flow generation: Free cash flow of £154.4m (+£101.5m compared to FY18) and a significant reduction in net debt to £25.3m (FY18: £124.0m)
- Final dividend of 20.5p brings the full year ordinary dividend to 28.0p, growth of 5.7%
- Special dividend of 32.0p, bringing total shareholder dividend for the year to 60.0p

‡ LFL stores are defined as those trading for at least one full financial year prior to 1 July 2018 without any significant change of space. LFL stores revenues include reserve & collect sales, and home delivery sales in respect of orders placed via in-store tablets.

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# At a Glance

## Sustainable long term value creation

### About us

We're the UK's No. 1 homewares retailer offering our customers great products to enhance every room in their home.

We focus on style, quality and value and are always working hard to help our customers to create a home they love.

- 30,000 products in store
- 55,000 products available online
- Full product range available to order in store
- Over four and a half million customers visit our stores and website each week
- Made to Measure curtains and blinds service including home fitting
- Home delivery and reserve & collect service

Read more in our business model on pages **10** and **11**



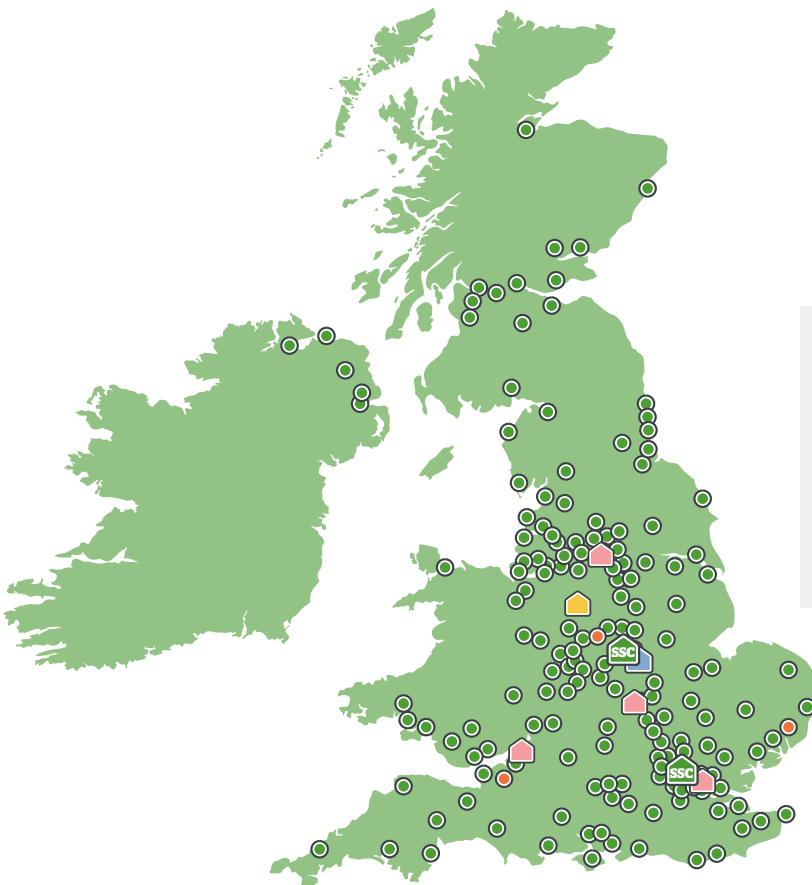
### Where we operate

We're a UK multichannel retailer with national coverage through our dunelm.com website and store network.

- dunelm.com offering a range of delivery options
- 170 superstores and two high street stores
- Support centres in Leicester and London
- Two distribution centres in Stoke-on-Trent
- Contact centre in Radcliffe, Manchester
- Made to Measure manufacturing centre in Leicester
- Five Dunelm Home Delivery Network sites (Stoke, Barnsley, Northampton, Bristol and Dartford)

#### Key

- Superstores as at 30 June 2018
- New superstores opened since 1 July 2018
- SSC Leicester and London support centres
- Manufacturing
- Stoke I & II distribution centres
- Dunelm Home Delivery Network sites



Read about our marketplace on pages **8** and **9**

**Our brands**



**Our customer promises**

We have three customer promises that define our offer:

- **Great choice and value**
- **Easy and inspiring to shop**
- **Convenient to buy and return**

Read about our customer promises on pages **12** and **13**



**Our business principles**

We have a unique culture stemming from our entrepreneurial beginnings and a set of business principles we live by.



Read about our business principles on page **10**

**Our people**

We aim to make Dunelm a great place to work for our colleagues. We are pleased to highlight the following achievements:

- 14% increase in colleague engagement between May 2018 and May 2019
- Recognised by Glassdoor as being in the “top 50 best companies to work for in the UK”
- Launched a mental health awareness programme, training over 50 colleagues as mental health first aiders
- Introduced new schemes to enable colleagues to buy additional holiday and receive advances on their monthly pay
- Developed the first ever retail degree apprenticeship

**Our focus on sustainability**

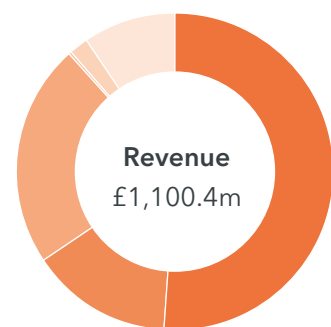
To deliver long term, sustainable growth and strong financial performance, we have to deliver for all of our stakeholders:

- Our customers
- Our people
- Our environment and climate change
- Our communities
- Our suppliers and human rights
- Our shareholders

Read about our sustainability on pages **33** to **45**

Read our corporate governance report on pages **53** to **62**

**How our revenue is spent**



- Cost of sales **£554.8m**
- Labour costs **£171.6m**
- Other operating costs **£247.1m**
- Financial items **£1.0m**
- Corporation tax **£24.6m**
- Dividends paid **£54.6m**



# Chairman's Statement



## Andy Harrison

Chairman

“ We are delighted to celebrate our **40th anniversary** with a **strong performance** built on a renewed focus on Dunelm's Customer 1st values. ”

### **An anniversary to celebrate. Putting our customers first.**

Dunelm was founded on a market stall in Leicester by Bill and Jean Adderley in 1979 and grew into a national network of superstores under the leadership of their son, Will Adderley. We are delighted to celebrate our 40th anniversary with a strong performance. This success has been built on a renewed focus on Dunelm's well-established Customer 1st values, offering great products and excellent value for money, combined with friendly and knowledgeable service from colleagues throughout our 172 stores. In addition, we are building powerful new digital capabilities which are driving sales both online and in stores.

We have continued to invest in raising customer awareness of Dunelm's outstanding offer, which has driven higher customer numbers. Tighter operational management has also allowed us to convert strong sales into healthy profit growth and substantially improved cash flow. Of equal note, our customer satisfaction and colleague satisfaction scores improved significantly during the year.

To defy the challenges in UK retail with double digit growth in like-for-like sales and a 23% growth in our pre-tax profit (vs FY18 underlying) is very pleasing. I would like to thank all of our Dunelm colleagues for their hard work and commitment, which is central to our success. We are proud of Dunelm's strong culture and the commitment of all our team to delivering a great experience for our customers.

### **Dividends**

The Board has recommended an increased final dividend of 20.5 pence per share, bringing the total ordinary dividend for the full year to 28.0 pence per share, an increase of 5.7% on the previous year. As a result of our strong cash flow generation this year, which substantially reduced our net debt

position, and in line with our policy, the Board has also declared a special dividend of 32.0 pence, to be paid in October 2019, reflecting our commitment to return surplus cash to our shareholders.

### **Board changes**

Nick Wilkinson has completed his first full year as Chief Executive and has been central in leading our improved performance, re-energising our core skills, building new digital capabilities and focusing on the Dunelm brand.

We welcomed Laura Carr to Dunelm as CFO on 29 November 2018 and we are already seeing the benefits of her financial discipline and commercial insight.

Liz Doherty has decided to retire from the Board and will therefore not be seeking re-election at the Annual General Meeting in November. On behalf of my Board colleagues and the entire Dunelm team, I would like to thank Liz for her significant contribution over the last six years. We have benefited substantially from Liz's wisdom and the strength of her retail and international business experience, especially in her role as Chair of our Audit and Risk Committee.



In July 2019, we appointed Ian Bull as a Non-Executive Director. Ian's broad experience as a CFO in a range of consumer businesses is an excellent addition to our Board. Ian brings a wealth of experience and I am very pleased to have him as part of our team. When Liz retires from the Board in November, Ian will take on the role of Chair of the Audit and Risk Committee. Ian is also the Senior Independent Director (SID) and Audit Committee Chair at St Modwen Properties plc and Audit Committee Chair at Domino's Pizza Group plc.

Read about governance on pages **46** to **101**

In September 2019 we also appointed Paula Vennells as a Non-Executive Director (NED). Paula has a strong track record, having led the Post Office for seven years which is a large, complex consumer business. Paula is also a NED at Wm Morrison Supermarkets plc, Chair of the Imperial College NHS Healthcare Trust and a NED of the Cabinet Office.

While the year ahead will be a challenging one, with lots of economic uncertainty and tougher comparatives, I am excited by the significant opportunities ahead

for Dunelm and I am confident that it is well placed to maintain its position as the leading specialist multichannel homewares retailer in the UK and to continue to deliver sustainable growth.

**Andy Harrison**

Chairman

4 September 2019

"I am **excited** about the significant opportunities ahead for the **Dunelm** business to continue to deliver sustainable **growth**"





# 02 Strategic Report

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Our customer promises

## Great Choice and Value

Fantastic quality own label product at a price that can't be beaten.



# Our Marketplace

We remain the UK homewares market leader and are well positioned for further growth

## Macroeconomic trends

The UK retail sector continues to experience high levels of volatility and uncertainty as consumer confidence remains low as we enter into Brexit. The market landscape is also rapidly changing and many new retailers are entering the market as we see traditional barriers to entry reduce. At the same time, customer behaviours and expectations have changed, leading to some of the well-established retailers exiting sections of the homewares and furniture market.

At a time when the market has been challenging, consumers have still been willing to invest in their homes, especially when they find good quality products that are value for money and come with a great shopping experience. Online shopping is now becoming part of almost every shopping mission and technological advances are providing the customer with sharper images enabling them to view not only what the product looks like, but also establish its quality.

However, with this political uncertainty and pressures like increasing food inflation potentially leading to customers spending more on essential resources and less on non-essential resources, we remain cautious on the outlook for FY20.

## How we are responding

At Dunelm, we have an offer that appeals to customers whether they are moving house or choosing to stay in their current home, and we believe this provides a significant opportunity to continue to grow in the UK as we become the customers' number one choice for homewares and furniture. We are clear the market is becoming more multichannel and customers will expect a combination of ordering and choosing products online but to also visit stores to touch and feel the product, or just to collect the item in a convenient and timely way. We are responding well to these market conditions and are clear on the opportunities this will present to Dunelm.



## The homewares market\*

### Headlines

The UK homewares market is worth an estimated £13.5bn per year.

Online penetration is growing fast and ahead of the market. Growth is estimated to be 14.8% in 2019 (2018: 14.0%), and is forecast to reach 17.2% by 2023. However, stores continue to play a vital role in the growth of online shopping as customers can search and browse and be inspired online but touch and feel the products in store.

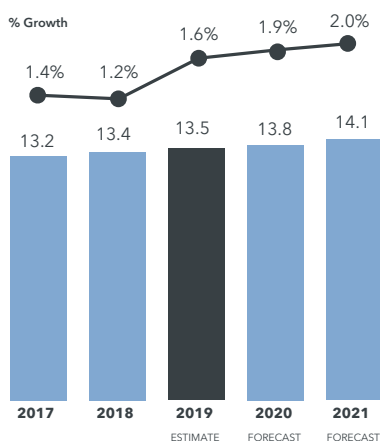
The homewares market is impacted by social media and influencers are encouraging consumers to refresh their homewares more often, meaning ranges are becoming more fashion-led and lower ticket items are becoming important as they can be replaced more frequently.

### Key growth drivers and inhibitors

- + Fashion and design-led ranges increase visit frequency
- + Online provides more choice and convenience
- + Technology enabling a better online shopping experience
- + Store space and new formats improve experience
- Food price inflation leading to a reduction in non-essential homewares spend
- Economic uncertainty and price competition
- Leisure favoured over retail

### Market size

£bn



## The furniture market†

### Headlines

The UK furniture market is estimated to be worth £11.4bn in 2019. The market has been impacted by economic uncertainty, lower consumer confidence and the weaker housing market.

However, the online furniture market is expected to be one of the fastest growing markets between 2019 and 2023 as customers become increasingly more comfortable with big tickets purchases (Global data). Online penetration is forecast to grow to 22.4% by 2023.

Technology is supporting this growth journey by providing customers with sharper, clear images on screen, videos and angles that allow you to see the product quality up close.

Technology like augmented reality allows the customer to place the product in their home using their mobile phone before deciding to buy online.

Furniture retailers must do more to link their online and store experience to enable customers to shop how and when they want.

The market is expected to continue to consolidate and Dunelm is well positioned to build on its multichannel offer to provide the customer with a wide range of products in co-ordinated collections at a great price.

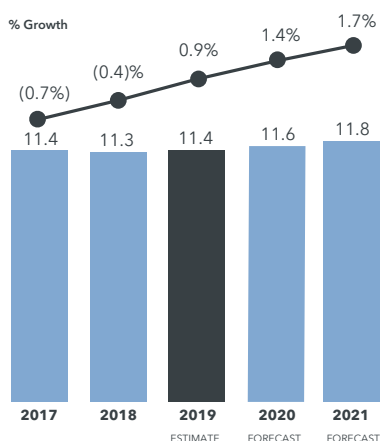
### Key growth drivers and inhibitors

- + Online growth: lower overheads, broader ranges, keener prices, convenient deliveries
- + Technology enabling a better online shopping experience
- + Growth in sales of bedroom furniture categories will be driven by increasing well-being and health awareness
- + Growth in sales of living room furniture as space is more constrained and innovative storage solutions are needed
- Economic uncertainty, inflation and price competition

\* Homewares market data is based on GlobalData analysis.

### Market size

£bn



### Key differentiators:

- Product obsessed - focus on style, quality and value
- Everyone's welcome in our home
- Multichannel convenience - shop when, how and where you want
- Our people - friendly and knowledgeable service

† Furniture market data is based on GlobalData analysis.

# Our Business Model

## Developing Dunelm. The Home of Homes

### The resources we use

#### Our people

Our people are passionate about Dunelm and committed to helping our customers create a home they love. Our deep product knowledge and friendly service helps create and enhance our leading customer proposition.



#### Our relationships

We have grown up with many of our committed suppliers, and we also build open and trusted partnerships with new suppliers and in the communities where we operate. The strength of our relationships and the way we work together allows us to continually improve Dunelm for our customers.

#### Our brand reputation

The Dunelm brand is known and trusted by millions of UK consumers, for choice, value, quality and style. We're working hard to build awareness of Dunelm so that those customers who don't yet know us or shop with us, can access our leading product ranges and friendly service.

#### Capital and infrastructure

We're a prudently financed business and over the years, we have invested in appropriate systems and capabilities that provide a solid platform for growth. Our store network is not oversized and the highly cash generative nature of our business allows us to reinvest for growth, whilst maintaining shareholder distributions.

### What we do

#### Product

Provide a leading range of quality, great value products for all customer groups.

- 30,000 products in store with around 30% of the range being refreshed annually and frequent promotional buys to create newness
- High levels of in-store availability to take home today
- 55,000 items available online for home delivery

#### Service

Support customers throughout their shopping journey with friendly and knowledgeable colleagues in store, ready to help.

- Over 9,000 colleagues, including over 1,200 customer hosts
- High in-store Net Promoter Scores (NPS) highlight customer satisfaction and provide feedback on how to improve
- Dedicated customer service centre in Radcliffe, Manchester available to support customers seven days a week

#### Multichannel convenience

Gives options to customers on how they want to shop, online or in store.

- Mobile and tablet friendly website allows on-the-go browsing with clear pricing, product information and customer reviews
- A conveniently located superstore estate allowing customers to touch and feel products and seek expert advice
- Multiple home delivery options and free or low cost delivery charges
- Inspiration and helpful product information and buying guides online

### Our culture and business principles

Our business principles underpin our culture and encourage us to do the right things with the long term in mind

Read more online at:  
<https://corporate.dunelm.com>

Sell more

Merchandise  
Supplier relationships  
Keep listening and looking

Be committed

Customer focus  
Motivate our teams  
Develop our people

Do things our own way

Be the underdog  
Long term decisions

Keep it simple

Waste  
Environment  
Keep our cost structure lean



## Creating long term sustainable value

Read about our strategy on pages **12** and **13**

Read about sustainability on pages **33** to **45**

### For our customers

- Ever-increasing reasons to shop at Dunelm. With new ranges, new departments, new products and new services
- Everyday low prices, two end-of-season clearance sale events per year
- An easy shopping experience, how and wherever customers want to shop
- Inspiration across channels to help everyone create a home they love

Key FY19 achievement:

#### Increased customer satisfaction scores in all channels

### For our people

- Stable employment in a growing business with opportunities to develop and progress, regardless of disability, race, religion or belief, gender, sexual orientation, gender reassignment, marital status or age
- A fair pay deal with pay rates above National Minimum/ National Living Wage levels, plus additional benefits
- Commitment to provide a safe workplace and promote mental health and well-being

Key FY19 achievement:

#### Colleague engagement up by **14%**

### For the environment and climate change

- Aim to maximise reuse and recycling in our operations, target zero waste to landfill
- Plan in place to minimise use of single-use and non-recyclable plastics
- Commitment to reduce like-for-like energy usage and carbon emissions every year
- Continually improving sourcing policies for materials such as cotton, timber and palm oil to reduce social and environmental impacts

Key FY19 achievement:

#### **21.6%** reduction in CO<sub>2</sub>e relative to turnover

### For our communities

- Company supported charity (Macmillan); funds raised through donations in store, colleague fundraising activity and Company matching of funds raised
- All income from sale of single-use carrier bags donated to charity
- One day of paid leave per annum for every colleague for charitable activities
- UK corporation tax paid on all the Company's profits

Key FY19 achievement:

#### **£580,000** raised for charity by colleagues and the Group

### For our suppliers and human rights

- We deal with our suppliers in an open, fair, consistent and honest way, and pay on time
- External verification of ethical and human rights standards of Tier 1 supply base for own brand products
- Modern slavery policy and risk-based auditing in place for all suppliers

Key FY19 achievement:

#### Valid audit in place for **98%** of factory base for own brand products

### For our shareholders

- Customer 1st strategy for continued growth and long term value creation
- Focus on cost control to maximise efficiency and return on capital employed
- Strong free cash flow generation allowing invest/distribute decisions to be made
- A progressive dividend policy with growth in dividend per share each year since flotation

Key FY19 achievement:

#### **10-year TSR growth 598%** (source: Datastream)

# Our Purpose & Strategy

## What we are setting out to do

### Our brand purpose and business principles

Our purpose is to help everyone create a home they love. This means we want to appeal to all budgets and taste types and that we encourage our customers to express their own personalities through their homes. Our purpose is at the heart of everything we do. Our business principles have existed since the very beginning and shape our culture. There are 15 principles in total, and we try to apply them to everything we do.



### Our customer promises

In order to extend our focus on customer service to all parts of the business and to be clear on how we will deliver our purpose to our customers, we have three customer promises that are central to our offer:

1. *Great choice and value*: fantastic quality own-label product at a price that can't be beaten;
2. *Easy and inspiring to shop*: an experience that gives our customers ideas, and provides help when they want it, both in store and online;
3. *Convenient to buy and return*: accessible to all, whether delivered to your home or picked up in store. Products that are easy to buy and simple to return.

Some of these promises have been core to our offer for a long time, but some have been added more recently and are areas we are developing. We believe that if we do all of these well, we will be different and better than anyone else in the eyes of the customer and fulfil our purpose to help everyone create a home they love.

### Our Customer 1st growth plan

As market leader, with only 8.7% share, we see significant opportunity for growth within the UK homewares market. One of our key business principles is sell more. It is in our DNA and it's how we think about the business.

Our sell more plan is simple:

#### Our sell more plan



**2** million new customers

**1** more shop with us a year

**1** more product per basket

Last year we focused on reaching more customers with our brand through the introduction of an integrated marketing campaign. We will continue this focus and aim to attract two million new customers.

On average, our customers shop with us between three and four times per year. By better understanding their needs, we will increase the frequency of their visits.

Our average basket is less than four items. With a wide range of different product categories, we see the opportunity to increase the number of items in the basket.

The combination of the above measures will drive profitable and sustainable growth in the business. We have made progress on reaching more customers in FY19, and are excited about improving all three metrics going forward.



## Our foundations

**Committed colleagues:** Our people make Dunelm a special place to work and shop and make us proud of the service we give to our customers each day. The detailed product knowledge provided by our customer-facing colleagues, mainly in stores, is a key differentiator and is valued by our customers.

**Customer insight and data:** The more we understand about our customers, the better the offer we can provide. We will enhance our customer proposition to maximise value by using data and insight to make optimal investment decisions.

**Agile and scalable digital platform:** We have been in catch-up mode on our digital offering. The technology upon which the new digital platform is built allows us to release continuous improvements to our customer experience and operating effectiveness. Our Digital teams have been set up to work in an agile way to maximise the opportunity available through the new technology.

**Low cost store portfolio:** Our 170 superstores provide a fantastic opportunity for us to showcase our product ranges, provide great service and inspire our customers as they browse. The store experience is fundamental to our multichannel offer and we continue to expect to expand our estate to around 200 stores, opening between 3-5 new stores per year in the medium term.

**Committed supplier partners:** We have built deep and mutually rewarding relationships with our core supplier base over the last 40 years. These suppliers are product specialists and allow us to provide our customers with great value, choice and innovation.

**Lean and efficient supply chain:** The supply chain for our traditional/historical stores fulfilment model is very efficient. As we grow our home delivery business, in line with customer expectations, we are focused on building a similarly efficient home delivery model which includes both one and two-man delivery.

### Our purpose

Helping everyone create a home they love

### Our customer promises

Great choice and value

Easy and inspiring to shop

Convenient to buy and return

### Our sell more plan



2 million new customers

1 more shop with us a year

1 more product per basket

### Our foundations

Committed colleagues

Customer insight and data

Agile and scalable digital platform

Low cost store portfolio

Lean and efficient supply chain

Committed supplier partners

### Our key business principles

Sell more

Be committed

Do things our own way

Keep it simple

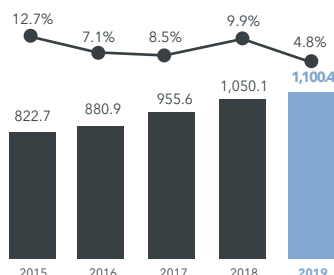
# Key Performance Indicators

Key performance indicators (KPIs) are used by the Board and throughout Dunelm to monitor business performance.

The KPIs set out in this summary are those considered to be most relevant to understand the performance of Dunelm over time.

## Total revenue

£m and growth %



### Commentary

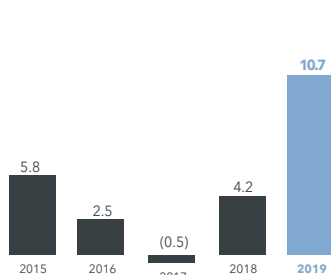
Growth of 4.8% includes LFL growth of 10.7% driven by performance in stores and online and reflects the closure of the Worldstores websites in the first quarter.

### Why this measure is important

Sell more is a business principle and continued sales growth is central to our ambitious Customer 1st plan.

## Total LFL revenue

growth %



### Commentary

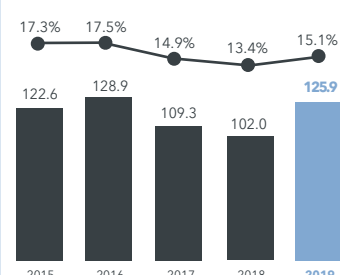
Strong LFL growth of +10.7% reflects pleasing store performance (+7.7% store LFL), supported by strong online home delivery growth (+35.1%).

### Why this measure is important

Our Customer 1st plan will drive future sales growth. This measure allows us to monitor the performance of our existing store estate and high growth online channel.

## Profit before tax\*

£m and % sales



### Commentary

Profit before tax has significantly improved this year due to stronger sales performance, improved gross margin and tighter cost control, and despite additional investment in marketing, wage inflation and higher cost of incentive schemes.

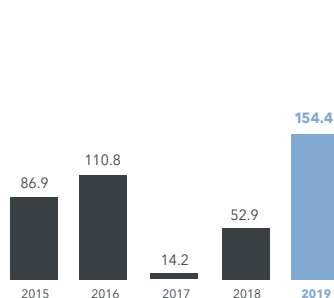
### Why this measure is important

Profit before tax measures overall financial performance of the business, reflecting sales, gross margin and cost control.

\* Profit before tax is presented before exceptional costs.

## Free cash flow

£m†



### Commentary

Free cash flow (defined as net cash from operating activities less net cash used in investing activities) has improved significantly due to higher operating profit, improved working capital and more efficient capital investment.

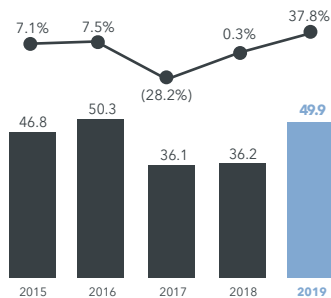
### Why this measure is important

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

† Free cash flow is presented after exceptional costs.

## Diluted earnings per share

pence and growth %



### Commentary

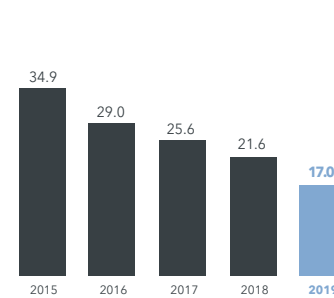
Diluted earnings per share (EPS) increased significantly to 49.9p reflecting the improved sales and profit performance through the year.

### Why this measure is important

EPS is a key measure for shareholders and one of the performance criteria for senior management remuneration.

## CO<sub>2</sub> emissions

tCO<sub>2</sub>e / £1m Group revenue



### Commentary

A continued reduction in both absolute emissions and emissions/revenue highlights the progress made on a range of environmental initiatives including LED lighting, improved energy management and lower emission vehicles.

### Why this measure is important

We are committed to reducing our impact on the environment. It also helps us reduce waste and costs.

Read about our strategy on pages **12** and **13**

Read about sustainability on pages **33** to **45**



# Business Review



**Nick Wilkinson**

Chief Executive Officer

“As **Dunelm** celebrates its 40th anniversary, we are pleased to have delivered a **strong performance** during the year, with an improvement across all our customer, operating and financial metrics.”

## Total LFL sales growth

# 10.7%

(FY18: 4.2%)

## Increase in unique active customers

# 8.5%

(FY18: 5.1%)

The performance of the business and the strategic progress we have made in this, our 40th year, is very pleasing, as we continue to strive to offer our customers great choice and value for money. Our purpose is to help everyone create a home they love. With a focus on learning and continuous improvement, my colleagues and I are committed to this purpose and are excited about the next phase of growth.

## Performance in FY19

We achieved strong revenue growth with total like-for-like (LFL) revenue up 10.7% on the year, and continuing Dunelm revenue growth of 11.5% including the effect of new store openings. Our internal analysis shows that we are continuing to win homewares market share. Our multichannel progress is encouraging, with dunelm.com revenue growth of 35.1% and growth in our LFL stores of 7.7%, supported by new tablet-based selling tools which allow colleagues to offer customers home delivery orders across an extended product range. Overall multichannel revenue, including online home delivery revenue, reserve & collect revenue and tablet-based revenue, now represents 17.4% of the total for the year, up from 13.5% last year.

Gross margin improved by 160bps, reflecting improved sourcing, FX gains, the elimination of Worldstores product lines with lower margins, and better end-of-season stock management.

As a result, profit before tax of £125.9m was up from £102.0m (before exceptional items) last year, generating free cash flow of £154.4m, an increase of £101.5m on last year.

Read about our marketplace on pages **8** and **9**

## What we have done

### Focus on Dunelm and operational grip

We have significantly simplified our business model by focusing on the core Dunelm business. We closed both the Kiddicare and Worldstores websites during the first quarter and transferred those product lines we wished to retain to the dunelm.com website. This enabled us to invest all of our energy back into the Dunelm brand, concentrating on one supply chain and one website. In so doing, we significantly tightened our operational and commercial grip on the business.

As part of this renewed focus, we improved the customer offer in our stores. Our product selection and sourcing has been focused on offering more style and better value to customers and we reinvigorated our special buy product programme, both in store and online, with more frequently changing offers, helping to provide greater inspiration and newness to our customers. We have also extended our furniture and seasonal ranges to increase choice. The management of end-of-season product clearance was more rigorous, and our stores benefited from a new calendar of clearance activity and less discounted product in stock, which, in turn, generated more full-priced revenue. All of this has resulted in improved trading intensities across our portfolio.

# Business Review

continued

Discipline around cost control and cash generation was also a key area of focus. For example, we reduced stock loss in our stores and supply chain and made savings in store wages through a restructuring of management teams. These efficiencies mitigated inflationary pressures and enabled investment for the longer-term benefit of the business.

We continued to listen to our customers and colleagues to learn how to improve both satisfaction and engagement scores, and joined the Top 50 UK companies, as ranked on Glassdoor, the workforce review website.

## Introduced 'Home of Homes' campaign

One of the key opportunities we set out to pursue this year was to build greater brand awareness and reach new customers. In the first quarter we launched our 'Home of Homes' marketing campaign across multiple media channels including TV, radio and social media. We supported this campaign with an ad-funded TV programme on ITV called "Back to Mine", with the first series airing during the Autumn and re-runs screened in April. We also commenced a year-long sponsorship of ITV's flagship daytime

show "This Morning" in March 2019. The show's audience aligns well with our target customer and feedback suggests there is a clear brand fit and we have improved key perception metrics.

We also made a step change in our digital marketing by redirecting spend previously incurred for the Worldstores sites to dunelm.com. Our brand awareness measure has increased by 3ppts as at June 2019. We have also seen an increase in our unique active store and online customers year-on-year (+7.3% and 28.4% respectively). The acceleration of growth in our customer base is particularly encouraging given we only opened one net new store at the end of the financial year.

## Seized more digital opportunities

In last year's review I commented that we were playing catch-up as a multichannel retailer, having grown up as a store-based business. We have continued to address this at pace by seizing digital opportunities which will improve our offer. During the second half, we increased our focus on online ranging and trading across our product categories. We increased the number of

customer hosts we have in our stores to 1,200 and provided training and support to enable them to help customers shop our extended ranges in store via tablets. We also improved the speed of our website whilst continuing to develop our new digital platform. We will complete the roll-out to customers in the new financial year.

We continue to invest in our store portfolio. We opened three new stores, which included two relocations towards the end of the year, and we undertook ten store refits to maintain the integrity of the estate.

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"I am very pleased with our performance in FY19 and am **excited** about the potential to grow the business as we enhance and extend our multichannel offer and build on our market **leading position**"

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## Looking forward

### Market outlook

The total homewares market has been in modest growth for the last two years, aided by the positive trends of real wage growth and high employment. However, we remain cautious about the outlook for consumer confidence as a result of continued political uncertainty surrounding Brexit. In the run-up to the 2016 referendum, we observed a softening in the market ahead of the vote. The latest proposed date for Brexit is 31 October 2019, which falls in the run-up to our peak Winter season. For this reason, we maintain a cautious outlook for the FY20 year.

Notwithstanding these macroeconomic factors, our broad range of products and price points, coupled with a low average item value, means that our offer appeals to customers whether they are moving house or choosing to stay in their current home and refresh their homewares.

### A changing homewares consumer

We are observing new behaviours in the homewares market as shoppers become more focused on digital content, more resourceful online, and more eager to find new ways to be 'a smart and savvy' shopper. These behaviours are not strongly correlated to age or wealth segments. Indeed, technology is increasingly being adopted by older consumers, often influenced in their homewares shopping by their children. Social media is fuelling these habits, with value being placed on how your home looks, and how well you are managing it.

In the last three years we have seen a noticeable reduction in the attitudinal customer segment which we label as 'classic and content' towards a much more digitally-focused consumer

segment, aged from 18 to 60, which we refer to as 'savvy home lovers'. More consumers are able and willing to seek out new sources for homewares products and are using a broader portfolio of retailers to fulfil their needs.

We believe that Dunelm is benefiting from these trends. We are becoming part of the portfolio of more homewares consumers, across more categories. Put simply, where once we may have been the place where a customer bought their quilts or curtains, we are now being considered for a wider range of products.

One implication of this is that we need to meet a wider range of customer expectations: from buying 'everyday necessities' (stuff that just needs to get done, like a replacement school lunchbox), to more 'rewarding essentials' (where comfort and quality matter more, like towels or bedding), to decorative enhancements, to items for room refresh projects (like rugs, curtains and occasional furniture) and onto bigger-ticket 'permanent' purchases (like Made to Measure curtains or a mattress).

Some of our traditional competitors are retrenching, and new ones are emerging, as different retailers react at different speeds to changing consumer behaviour. Ultimately, understanding and reacting to these trends is the key to sustainable and profitable growth over the long term.

### Evolution of strategy

Since Dunelm was founded in 1979, we have enjoyed two distinct phases of growth. In the first, the business grew from a market stall into a chain of high street stores, selling a range of own brand products. In the second phase the business opened out-of-town superstores, grew its range to 20,000 mainly own brand products, and developed a committed supplier base.

Looking forward, we are moving into in a new phase of growth; one in which we will grow as a brand and a 'total retail' system, with a comprehensive digital offer which augments a strong physical store experience. In this next stage of our journey there is much that will be different, but the purpose and the DNA of the business will not change.

A year ago I described our Customer 1st plans for this next phase of growth. 12 months on, our purpose remains unchanged: to help everyone create a home they love. In order to extend this customer focus deeper into all parts of our business we have articulated three customer promises to better define the offer that we will provide to our customers. These promises will shape everything we do for our customers:

1. Great choice and value: fantastic quality, own label product at a price that can't be beaten;
2. Easy and inspiring to shop: an experience that gives our customers ideas, and provides help when they want it, across all the different shopping missions in homewares;
3. Convenient to buy and return: accessible to all, whether delivered to your home or picked up in store.

The growth we have enjoyed this year has been delivered by having an effective plan to attract more customers to the brand, to increase shopping frequency by one visit a year, and to encourage customers to put one more item in their basket. These are medium-term goals and based on the success of adding more active customers to the brand after just one year, we have increased our goal here to add 2 million more. This simple formula will drive significant growth, both in stores and online.

# Business Review

continued



Underpinning our growth and delivering on our customer promises, we will continue to strengthen the foundations of our business model. Some are well developed, such as a low cost store portfolio, and committed colleagues and suppliers. However, some of the essential foundations for a modern digital business require further investment and development, such as customer insight and the new digital platform.

Our business principles define our culture. In a challenging retail world, we have to be brave and do things our own way. We like to see ourselves as the underdog and believe that keeping things as simple as we can is the key to driving profitable growth.

In summary, we have solid fundamentals and increasingly understand the new skills and capabilities we need to prosper in a new phase of growth. Our track record of 40 years of growth gives us confidence to continue to evolve and succeed.

Read about our strategy on pages **12** and **13**

## What we will do next

In the next 12 months we are focused on delivering material progress in four specific areas of our Customer 1st plans, whilst maintaining the core operational disciplines which helped drive performance improvement in FY19.

### Extend product choice and value

We will continue to improve the quality, style and value of our product range across all our core categories to reinforce our specialist position. We see significant scope for continuous improvement across all price bands and taste types. We are rebalancing the proportion of lines at opening 'good' price points (for example, in our dinnerware and glassware ranges). We are also targeting a material increase in our online-only ranges with plans underway to add a net 6,000 products to our online-only ranges in FY20, many of which will be own label products. Some of these online-only products will be displayed in store and will be available to order for home delivery. Our furniture product offer is also set to strengthen as we grow own-brand options and extend colour choice on some of our best-selling products (e.g. printed fabrics for our occasional chairs and painted versions of our living room cabinetry collections). Promotional

product and special buy programmes are to introduce new products with limited runs, bringing newness and great value for our customers. These initiatives rely on a strong network of committed suppliers and we will continue to focus on developing our relationships with both our existing and new suppliers.

### Launch the new digital platform and step up our digital experience

We will launch our new digital commercial platform in FY20. Whilst we are already live on some of the new technologies, this is a major milestone following two years in which we have transformed our technology capability, bringing in more engineering talent and developing new ways of working, to create a scalable suite of retail services founded on the latest cloud-native technology. The transition to the new platform brings sales risks, but our tests to date give us confidence that users will experience material improvements to site speed, search effectiveness and checkout functionality (e.g. the ability to transact a mixed basket of items with different fulfilment options, and the ability to pay for store-stocked items for collection). Our development roadmap post go-live will be ambitious: to complete the 'catch-up' needed on convenience and to drive tangible



customer enhancements that improve conversion, frequency and basket size. We view digital development as driving store sales as much as our online sales and will continue to invest in developing our offer across all channels.

### Broaden and deepen our customer base

We will continue our sponsorship of ITV's "This Morning" until March, building on the increased awareness from exposing a core audience to the Dunelm brand. We will extend our 'Home of Homes' brand campaign with new family stories from the Autumn, and we are also sponsoring a second series of "Back to Mine", which is scheduled for the Winter. The development of our brand campaign in conjunction with more and better targeted performance marketing via PPC and social channels will continue. Furthermore, we are collecting insight into the drivers of shopping frequency and will test whether there are enhancements to our proposition that could directly drive increased frequency for different customer groups. At the same time, we continue to extend our geographic reach by opening new stores, and expect to open 3-5 new stores (including relocations) each year.

### Build capabilities for the next phase of growth

As we progress with our Customer 1st strategy in a fast-moving digital world, there are new skills we are acquiring and need to develop further. In particular, we will build on the transformations made in our Technology and Product teams in FY19 and are developing deeper capabilities in data and insight, to provide benefits across the business. As we look to build further capabilities across our workforce, our focus on making Dunelm a great place to work will accelerate, with a significant commitment to raising awareness of mental health issues. We are talking about topics that many feel are still taboo, and are learning how to best offer support and advice. All line managers will be trained in mental health awareness by the end of FY20.

## Summary and outlook

We are pleased to have delivered a strong performance during the year, with an improvement across all our customer, operating and financial metrics. In particular, the strong like-for-like revenue growth, both in stores and online, demonstrates the progress we are making with our multichannel proposition whilst maintaining the breadth and depth of our specialist customer offer in homewares.

These results reflect our focus on the core Dunelm business and we see further opportunities to develop our Customer 1st plans, not least through extending our product choice and value, improving our digital experience and bringing more people to the brand.

Whilst recent trading performance has continued to be strong, we remain cautious about the full year outlook due to ongoing Brexit uncertainty and specifically the impact it may have on consumer spending as we enter our peak period.

Looking to the future, I am excited about the potential to grow the business as we enhance and extend our specialist and multichannel offer, build on our market leading position and fulfil our purpose to help everyone create a home they love.

### Nick Wilkinson

Chief Executive Officer  
4 September 2019



# Financial Review



**Laura Carr**  
Chief Financial Officer

“ Strong revenue growth, improved margin and focus on cost control has delivered a significant increase in both free cash flow and shareholder value. ”

52 weeks to 29 June 2019

	Revenue (£m)	YoY Growth (£m)	YoY Growth (%)
LFL Stores	883.8	+62.9	+7.7%
LFL Online (dunelm.com)	140.2	+36.4	+35.1%
<b>Total LFL</b>	<b>1,024.0</b>	<b>+99.3</b>	<b>+10.7%</b>
Non-LFL Stores	72.9	+13.4	–
<b>Total Dunelm</b>	<b>1,096.9</b>	<b>+112.7</b>	<b>+11.5%</b>
Non-LFL Online – Worldstores	3.5	-62.4	–
<b>Total Group</b>	<b>1,100.4</b>	<b>+50.3</b>	<b>+4.8%</b>

- LFL Stores** – stores trading for at least one full financial year prior to 1 July 2018 without any significant change of space. LFL stores revenues include reserve & collect sales, and home delivery sales in respect of orders placed via in-store tablets.
- LFL Online** – dunelm.com (excludes reserve & collect sales, and home delivery sales in respect of orders placed via in-store tablets).
- Non-LFL Stores** – new stores (including relocations) opened in the current or previous financial year, and existing stores with significant change of space in the current or previous financial year.
- Non-LFL Online** – Worldstores.co.uk, Kiddicare.com and Achica.com (these websites are now closed).

## Revenue

Group revenue for FY19 was £1,100.4m (FY18: £1,050.1m), an increase of 4.8%. Total like-for-like (LFL) revenue growth was 10.7%, reflecting strong growth in both LFL stores (7.7%) and dunelm.com (35.1%). Growth was driven by higher footfall in stores and traffic in online, and reflected the following:

- Improvements across all categories with furniture and seasonal demonstrating significant increases
- Transfer of profitable products from the Worldstores business to dunelm.com
- Benefit from tablet-based selling in stores, including more web-exclusive ranges (c. 2ppts contribution to store sales growth)

- Investment in raising brand awareness through an integrated marketing campaign
- Favourable weather in the second half of the year, particularly in the fourth quarter

Non-LFL revenue reflected continued growth in the store portfolio, with three new openings in the year (of which two were relocations). We ended the year with 170 superstores with two stores in high street locations. We anticipate between 3-5 new openings in FY20, with one new superstore opened (a relocation) with one other legally committed as at the date of this report.

As expected, sales attributable to the Worldstores businesses were minimal as the remaining websites were closed in the first quarter of FY19.

## Gross margin

Gross margin increased by 160 basis points to 49.6% (FY18: 48.0%). Core Dunelm gross margin improved by 100bps as a result of better sourcing decisions and improved cost price negotiation, including the benefit of FX. More focused product lifecycle management resulted in lower end of season clearance during the year.

Furthermore, as a result of the closure of the Worldstores businesses in the first quarter, the full year margin rate benefited by approximately 60bps from the removal of these margin dilutive sales.



## Operating costs

Operating costs in FY19 of £418.7m increased in line with sales, representing an operating cost to sales ratio of 38.0% (FY18: 38.0% before exceptional costs). Some of the savings from the closure of the Worldstores businesses, such as digital marketing costs, were reinvested in the growth of dunelm.com. Focus on operational grip and productivity initiatives such as reducing stock loss and streamlining store management structures have offset inflationary pressures, such as National Living Wage. Increased investment in brand marketing and technology have been made to drive long term sustainable growth.

Total costs increased by £19.8m compared to the prior year (before exceptional costs). This increase included the write-off of the Fogarty brand (£3.8m) when the licensee went into administration, approximately £10m of higher colleague and management incentive costs and c.£6m higher technology costs which included increased amortisation and depreciation.

## Operating profit

Group operating profit for the financial year was £126.9m (FY18: £104.7m before exceptional costs), equating to 11.5% of sales (FY18: 10.0%).

## EBITDA

Earnings before interest, tax, depreciation and amortisation were £166.3m (FY18: £139.6m before exceptional items). This represents a 19.1% increase on the previous financial year. The EBITDA margin achieved was 15.1% (FY18: 13.3%).

## Financial items

The Group incurred a net financial expense of £1.0m in FY19 (FY18: £2.7m). Interest and amortisation of costs arising from the Group's Revolving Credit Facility amounted to £1.9m (FY18: £2.2m). Interest earned on cash deposits was £0.3m (FY18: £nil) and net foreign exchange differences on the translation of dollar-denominated assets and liabilities amounted to a further £0.6m income (FY18: expense of £0.5m).

As at 29 June 2019, the Group held \$190.5m (FY18: \$164.0m) in US dollar forward contracts, of which \$126.5m were due to mature within the next 12 months (FY18: \$121.5m), representing 70% of the anticipated US dollar spend over the next financial year. US dollar cash deposits amounted to \$6.1m (FY18: \$7.3m).

“The business continues to be highly cash generative. The Board has declared a special dividend of **32.0 pence per share** to return surplus cash to shareholders”

## Profit before tax

After accounting for interest and foreign exchange impacts, profit before tax for the financial year amounted to £125.9m (FY18: £102.0m before exceptional items), an increase of 23.4%. Profit before tax in FY18 after exceptional items was £93.1m.

## Taxation

The tax charge for the year was 19.5% of profit before tax compared to 21.3% in the prior year. The reduction in the effective rate of tax reflects both a prior year adjustment in relation to R&D incentives claimed and the unusually high level of disallowable asset write-offs, largely relating to the acquired Worldstores brands, in FY18.

Going forward, the effective tax rate is expected to trend approximately 100 bps above the headline rate of corporation tax, principally due to depreciation charged on non-qualifying capital expenditure.

## Diluted EPS

**49.9p**

(2018: 36.2p after exceptional costs)

## Ordinary dividend per share

**28.0p**

(2018: 26.5p)





# Financial Review

continued

## Profit after tax and earnings per share

Profit after tax was £101.3m (FY18: £73.3m).

Basic earnings per share (EPS) for the year ended 29 June 2019 was 50.2p (FY18: 36.3p). Diluted EPS increased to 49.9p (FY18: 36.2p) reflecting growth of 37.8%.

## Operating cash flow

In FY19 the Group generated £174.0m (FY18: £98.5m) of net cash from operating activities, an increase of 77%.

Net working capital reduced by £26.5m compared to the prior year end (FY18: £20.3m increase). Small increases in stock and receivables were more than offset by a £31.2m increase in payables. The increase reflects higher levels of stock intake, a larger VAT creditor due to the strong sales performance in the final quarter and higher incentive accruals due to the improved overall financial performance. We expect approximately £10-15m of this working capital inflow to reverse in FY20 as we pay the higher year-end trade and VAT creditors and reduce our accruals for incentives.

## Capital expenditure

Gross capital expenditure in the financial year was £25.5m compared with £44.0m in FY18, mainly reflecting the lower number of new store openings during the year. We opened three new stores (£3.9m) and invested £7.8m in refits. The work to build our technology ecosystem and infrastructure continues with £12.0m being spent on IT programmes including the new website platform as well as major upgrades to our store till system and network.

We expect to open between 3-5 new stores in FY20 (including relocations). Our refit programme will continue as we maintain the integrity of the store estate. Following the launch of the new digital platform in FY20, the Digital Development teams will be focussed on continuously improving the customer experience and therefore it will be more difficult to attribute these costs to identifiable future economic benefits. Therefore, we anticipate a higher level of these digital costs will be expensed through the P&L rather than capitalised. The capital spend on technology programmes is therefore likely to be lower by around £5-7m in FY20, while the total cash spend remains similar. In total, we anticipate capital investment, including one potential freehold acquisition, of approximately £30m in FY20.

## Free cash flow (FCF)

We measure FCF as net cash from operating activities less net cash used in investing activities. FCF was £154.4m in the year (FY18: £52.9m), reflecting the improved operating cash flow and lower capital expenditure year-on-year.

## Banking agreements and net debt

The Group has in place a £165m syndicated Revolving Credit Facility (RCF), with an optional £75m accordion facility which matures in March 2023. The terms of the RCF are consistent with normal practice. They include covenants in respect of leverage (net debt to be no greater than 2.5× EBITDA before exceptional items) and fixed charge cover (EBITDA before exceptional items to be no less than 1.75× fixed charges), both of which were met comfortably as at 29 June 2019 and are forecast to be met going

forward. In addition, the Group maintains £20m of uncommitted overdraft facilities with two syndicate partner banks.

Net debt at 29 June 2019 was £25.3m (0.15× historical EBITDA) compared with £124.0m in FY18 (0.89× historical EBITDA before exceptional items). Weekly average net debt in FY19 was £50.8m (FY18: £112.4m).

## Capital and dividend policy

The Board targets an average net debt (excluding lease obligations and short-term fluctuations in working capital) of between 0.25× and 0.75× historical EBITDA. This policy provides the flexibility to continue investing in the Group's growth strategy and to take advantage of investment opportunities as and when they arise, for example freehold property acquisitions.

The Board targets ordinary dividend cover (by which we mean the Group's earnings per share in a given financial year divided by the total ordinary dividends declared in respect of that year) of between 1.75× and 2.25×.

The Board will consider special distributions if average net debt over a period consistently falls below the lower limit of the target range (0.25× EBITDA), subject to known and anticipated investment plans at the time.

The Group's full capital and dividend policy is available on our website at <https://corporate.dunelm.com>.

## Dividends paid and proposed

An interim dividend of 7.5p per share was paid in April 2019 (FY18: 7.0p). It is proposed to pay a final dividend of



20.5p per share (FY18: 19.5p). The total ordinary dividend of 28.0p represents an increase of 5.7% over the previous year, giving a dividend cover of 1.8x (FY18: 1.5x before exceptional items). This cover level is within our policy as described above. In line with our policy, and as a result of the strong cash flow and low net debt position at the end of the year, the Board has declared a special dividend of 32.0p. The final ordinary dividend will be paid, subject to shareholder approval, on 22 November 2019 to shareholders on the register at the close of business 1 November 2019. The special dividend will be paid on 11 October 2019 to shareholders on the register at the close of business on 20 September 2019.

## Share buy-backs

The Group's policy is to purchase shares in the market from time to time to satisfy the future exercise of options granted under incentive plans and other share schemes. During FY19 no shares were purchased (FY18: nil). At the year end, 867,642 shares were held in treasury (FY18: 914,635), equivalent to approximately 26% of options outstanding.

## Tax policy

The Group maintains a straightforward and transparent tax policy. The aim is to comply with all relevant tax legislation and pay all taxes due, in full and on time. While actively managing its tax affairs, the Group will only engage in tax planning where this is aligned with commercial and economic activity and does not lead to an abusive result. We would normally expect our corporation tax charge to be higher than the statutory tax rate, as noted above. HMRC has recently reconfirmed the Group's low-risk tax status. Further details of the Group's tax policy are available on our website, <https://corporate.dunelm.com>.



During the year, total tax contributions paid to HMRC in the form of corporation tax, property taxes, PAYE and NIC and VAT were £157.4m (FY18: £142.3m).

## Treasury management

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

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

## Brexit

Over the past 18 months, Dunelm has been working to identify and mitigate any operational or financial risks arising from the expected exit from the EU, which is now anticipated on 31 October 2019. A working group, reporting to the Board, was set up to identify and address these risks and monitor the latest political developments.

The business imports less than 1% of its goods from EU countries; however, we identified some risk arising from potential disruption at 'deep-sea' ports in the period following an exit, especially in the scenario of a 'no deal'. During the year, we took some actions to mitigate these risks, such as purchasing incremental stock of some best-selling lines and securing additional supply chain capacity. However, the latest anticipated date for Brexit is just ahead of our peak trading season and therefore, whilst we see no need for stockpiling product, we have chosen to accelerate some of our seasonal product flows to ensure they have been received ahead of the proposed exit date.

Approximately 3% of our employees are EU nationals and we are ensuring that they are kept up-to-date with the latest information from the UK Government. They will also be receiving our support to obtain 'settled status' if and when needed.

Like other retailers, we remain exposed to any impact Brexit may have on currency and more importantly consumer confidence and the markets we operate in. We are hedged against a sudden

decline in the value of sterling against the US dollar. The impact of significant macroeconomic disruption to demand in the homewares market is difficult to predict and therefore we remain cautious.

## New accounting standards

The Group will adopt IFRS 16 for the first time in its financial statements for the period ending 27 June 2020. Dunelm has chosen to adopt IFRS 16 on a modified retrospective basis and will first report under IFRS 16 in its interim results in February 2020. The implementation of IFRS 16 has no impact on cash flows generated and will not impact management's decisions on how the business is run. It does, however, have an impact on the assets, liabilities and income statement of the Group. The presentation of the Cash Flow Statement will also change, with an increase in net cash flows generated from operating activities being offset by an increase in net cash flows used in financing activities.

This significant change in accounting is expected to reduce Group profit before tax by approximately £3m and increase EBITDA by approximately £50m. Furthermore, as EBITDA will increase due to an accounting change with no cash impact, going forward our target net debt to historical EBITDA range will be between 0.2x and 0.6x. In order to familiarise readers of the accounts with the likely impact of transitioning to IFRS 16 on the Group financial statements, a proforma unaudited reconciliation for FY19 is shown in the accounting policies to the financial statements on page 120.

## Key performance indicators

In addition to the traditional financial measures of sales and profits, the Directors review business performance each month using a range of other KPIs. These include measures shown on page 14.

## Laura Carr

Chief Financial Officer

4 September 2019

# Risks and Risk Management

Whilst we have formal processes for identifying, assessing and reviewing risk as described below, the Board as a whole takes responsibility for management of risk throughout the business.

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

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

Given the size of our Board and the relative lack of complexity in our business, we do not have a separate Board Risk Committee; our Audit and Risk Committee oversees the risk management process as part of its activities.

## Risk management framework

The Board confirms that:

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

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

Board	Audit and Risk Committee	Executive Board	Company Secretary
<p><b>Collective responsibility for managing risk</b></p> <ul style="list-style-type: none"> <li>• Conducts formal reviews of principal risks twice a year – one of which is in connection with consideration of the viability statement (see further below)</li> <li>• Risk topics reviewed in depth through regular timetabled presentations or papers</li> <li>• Regular discussions of “what keeps us awake at night”</li> <li>• Monitors KPIs through Board reports</li> <li>• Assesses the coverage and adequacy of independent assurance</li> <li>• Ensures Executive Directors have line responsibility for managing specific risks</li> </ul>	<p><b>Oversees risk management process</b></p> <ul style="list-style-type: none"> <li>• Receives report on risk management process twice annually</li> <li>• Conducts formal reviews of the risk management process twice a year – one of which is in connection with consideration of the viability statement (see further below)</li> <li>• Allocates resources for independent internal audit reviews of selected risks</li> <li>• Selects and proposes topics for ‘key risk’ reviews by the Board</li> </ul>	<p><b>Reviews principal risks</b></p> <p><b>Members have responsibility for managing risk within their area of accountability</b></p> <ul style="list-style-type: none"> <li>• Conducts formal reviews of principal risks twice a year</li> <li>• Reviews risk topics through regular timetabled presentations or papers</li> <li>• Monitors KPIs through Executive Board reports</li> <li>• Delegates line responsibility for managing risk within their area of accountability to individual Executive Board members, and reviews these formally twice a year</li> </ul>	<p><b>Ensures that the above process is adhered to</b></p> <ul style="list-style-type: none"> <li>• Conducts individual risk reviews with Executives</li> <li>• Maintains the risk registers</li> <li>• Presents the outcome of the risk review to the Executive Board, the Audit and Risk Committee and the Group Board twice a year</li> <li>• Ensures that principal risk topics are scheduled for regular review by the Executive Board and the Group Board</li> </ul>





## Internal control and internal audit

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

Board	Audit and Risk Committee	Executive Board	Internal Audit Programme	Operational Audit Team
<ul style="list-style-type: none"> <li>• Collective responsibility for internal control</li> <li>• Formal list of matters reserved for decision by the Board</li> <li>• Control framework setting out responsibilities</li> <li>• Approval of key policies and procedures</li> <li>• Monitors performance</li> </ul>	<ul style="list-style-type: none"> <li>• Oversees effectiveness of internal control process</li> <li>• Receives reports from external auditor</li> <li>• Approves independent internal audit programme</li> <li>• Receives reports generated through the internal audit programme</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible for operating within the control framework</li> <li>• Reviews and monitors compliance with policies and procedures</li> <li>• Recommends changes to controls/policies where needed</li> <li>• Monitors performance</li> </ul>	<ul style="list-style-type: none"> <li>• Provides assurance to the Audit and Risk Committee through independent reviews of agreed risk areas</li> </ul>	<ul style="list-style-type: none"> <li>• Reviews compliance with certain key internal procedures in stores and at other locations</li> </ul>

The Audit and Risk Committee has oversight of the system of internal controls and of the internal audit programme and receives the report of the external auditor following the annual statutory audit. For further details please see the Audit and Risk Committee Report.

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

## Process for preparing consolidated financial statements

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these systems are:

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

# Principal Risks and Uncertainties

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

## Changes to the principal risks in the year

In June 2019, the Audit and Risk Committee and the Board carried out an in depth review of the principal risks, and made the following changes:

- In view of the increasingly multichannel nature of the Group's business, and the fact that the mitigating factors are broadly the same, the risk of 'Failure to deliver maximum value from our online business' has been combined with the 'Competition, market and customers' risk;
- The 'Portfolio expansion' risk has been moved to the Operational Risk register, reflecting the fact that opening new stores is no longer the principal source of the Group's future growth;
- 'Climate change' has been added as a new and emerging risk, reflecting the increased urgency and focus on this by government, international bodies, investors, customers, colleagues and the media;
- The 'Brand damage' risk has been expanded to include a greater focus on sustainable sourcing for the same reasons; and
- The 'Brand damage' risk also now includes a greater focus on management of allergens in our Pausa cafes, following heightened government and public concern.

Risk	Description	How we mitigate	Progress in 2018/19
<p><b>Competition, market and customers</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises</p> <p><b>Performance indicator:</b> Market share</p> <p><b>Executive responsibility:</b> Customer and Digital Director</p> <p><b>Reports to:</b> Chief Executive Officer</p> <p><b>Impact compared to 2017/18:</b> No change</p>	<p>Failure to respond to changing consumer needs, particularly the shift towards online sales, and to maintain a competitive offer on multiple fronts (range, quality, value and ease of shopping) could impact profitability and limit opportunities for growth.</p> <p>A downturn in consumer spending could impact sales and productivity.</p>	<ul style="list-style-type: none"> <li>• Focus on Customer 1st rather than channel to align strategy and operational focus to customer demand</li> <li>• Customer insight research gauges relative customer perception and experience</li> <li>• Focus on new product development, particularly own brand, in both existing and new categories, to strengthen our offer</li> <li>• Comparative performance within the homewares market tracked monthly across all main product categories</li> <li>• Investment in brand marketing, development of our website and store design to raise awareness of Dunelm and communicate our credentials on product, range, value and ease of shopping</li> </ul> <p><b>Board oversight:</b> Reviewed annually in depth by the Board at its Strategy Day and through subsequent presentations.</p>	<ul style="list-style-type: none"> <li>• Dunelm continues to lead the UK homewares market with an increased estimated share of 8.7% in 2019 (8.1% in 2018)</li> <li>• Continued development of our Customer 1st plan</li> <li>• Increased brand awareness through step up in investment in brand marketing, including sponsorship of "Back To Mine" and "This Morning"</li> <li>• Continued product innovation in existing categories and strengthened seasonal campaigns and promo buys to increase 'newness' and promote our value</li> <li>• Revised product strategy agreed; to significantly increase our range and focus on exclusive brands</li> <li>• Improved online product range, introduced customer hosts and tablet-based sales rolled out in store</li> <li>• Improved our website and focused our digital marketing activity</li> </ul>

Read about our marketplace on pages **8** and **9**

Read about our sustainability on pages **33** to **45**

Risk	Description	How we mitigate	Progress in 2018/19
<p><b>Brand damage</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises</p> <p>Committed supplier partners</p> <p><b>Performance indicator:</b> Product recalls</p> <p>Percentage of audits completed within policy</p> <p><b>Executive responsibility:</b> Product Director</p> <p><b>Reports to:</b> Chief Executive Officer</p> <p><b>Impact compared to 2017/18:</b> Increasing</p>	<p>Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Increasingly, customers also want to know that products have been sustainably sourced and that their environmental impact is minimised.</p> <p>We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment.</p> <p>Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand.</p>	<ul style="list-style-type: none"> <li>We have a range of policies specifying the quality of own brand products and production processes which suppliers must adhere to</li> <li>Factory profile questionnaire introduced, to obtain a more holistic assessment</li> <li>We operate a full test schedule for all new own label products and on a sample basis for ongoing lines, overseen by our Specialist Product Technology team</li> <li>Food hygiene and allergen awareness is maintained through the adoption of clear operating guidelines and compulsory colleague training. Compliance audits are performed regularly</li> <li>All stock and food suppliers and the majority of our other suppliers are required to sign up to our Anti-Bribery and Ethical Code of Conduct which is in line with international guidelines, and also covers modern slavery</li> <li>We conduct periodic audits on all suppliers of own brand products against our Code of Conduct</li> </ul> <p><b>Board oversight:</b> Ethical trading/modern slavery/sustainable sourcing reviewed annually in depth by the Board.</p>	<ul style="list-style-type: none"> <li>Specialist partner appointed to review and grade ethical audits and follow up on corrective actions. Supplier audits extended to UK warehouse facilities used by suppliers and Pausa suppliers</li> <li>Food safety and allergen compliance strengthened following a thorough review conducted with the support of a specialist food technologist</li> <li>Packaging specialist recruited to help develop our plan to minimise unnecessary packaging and phase out single-use plastics where feasible</li> <li>Appointed third party to verify compliance with legality of timber sourcing through our branded product supply chain</li> <li>Sustainable cotton sourcing plan developed</li> <li>Modern slavery awareness programme continued</li> </ul> <p>For further information please see the Sustainability Report.</p>
<p><b>People and culture</b></p> <p><b>Link to Customer 1st strategy:</b> Committed colleagues</p> <p><b>Performance indicator:</b> Colleague engagement</p> <p><b>Executive responsibility:</b> People and Stores Director</p> <p><b>Reports to:</b> Chief Executive Officer</p> <p><b>Impact compared to 2017/18:</b> Decreasing</p>	<p>The success of the business could be impacted if it fails to attract, retain and motivate high calibre colleagues.</p> <p>Maintaining the culture of our business embodied in our 'business principles' is essential to deliver our strategy and ensure the long term sustainability of our business.</p>	<ul style="list-style-type: none"> <li>The composition of the Executive team is regularly reviewed by the Board to ensure that it is appropriate to deliver the growth plans of the business</li> <li>Succession plans and annual appraisals are in place across the Group</li> <li>High calibre individuals are retained and developed through sponsored talent management and development</li> <li>Business principles in place to describe our values and business culture</li> <li>The Group's remuneration policy detailed on pages 71 to 75 is designed to ensure that high calibre executives are attracted and retained. Lock-in of senior management is supported by awards under the Long Term Incentive Plan</li> </ul> <p><b>Board oversight:</b> People plan and culture reviewed at least annually by the Board.</p>	<ul style="list-style-type: none"> <li>Purpose and customer promises embedded throughout the business through the Customer 1st plan</li> <li>Organisational design work completed to align resource to growth areas and promote productive ways of working</li> <li>Enhanced Group Board engagement with colleagues through NED attendance at National Voice Forum in November and April, and Board presentation in November</li> <li>Mental health awareness initiative launched, and started programme to train mental health first aiders</li> </ul>



# Principal Risks and Uncertainties

continued

Risk	Description	How we mitigate	Progress in 2018/19
<p><b>Climate change and environment</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises</p> <p>Lean and efficient supply chain</p> <p><b>Performance indicator:</b> Prosecution and other regulatory action</p> <p><b>Executive responsibility:</b> Company Secretary</p> <p><b>Reports to:</b> Chief Financial Officer</p> <p><b>Impact compared to 2017/18:</b> New/emerging principal risk</p>	<p>Failure to anticipate and address the strategic, regulatory and reputational impact of climate change and governmental action in response to it.</p>	<ul style="list-style-type: none"> <li>• Sustainability Committee, chaired by the Company Secretary, oversees our approach to sustainability issues, including climate change</li> <li>• Sustainability Manager accountable for ensuring that the Group complies with environmental legislation and reporting and monitoring new legislation and best practice</li> <li>• Targets in place to reduce emissions, energy usage and waste to landfill, and increase recycling</li> <li>• Energy brokers advise on energy saving strategy</li> <li>• Waste management contractor KPIs to deliver waste minimisation and recycling targets</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability Committee relaunched - remit and membership widened</li> <li>• Environmental and sustainability targets set - including waste, energy, HGV fleet emissions</li> <li>• Decision taken to source 100% green energy</li> <li>• New colleague engagement programme rolled out</li> <li>• Targets being developed to reduce packaging and packaging waste</li> <li>• Strategic climate change risk assessment being developed</li> </ul>



Risk	Description	How we mitigate	Progress in 2018/19
<p><b>Regulatory and compliance</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises Committed colleagues</p> <p><b>Performance indicator:</b> Prosecution and other regulatory action</p> <p><b>Executive responsibility:</b> Company Secretary</p> <p><b>Reports to:</b> Chief Financial Officer</p> <p><b>Impact compared to 2017/18:</b> No change</p>	<p>Fines, damages claims and reputational damage could be incurred if we fail to comply with legislative or regulatory requirements including consumer law, health and safety, employment law, GDPR and data protection, Bribery Act, competition law.</p>	<ul style="list-style-type: none"> <li>• Policies and training in place in respect of key compliance areas. These are regularly reviewed and updated</li> <li>• Operational management are responsible for liaising with the Company Secretary and external advisers to ensure that new legislation is identified and relevant action taken</li> <li>• Dedicated Group health and safety function to oversee this aspect of compliance</li> <li>• Training on the requirements of the Bribery Act and Competition Law is in place for all relevant colleagues and policies are communicated to all suppliers</li> <li>• We have a whistleblowing procedure and independently administered helpline which enables colleagues to raise concerns in confidence</li> </ul> <p><b>Board oversight:</b> Monthly Board report on health and safety. Health and safety reviewed in depth by the Board at least annually. GDPR and Bribery Act are standing Audit and Risk Committee agenda items. Non-compliances reported by the Company Secretary by exception.</p>	<ul style="list-style-type: none"> <li>• Installed security locks on single bladed knives and reinforced colleague awareness and 'Think 25' training, including repeat training for all store colleagues, to prevent sale to customers who are aged below 18, and instigated a third party programme of test audits</li> <li>• Video training and pocket guidelines rolled out in stores to help colleagues deal with violent customers and conflict situations</li> <li>• Reduced accident rates in our home delivery fleet by 39%</li> <li>• Strengthened health and safety governance through the creation of functional steering groups to drive health and safety actions</li> <li>• Developed policy on use of independent contractors in advance of the April 2020 deadline, which will impose an obligation on Dunelm to assess whether workers are genuine contractors or employees, and to pay any tax/NI due</li> <li>• Continued to embed new policies and processes implemented to comply with the General Data Protection Regulation</li> </ul>
<p><b>Brexit</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises Lean and efficient supply chain</p> <p><b>Performance indicator:</b> Sales and profit</p> <p><b>Executive responsibility:</b> Chief Financial Officer</p> <p><b>Impact compared to 2017/18:</b> Increasing</p>	<p>Brexit could impact sales and margin due to a downturn in consumer demand, increase costs due to the fall in the value of sterling against the US dollar, or cause supply chain issues, supplier failure and labour shortages.</p>	<ul style="list-style-type: none"> <li>• Brexit risk assessment completed to identify potential areas of risk, and a number of mitigating actions identified</li> <li>• Steering group meets monthly to review developments, standing monthly agenda item for the Executive Board</li> <li>• Continue to reduce use of agency labour in the Dunelm Home Delivery Network and in Dunelm DCs, and logistics partners encouraged to do likewise</li> </ul> <p><b>Board oversight:</b> Twice yearly review of principal risks. Monthly updates through CFO report.</p>	<ul style="list-style-type: none"> <li>• Increased the percentage of anticipated FY19 and FY20 dollar purchases which have foreign currency hedging in place</li> <li>• Limited stock build in place prior to 31 October 2019</li> <li>• Assessed number of colleagues who are EU nationals. Agreed to assist in registration for obtaining 'settled status'</li> <li>• HDN driver pay increased in line with market</li> <li>• Reviewed supplier capability to maintain data flows from EU in respect of key IT systems</li> <li>• Prepared operational plan to manage fall in value of sterling</li> </ul>

Read about our marketplace on pages **8** and **9**

Read about our sustainability on pages **33** and **45**

# Principal Risks and Uncertainties

continued

Risk	Description	How we mitigate	Progress in 2018/19
<p><b>IT systems, data and cyber security</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises</p> <p>Customer data and insight</p> <p>Agile and scalable digital platform</p> <p>Lean and efficient supply chain</p> <p><b>Performance indicator:</b> Number of major incidents</p> <p><b>Executive responsibility:</b> Chief Information Officer</p> <p><b>Reports to:</b> Chief Executive Officer</p> <p><b>Impact compared to 2017/18:</b> No change</p>	<p>Operations impacted by failure to develop technology to support the strategy, lack of availability due to cyber attack or other failure, and reputational damage/fines due to loss of personal data.</p>	<ul style="list-style-type: none"> <li>Information security steering group in place to oversee the Group's approach to IT security and data protection</li> <li>IT security function in place, reporting to the ISSG</li> <li>Formal IT governance processes in place to cover all aspects of IT management</li> <li>Changes to IT services are managed through a combination of formal programmes for large and complex programmes, or bespoke iterative development methodologies for smaller scale changes</li> <li>A detailed IT development and security roadmap is in place, aligned to strategy</li> <li>We have a disaster recovery strategy designed to ensure continuity of trade</li> <li>Comprehensive third party support in place for relevant technologies</li> <li>Authorisation controls and access to sensitive transactions are kept under review</li> </ul> <p><b>Board oversight:</b> Cyber security is a standard agenda item for the Audit and Risk Committee.</p> <p>Major security incidents reported by the Company Secretary.</p>	<ul style="list-style-type: none"> <li>Increased investment in IT security resource agreed</li> <li>Continue to implement the GDPR risk treatment plan</li> <li>New structure and ways of working leading to improved colleague engagement and retention, improved systems knowledge and ownership, and more rapid and agile development of systems</li> <li>Network re-architecture project implemented to allow better control, visibility and security</li> <li>Continuity plans in place for all major systems and with regular testing programme</li> </ul>
<p><b>Supply chain disruption</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises</p> <p>Lean and efficient supply chain</p> <p><b>Performance indicator:</b> Service levels in respect of store fulfilment</p> <p><b>Executive responsibility:</b> Chief Executive Officer</p> <p><b>Reports to:</b> Chief Executive Officer</p> <p><b>Impact compared to 2017/18:</b> No change</p>	<p>Sales/profitability and customer satisfaction could be impacted by supply chain disruption or loss of access to key support locations.</p>	<ul style="list-style-type: none"> <li>Supply chain strategy in place to ensure capacity is in line with long term financial plan</li> <li>Business continuity plans in place for Dunelm non-store facilities</li> <li>Contracts in place with third party logistics partners</li> <li>We seek to limit dependency on individual suppliers by actively managing key supplier relationships</li> </ul> <p><b>Board oversight:</b> Business continuity is a standard Audit and Risk Committee agenda item.</p>	<ul style="list-style-type: none"> <li>New five-year logistics capacity plan being developed</li> <li>Business continuity plans reviewed</li> <li>Continue to strengthen relationships with key suppliers</li> </ul>



Risk	Description	How we mitigate	Progress in 2018/19
<p><b>Business efficiency</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises</p> <p>Lean and efficient supply chain</p> <p><b>Performance indicator:</b> Operating cost %</p> <p><b>Executive responsibility:</b> Chief Financial Officer</p> <p><b>Reports to:</b> Chief Executive Officer</p> <p><b>Impact compared to 2017/18:</b> Improved</p>	<p>Profitability could be impacted by failure to operate the business efficiently or to manage cost price volatility.</p>	<ul style="list-style-type: none"> <li>Costs are managed by the Board and Executive Board through the budget and forecasting process and monthly management accounts reviews</li> <li>Dunelm's scale, growth and increased buying power allows it to secure supply of key services and raw materials at competitive prices. Commodity price tracking covers all key materials</li> <li>Major non-stock purchase contracts regularly tendered</li> </ul> <p><b>Board oversight:</b> Board receives monthly management accounts. Long term plans and budget reviewed by the Board at least annually.</p>	<ul style="list-style-type: none"> <li>Renewed focus on cost discipline through monthly Executive Board performance review</li> <li>Refit programme refocused to deliver better return on capital</li> <li>Working groups in place to manage product lifecycle, stock and returns</li> <li>New investment and contract approval process implemented</li> <li>Store management teams restructured to reduce costs</li> </ul>
<p><b>Finance and treasury</b></p> <p><b>Link to Customer 1st strategy:</b> Our customer promises</p> <p>Lean and efficient supply chain</p> <p><b>Performance indicator:</b> Operating cash conversion</p> <p>Banking covenant compliance</p> <p><b>Executive responsibility:</b> Chief Financial Officer</p> <p><b>Reports to:</b> Chief Executive Officer</p> <p><b>Impact compared to 2017/18:</b> Decreased</p>	<p>Growth constrained by lack of access to capital/ financial resource.</p>	<ul style="list-style-type: none"> <li>The Group has a £165m, five-year Revolving Credit Facility in place until March 2023</li> <li>Further, uncommitted borrowing facilities have been agreed for possible short term working capital requirements</li> <li>Dunelm works with a syndicate of long term, committed partner banks</li> <li>A Group treasury policy is in place to govern levels of debt, cash management strategies and to control foreign exchange exposures</li> <li>Hedging is in place for foreign exchange, and freight and energy prices are agreed in advance, to help mitigate volatility and aid margin management</li> </ul> <p><b>Board oversight:</b> Board receives monthly treasury report.</p>	<ul style="list-style-type: none"> <li>Significant improvement in year end net debt position of £25.3m (0.15x EBITDA) (FY18: £124.0m) due to increased profitability and focus on cost and cash management</li> <li>Foreign currency hedges are in place covering approximately 75% of expected purchases in FY20</li> </ul>

Read about our strategy on pages **12** and **13**

# Principal Risks and Uncertainties

continued

## Going concern

The Group has considerable financial resources together with long-standing relationships with a number of key suppliers and an established reputation in the retail sector across the UK. In their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data and past experience. The Directors are of the opinion that the Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group is able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial information. Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 8 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 23. In addition, note 18 to the Annual Report and financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, and its exposures to credit risk and liquidity risk.

## Viability statement

In accordance with provision C.2.2 of the 2016 Corporate Governance Code, in addition to the going concern statement, the Directors have also assessed the prospects of the Group over a longer period.

The Directors confirm that the Group has considerable financial strength, and therefore they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due for the next five years, ending June 2024.

A period of five years has been chosen as this is the timeframe currently adopted by the Board as its strategic and financial planning horizon, and the business is largely dependent on UK consumer confidence and discretionary spending which is difficult to project beyond this period.

The five-year plan considers the Group's earnings growth potential, its cash flows, financing options and key financial ratios, taking into account the economic outlook and principal risks and mitigating factors affecting the Group.

This assessment of viability has been made with reference to the Group's current position and future prospects, its strategy, the market outlook and its principal risks and the mitigation in place to manage them. These were reviewed by the Directors at the August 2019 Board meeting alongside the latest five-year plan, which took into account, among other things, the latest market outlook.

The Board considers that the uncertainties around the UK's exit from the European Union give rise to the most significant risks in the near future. Consumer confidence may decline, a fall in the value of sterling against the US dollar could result in increases to the cost base and disruption at ports could impact the supply chain. Price increases would partially alleviate the cost pressure but could be offset by declines in volume. It therefore considers that the likely impact of any of the principal risks materialising would be a reduction in the level of sales growth and possibly a weakening in gross margin.

As a result, a number of sensitivities against the five-year plan have been modelled and reviewed by the Audit and Risk Committee as part of the assessment made to support this statement, together with the actions which could be taken to mitigate these scenarios. Additionally, the strength of the Group's balance sheet and the low level of net debt was also taken into account.

The sensitivities modelled included a reduction in sales, reductions in gross margin and additional inflationary cost pressures. Even in the event of the combined downside scenarios the Group continues to generate sufficient profits and cash over the five-year time horizon. Discretionary action could be taken to mitigate the impacts of these scenarios within the ordinary course of business, including the reduction of discretionary spend and reducing capital expenditure.



# Sustainability

## How we operate

Our aim has always been to create a business that delivers long term, sustainable growth and strong financial performance.

Increasingly, government, regulators and shareholders are demanding that companies like Dunelm play a leading part in addressing the challenges of climate change and social well-being. We believe that we can only deliver these objectives if we respect our customers, colleagues, suppliers, the environment and our local, national and international community. This is embodied in our business principles, which set out how the Group, the Board and all of our colleagues are expected to behave.

## A big step forward in our progress this year

Sustainability has been part of how we do business for many years, but we have step changed our focus on climate change and sustainability issues over the past year.

During the year, the Company Secretary assumed the role of Chair of our Sustainability Committee, which is attended by colleagues from relevant business areas, and regularly reports to the Executive Board and the Group Board on our sustainability activities. Our focus this year has been on prioritising the issues that are most relevant to Dunelm, identifying where we need to do more, and setting ourselves targets. These are described in the pages which follow. We will be reporting progress against our targets going forward.

We have launched a programme to re-engage our colleagues, many of whom have proved to be enthusiastic supporters. We are also starting to talk to our customers about our activities and plans.

## Next steps - developing our strategy for sustainability and climate change

We are determined to continue and build on our work, and this report describes many of our activities. We are building sustainability into our five-year strategic plan, and are developing our long term sustainability strategy, as it becomes increasingly important to our customers and our colleagues. We have also started to look at what the impact of climate change and the move to a low carbon economy will mean for our business, and this analysis will be developed over the coming year.

## UN Sustainable Development Goals

The 17 Sustainable Development Goals, created by the United Nations in 2015, set out a broad range of goals that are designed to improve health and education, reduce inequality, and spur economic growth - while tackling climate change and working to preserve our oceans and forests. Companies worldwide have a role to play in achieving these objectives, and we have aligned our reporting on the following pages to the goals which we consider can deliver the greatest impact.

## How we embed sustainability in our business

### Sustainability Committee

- Keeps up to date with legislative and best practice sustainability developments
- Develops strategic objectives, policy, targets and initiatives for recommendation to the Executive Board and Board
- Monitors progress against sustainability targets
- Chaired by the Company Secretary, who reports to the Executive Board and the Board on progress

### Board

- Approves the sustainability strategy and supporting policies
- Overall responsibility for our sustainability performance
- Oversight of the business principles
- Monitors progress through KPIs and Board reports
- Annual presentations on sustainability topics

### Executive Board

- Approves the sustainability strategy and supporting policies for approval by the Board
- Role models for the business principles
- Members have line responsibility for managing specific sustainability topics
- Approves policies prior to submission to the Board
- Regular Executive Board meeting agenda items
- Monitors progress through KPIs, Board reports and customer and colleague feedback

### Colleagues

- Appraised by reference to our business principles
- Provide feedback of customer and colleague suggestions via our engagement survey, Yammer (in-house communication tool) and National Voice Forum

### How we engage on sustainability issues

- **Customers:** through our dunelm.com website, customer engagement centre and social media
- **Colleagues:** monthly 'huddles', National Voice Forum, Yammer, 'always on' engagement survey
- **Suppliers:** quality policies, annual conference and meetings throughout the year
- **Investors:** Annual Report, corporate website, biannual corporate governance presentation, via the Company Secretary
- **Others:** social media, corporate website

## Sustainability:

# Customers



Executive responsibility:

**Customer and Digital Director**

Link to our Customer 1st strategy:

- **Our customer promises**

Link to business principles:



Link to principal risks:

**Competition, market and customers**

Our purpose is to **help everyone** create a **home they love**.

**We welcome all customers, whatever their age, taste or budget, and offer them the widest range of products for their homes, whenever and however they want to shop.**

### Our policies

- We will always look out for ways to make homes (and shopping for them) better for our customers. We want every customer to create a home they love. To do this we offer:
  - Well designed, brilliant quality, own label products at the best possible prices
  - The widest possible range of products, offering choice, newness, seasonality and desirable brands
  - Easy access to our products, however customers choose to shop (in store, home delivery, delivery to store, assisted selling in store)
  - Stores which customers want to visit - inspiring, conveniently located, safe and accessible
  - Website that is inspiring and easy to navigate, with convenient delivery and collection options
  - Friendly and knowledgeable colleagues, in store, in our contact centre and delivering our products
  - Products which meet our customers' expectations for safety and ethical and sustainable sourcing



- Marketing which is always fair and truthful, and responsible use of our customers' personal data
- Communication campaigns to remind customers we are here to help with inspiring imagery and helpful content

### Measuring our impact

- Active customer base grew by 8.5%\* in the year

### What's next for 2019/20

- We will continue to develop our store formats to make them more attractive and inspiring for our customers
- We will continue to drive brand awareness and impact, reaching more people and focusing on always delivering our brand 'purpose'
- We will grow our social media following to inspire even more customers with our great range and style
- We will continue to improve our product range, design and value
- We will provide more convenient delivery options for customers who order from us online
- Delivery of our new digital platform will enable us to continually develop and improve customer experience

### Our targets

- Grow active customer base by 2 million between FY19 and FY23

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

### 2018/19 achievements

- We reached more customers and raised awareness of our offering through ongoing communications and sponsorship such as ITV's "This Morning"
- We invested in customer hosts, store colleagues who are focused on helping every customer find just what they need
- We equipped our store colleagues with chip and pin enabled tablets, making our entire online portfolio accessible for ordering in-store for home delivery
- We increased our online exclusive product range to offer customers even more choice
- We offered our biggest ever Christmas range of homewares and gifting
- We improved product availability for customers

### UN Sustainable Development Goals





Sustainability:

# Sustainable Products

Executive responsibility:  
Product Director

Link to our Customer 1st strategy:

- Great choice and value

Link to business principles:



Link to principal risks:

Brand damage; regulatory and compliance; climate change



## 2018/19 achievements

- Engaged a sustainable packaging consultant to help us formulate a strategy to reduce the primary and secondary packaging used throughout our supply chain, with a particular emphasis on single-use plastic
- Removed small single-use customer plastic bags from store and provided recyclable alternatives made from 100% recycled content
- Appointed Track Record Global, a supply chain traceability specialist to work with our own brand furniture suppliers to verify that all timber is legally sourced
- Removed straws and plastic disposable cutlery and introduced de-compostable take-away food and drink containers at all Pausa cafes
- Distributed reusable cups to colleagues, saving thousands of paper cups each week
- All tea and coffee sold in our Pausa cafes is from a certified Rainforest Alliance source

We are **committed** to making **positive changes** which will **reduce the impact** of our products **on the environment**.

Sustainability forms a key part of our product sourcing strategy and development pipeline.

### Our policies

**Sustainable sourcing:** All suppliers sign our Code of Conduct, which requires them to minimise waste and dispose of it in accordance with legal requirements, reduce packaging to optimise usage/ best fit and improve the recycled content of their products and packaging; and to commit to a strategy of carbon reduction.

Suppliers of our own brand products are also required to comply with the following policies:

**Preferred textile fibre policy:** Covering the welfare and environmental standards that apply to textile farming and production, particularly cotton - we are targeting all of the cotton in our own brand products to be sustainably sourced by 2025.

**Timber policy:** The timber used in all products and marketing materials must be legally sourced, and we are targeting 50% of our products to be sustainably sourced by 2025.

**Animal welfare policy:** Based on the Farm Animal Welfare Committee's Five Freedoms, with materials-specific requirements, for example covering fur, animal hair, leather, sheepskin and wool.

**Palm oil:** All Dunelm and Pausa own brand products which contain palm oil to be 100% sustainably sourced by the end of FY20.

Our policies are available on <https://corporate.dunelm.com>

### Measuring our impact

- Updated our policies and set targets

### What's next for 2019/20

- Develop an annual environmental assessment for all sites manufacturing own brand product
- Release our Sustainable Packaging Manual to all own brand suppliers
- Start implementing our packaging action plan - to focus on our highest use product categories
- Review alternatives to sale of plastic water bottles in Pausa cafes
- Increase the percentage of sustainably sourced cotton in our product ranges
- Begin roll-out of On Pack Recycling Labelling (OPRL) to communicate best disposal/recycling route of all packaging types to help customers
- Review feasibility of providing 'take back' schemes for some of our products, providing a 'closed loop'

### Our targets

- 30% of all plastic packaging of own brand products to be from recycled content by 2022
- All own brand cotton products to be from sustainably sourced cotton by 2025
- All Dunelm and Pausa own brand products which contain Palm oil to be 100% sustainably sourced by the end of FY20
- 100% of all timber to be from legally harvested sources by FY20, and 50% of all timber used in Dunelm own brand products to be sourced from certified sources by FY25

## UN Sustainable Development Goals



**Sustainability:**

# Suppliers and Human Rights



Executive responsibility:  
**Product Director**

Link to our Customer 1st strategy:

- **Our customer promises**
- **Committed supplier partners**

Link to business principles:



Link to principal risks:

**Brand damage; regulatory and compliance; climate change**



## 2018/19 achievements

- We have appointed Verisio Ltd, an ethical auditing and modern slavery specialist, to manage and risk assess all audits
- We have updated our policy to accept a broader range of audits from globally approved audit bodies, all of which support the ETI base code
- Suppliers have signed our Quality Manual which sets out our policy and consequences for non-compliance
- We have fully mapped our Tier 1 suppliers and have a valid audit against 98% of our own brand product manufacturing sites
- Our audit programme has been extended to UK warehouses that stock Dunelm brand product and our Pausa café suppliers
- We have launched an online portal for suppliers to upload evidence to show continuous improvement with their sites and close off corrective actions. This is actively managed and verified by Verisio
- Training has been provided to UK suppliers of own brand products, to raise awareness of modern slavery and how to improve procedures to reduce the risk within the supplier's supply chain
- We have completed an ethical audit of our own manufacturing site
- We have developed an in-house modern slavery desktop audit which is being rolled out to our distribution and manufacturing sites and those of our key UK partners

We do not manufacture the vast majority of the products that we sell, so we **need to maintain relationships** with suppliers and manufacturers worldwide who can **meet our high standards**.

**They must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.**

### Our policies

**Fair and consistent** - One of our business principles is to deal with suppliers in an open and honest way. We require all of our suppliers to sign our standard terms and conditions in advance of commencing trade, and we have signed up to the Prompt Payment Code. The number of days' purchases outstanding for payment at 29 June 2019 was 44 days (2018: 31 days), and we consistently pay over 90% of our invoices within agreed terms.

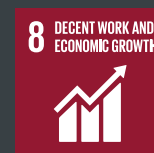
**Human rights** - Effective management of human rights throughout our supply chain is built into our product procurement procedures. All product suppliers are asked to sign our Code of Conduct, based on the Ethical Trading Initiative (ETI) base code, with a strengthened section on slavery. This requires that suppliers provide a clean and safe work environment, workers must be treated with respect and earn a reasonable wage, and relevant local laws and regulations must be met. Our policy is available at <https://corporate.dunelm.com>.

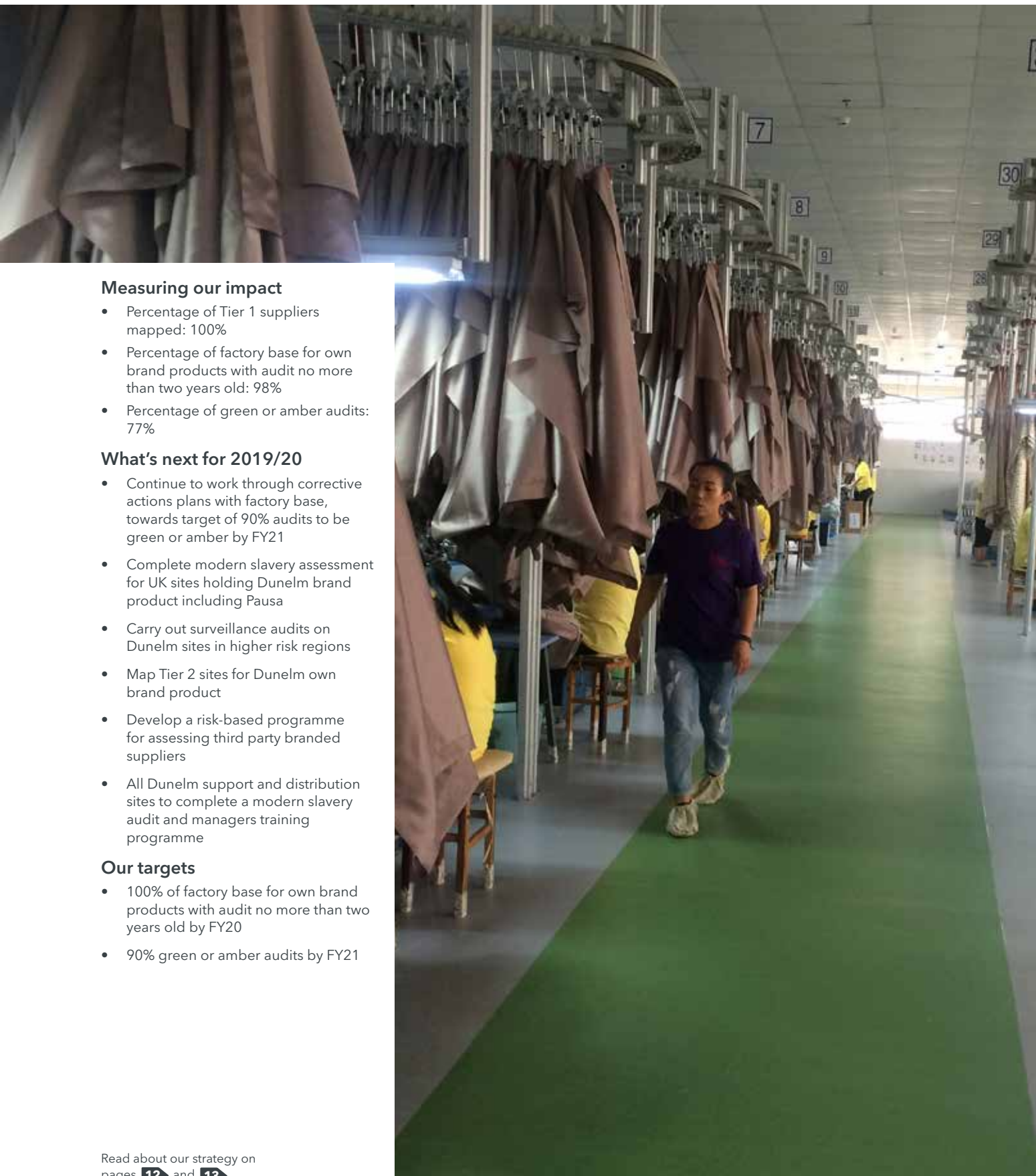
All suppliers of Dunelm branded products must have a satisfactory audit in place which is no more than two years old, and a valid building and fire safety certificate. Supplier branded products are not subject to audits but suppliers sign our Code of Conduct (or equivalent) and an assessment is made of their standards and capability.

Our in-house Quality and Sourcing team has extensive experience of working with factories to improve quality, compliance and ethical standards. Our sourcing partners monitor standards and work to improve them on our behalf. Where non-compliance is discovered we work with a supplier to help them achieve compliance, usually within six months. Critical non-conformances such as use of child labour, working against choice/slavery or absence of valid building certificates are escalated immediately.

**Modern slavery** - We have assessed our own facilities and supply base (products and services) for modern slavery risk and have required the major providers to sign our Code of Conduct. Our audits of suppliers of our Dunelm branded products also covers modern slavery. Our statement made pursuant to the Modern Slavery Act 2015, which contains further information, is available at <https://corporate.dunelm.com>.

## UN Sustainable Development Goals





### Measuring our impact

- Percentage of Tier 1 suppliers mapped: 100%
- Percentage of factory base for own brand products with audit no more than two years old: 98%
- Percentage of green or amber audits: 77%

### What's next for 2019/20

- Continue to work through corrective actions plans with factory base, towards target of 90% audits to be green or amber by FY21
- Complete modern slavery assessment for UK sites holding Dunelm brand product including Pausa
- Carry out surveillance audits on Dunelm sites in higher risk regions
- Map Tier 2 sites for Dunelm own brand product
- Develop a risk-based programme for assessing third party branded suppliers
- All Dunelm support and distribution sites to complete a modern slavery audit and managers training programme

### Our targets

- 100% of factory base for own brand products with audit no more than two years old by FY20
- 90% green or amber audits by FY21

Read about our strategy on pages **12** and **13**



# Sustainability:

# People

Executive responsibility:  
**People and Stores Director**

Link to our Customer 1st strategy:

- **Committed colleagues**

Link to business principles:



Link to principal risks:  
**People and culture**



## 2018/19 achievements

- Held a company-wide engagement survey (in addition to the 'always on' survey), using this to better inform the way we communicate with and engage colleagues throughout their career. After increasing by over 30% between July 2017 and May 2018, our engagement score improved by a further 14% between May 2018 and May 2019
- Recognised by Glassdoor as being in the "top 50 best companies to work for in the UK"
- Launched a mental health awareness programme, training over 50 colleagues as mental health first aiders, and training management colleagues to recognise and deal with mental health issues in their teams
- Started a 'pay advance' facility for our colleagues, allowing them to access early up to 50% of the pay they have earned during the period. This gives our colleagues an alternative to pay day loans
- Introduced a 'flexible time off' scheme, allowing all colleagues to take unpaid leave in addition to their paid holiday allowance
- Working with Marion Sears as our 'Designated Non-Executive Director' for employee engagement - our National Voice colleagues have been developing as a consultative body
- Developed the first ever retail degree apprenticeship, which over 20 of our colleagues are beginning in September 2019

We believe that a **great place to work** is a **great place to shop**.

**We can only deliver great products and services to our customers through the hard work and commitment of our colleagues.**

**We employ over 9,000 colleagues across our business: in stores; our distribution and manufacturing operations; our customer engagement centre in Radcliffe; and our support centres in Leicester and London.**

### Our policies

We aim to provide fair employment to all colleagues, regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age. In the past year we have continued our 'Empowering Female Leaders' programme to promote greater gender diversity in our management population, as well as other events, for example we held a 'Women in Tech' event, and introduced a flexible holiday entitlement. Further details are in our equality and diversity policy, which is available at <https://corporate.dunelm.com>.

At the end of June 2019, the breakdown of male and female colleagues was as follows:

We recognise the benefits of a diverse workforce, and during the year we have started to measure diversity throughout our colleague population to identify gaps, and look at ways in which we can promote diversity beyond gender.

'Develop our people' is one of our business principles - investing in training and development opportunities helps us retain talent in the business - 92% of all store management vacancies in the year were filled internally and over 30,000 e-learning modules completed across the business.

All new colleagues receive our 'Little Book of House Rules' explaining our business principles, which are used in recruitment and appraisals, and embedded into our colleague communications.

Some of the ways we bring our business principles to life include:

- 'Housewarming' induction for new starters, to introduce them to us, our products and our way of doing things
- Communication through regular 'huddles' (informal team briefings); a weekly topical email; Intouch and Yammer intranet communications and an annual strategy communication event. We have added to this a company-wide 'new year celebration' which marks the start of the financial year

	Male	Female	% Female
Group Board	5	3	38%
Executive Board	3	5	63%
Dunelm Leadership Team (including Executive Board members)	14	6	30%
All other colleagues	3,107	6,462	68%

## UN Sustainable Development Goals





- Regular colleague council meetings (rebranded as National Voice) attended by senior management, enabling colleagues to raise and discuss issues. The National Voice meet with Marion Sears as our 'designated Non-Executive Director' for employee matters
- Our 'always on' colleague feedback mechanism allows us to act on issues quickly. A number of key concerns affecting colleagues have been identified and addressed throughout this year

### Measuring our impact

- Increase in colleague engagement score: 14% (2018 increase: 30%)

### What's next for 2019/20

- Launch and embed a new leadership behaviours framework, through a Leadership Development Programme with our Senior Leaders
- Continue to develop our focus on supporting colleague well-being and mental health, including launching a well-being platform (provided by Retail Trust) to all colleagues, to provide access to useful advice and content to promote well-being
- Continue the progress made through the 'everyone's welcome' project which is to promote diversity, regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age, background or circumstances
- Developing the capability in the business around data and insight

### Our targets

- Improve colleague engagement score by end of FY20

Read about our strategy on pages **12** and **13**



## Sustainability:

# Health and Safety

Executive responsibility:  
**Company Secretary**

Link to our Customer 1st strategy:

- **Committed colleagues**

Link to business principles



Link to principal risks:  
**Regulatory and compliance;  
people and culture**



## 2018/19 achievements

- Installed new security locks on single knife products in store, refreshed our 'Think 25' training material and introduced third party store testing programme
- Took steps to improve colleague safety in store, through training, safety leaflet and provision of personal alarms
- Implemented a campaign to improve safety in our Pausa cafes, including improving how we provide allergy information to customers
- Continued to reduce the risk to colleagues of using fork lift trucks in store by removing a total of 58 trucks and investing in delivery trucks with tail lifts
- Reduced vehicle accident rates in our home delivery fleet by 39%
- Updated colleague drivers policies and implemented a new third party licence checking service to monitor/check driver and car MOT/insurance details
- Strengthened governance through creation of functional steering groups to drive health and safety actions

We want to ensure the **safety and well-being** of our **customers**, our **colleagues** and all our **visitors**.

We have a **Group Health and Safety Manager** who ensures that the appropriate policies and procedures are in place, and regularly reports to the **Group Board** and the **Executive Board**.

### Our policies

The Board is responsible for the creation and implementation of our health and safety policy and procedures, which include an effective system of 'upward' and 'downward' communication, appropriate standards for monitoring performance and ensuring that sufficient resources are available to support this activity. A copy of our full policy is at <https://corporate.dunelm.com>.

Health and safety is a standard agenda item at every Board and Executive Board meeting, supported by a monthly report and a formal annual presentation from the Group's Health and Safety Manager covering accident/risk analysis, review of previous objectives and agreement of new objectives for the next year.

In our stores, each store manager is responsible for ensuring the implementation of health and safety policy and procedures in his or her store, supported by the area manager and the Group health and safety Manager. At our Stoke distribution centres we have a dedicated Health and Safety Manager. Risk assessments are in place at all Company sites and updated as required.

We have an in-house health and safety audit, which monitors compliance to policy and procedures and is reviewed annually to ensure that it meets best practice industry standards and to address any specific risks identified. Our stores and distribution centres complete an online self-audit monthly, and area managers audit each of their stores at least once a year. This is backed up by our in-house operational Health and Safety team who report to the Group Health and Safety Manager. Regular review meetings are held between the Group's Health and Safety Manager and senior management from operational functions.

We have a proactive approach to safety, and colleagues are encouraged to report all potential hazards and risks. We have an ongoing programme of education and training, including DVDs and interactive computer-based learning, and we ensure colleague involvement through the National Voice.

### Measuring our impact

- Number of reportable accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDORs) remains in line with last year's performance

## UN Sustainable Development Goals





### What's next for 2019/20

- Continue the focus on controls around the sale of knives and on colleague safety in store
- Roll out simplified process for completing safety check documentation on an iPad, to save time and make tracking easier
- Continue focus on Pausa safety
- Continue programme to remove fork lift trucks from stores
- Deliver a half-day health and safety training course for new managers and store premises keyholders to all stores

### Our targets

- Reduce RIDDOR reportable accidents year-on-year

Read about our strategy on pages **12** and **13**



**Sustainability:**

# Climate Change and Environment

Executive responsibility:  
**Company Secretary**

Link to our Customer 1st strategy:

- **Lean and efficient supply chain**

Link to business principles:



Link to principal risks:  
**Brand damage; climate change**



## 2018/19 achievements

### Recycling & waste management

- Landfill diversion rate has increased to 96%
- Conducted waste audits throughout the store network, providing valuable education and awareness to colleagues and store managers

### Energy use

- Continued the programme of installing LED lighting, taking the total number of our locations with LED lighting to 169 out of 182 sites (93% of the estate)
- Introduced systemised cut-offs of energy via Building Management Systems to reduce accidental usage
- Reduced like-for-like energy consumption by 8.2%

### Greenhouse gas emissions (CO<sub>2</sub>e)

- We have reduced CO<sub>2</sub> emissions by 21.6% year-on-year relative to turnover
- Since 1 April 2019 all of our electricity is from renewable sources

We are committed to **minimising the impact** of our business **on the environment**.

**Our operational focus areas are recycling and waste management, energy consumption and carbon (CO<sub>2</sub>) emissions.**

## Recycling & waste management

### Our policies

- Our approach to recycling and waste more generally is to adopt the following prioritisation: Reduce, Reuse, Rework, Recycle
- To minimise general non-recyclable waste across the business and reduce use of landfill and other adverse environmental impacts
- To be fully compliant with all relevant waste legislation

All stores have cardboard balers and colour-coded bins to segregate waste for recycling. Training programmes and communication to increase colleague awareness and compliance are undertaken frequently.

Our distribution centres in Stoke recover and process our product packaging from our DC and store operations (cardboard and polypropylene) for recycling.

We have dry mixed recycling collections from our sites for paper, plastic bottles and cans which is then sorted and recycled offsite. We also recycle wooden pallets and metal fixtures. All electrical waste is recycled through a WEEE compliant scheme.

Food waste from our cafes and any remaining waste that is not sorted for recycling within the business is sent offsite for further sorting, and wherever possible we aim to generate energy from waste.

'Less than perfect stock' is offered to our customers who are looking for a bargain. We also work with over 100 charity partners nationwide to donate quilts and pillows that cannot be sold to customers.

### Measuring our impact

Last year Dunelm recycled 76% (2018: 75%) of waste. Total Company landfill diversion increased again to 96% (2018: 95%) and we continue to achieve 100% landfill diversion from our distribution centres in Stoke.

### What's next for 2019/20

- Continue to improve recycling performance aiming towards 100% landfill diversion over the medium term
- Improve compliance in stores and in our Stoke distribution centres by continuing our in-store training and communications campaigns.

## Energy use

### Our policies

Our policy objective is to reduce energy usage year-on-year.

Dunelm manages energy usage and energy reduction initiatives on a site-by-site basis. 'Smart' meters are fitted to electricity and gas supplies and energy consumption is measured frequently with analytics tools available to help identify issues and opportunities to reduce usage. Building Management Systems (BMS), designed to optimise energy use, are fitted as standard across our estate.

Energy consumption is monitored by our Energy Manager in conjunction with a specialist energy partner. We target underperforming sites alongside the implementation of various energy reduction initiatives to maximise energy efficiency, while maintaining a comfortable trading environment for our customers and colleagues.

## UN Sustainable Development Goals







### What's next for 2019/20

- Reduce like-for-like energy consumption by at least 5%
- Raise awareness of good energy management across the business through internal communications
- Test new technology that will further improve our energy performance by remotely detecting wasted or excessive energy usage

## Greenhouse gas emissions (CO<sub>2</sub>e)

### Our policies

Our policy objective is to reduce CO<sub>2</sub> emissions relative to turnover year-on-year.

We work with specialist partners to consult on our energy-buying strategy, investments in energy-saving technology and to further focus on reducing our carbon emissions.

We invest in photovoltaic systems (solar power) wherever viable across our estate. We now have these in five of our stores (Leeds, Dunstable, Bristol, Cambridge and Darlington). These systems replace energy sourced through the national grid with local renewable energy. We continue to monitor performance of these installations to inform future investment decisions as we assess additional sites for solar power generation.

Since 1 April all of our electricity is from renewable sources.

Our company car fleet is graded on emissions and we encourage the use of fuel efficient vehicles in all schemes.

Average emissions in 2019 were 110 CO<sub>2</sub> g/km (2018: 108 CO<sub>2</sub> g/km).

### What's next for 2019/20

- Continue to reduce CO<sub>2</sub> emissions relative to turnover year-on-year
- Target a 2% year-on-year reduction in emissions from our company car fleet, and to increase mileage per gallon achieved across our home delivery fleet
- Introduce charging points for electric vehicles in our car parks at support centres and assess certain stores for suitability
- Continue to review and assess our company car fleet to introduce more zero and low emissions options for colleagues

### Measuring our impact

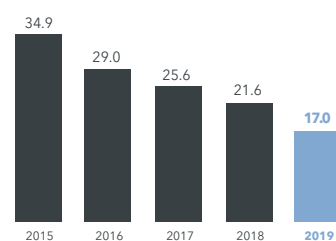
Carbon Dioxide Equivalent (CO<sub>2</sub>e) emissions data is reported using the GHG Protocol Corporate Standard (Scope 1 & Scope 2) and applies to our organisational boundary as defined by the 'operational control' approach.

The methodology used to calculate our emissions is based on the UK Government's GHG Conversion Factors for Company Reporting 2013.

Dunelm uses 'Tonnes of CO<sub>2</sub>e per £1m of turnover' as its intensity measure, reflecting the link between growth, activity and performance.

### CO<sub>2</sub> emissions

tCO<sub>2</sub>e / £1m Group revenue



### Our targets

- Reduce LFL electricity consumption by 5% in FY20
- Achieve 100% diversion from landfill for all operational waste with 80% to be recycled by FY21
- Reduce car fleet emissions by 2% p.a. to FY25
- Increase MPG by 2% p.a. for vehicles in our Dunelm home delivery fleet by FY21

Read about our strategy on pages **12** and **13**

## Sustainability:

# Community

Executive responsibility:  
**Customer and Digital Director**

Link to our Customer 1st strategy:

- **Our customer promises**
- **Committed colleagues**

Link to business principles:



Link to principal risks:  
**Competition, market and customers; people and culture**



## 2018/19 achievements

- In January we appointed Macmillan Cancer Support as our new charity partner and we will support them for two years
- The Charity Committee has focused on driving colleague and customer engagement with a number of charitable activities to ensure we are giving back as much as possible
- We have encouraged colleagues to apply for matched funding when they are supporting their own charities which we donate to Macmillan
- We have made it easier for colleagues to donate to charity through Payroll Giving
- Colleagues have proactively organised a number of bigger events to support Macmillan, ranging from golf days and charity balls to people shaving their heads and raffles
- More than 100 colleagues took part in a Macmillan Mighty Hike, to further raise funds for the charity
- We have supported a number of local causes and communities to ensure we help the local areas we serve around our entire estate

We **aspire to be responsible** members of our community; it also **matters** to our shareholders, customers and colleagues.

### Our policies

We are proud to support Macmillan Cancer Support as our 'charity of the year'. Collections are made in store, specific fundraising events are organised both by individuals and business areas and the Group makes its own donations. Each store has a 'Charity Champion' and amounts raised by store are reported monthly, with regular updates to show the best performing appearing quarterly in the Dunelm Post, our internal newsletter.

We also support colleagues who are raising money for charities of their choice, by matching the sums raised by a donation to Macmillan Cancer Support. All colleagues are entitled to, and are encouraged to take, an extra day's paid leave to undertake charitable activities, either individually or as a team.

We donate funds raised from English and Scottish carrier bag sales to Macmillan Cancer Support, and from Welsh carrier bag sales to GroundWork, a charitable organisation which brings people and the environment together with practical local action to build stronger communities. They aim to create more green spaces, and get people back into work through creating green jobs.

### Measuring our impact

- The total value of cash charitable donations made by the Group in the period ended 29 June 2019 was £175,000 (2018: £102,009)
- Total funds raised for charity by the Group and colleagues was £580,000 (2018: £490,717). Of this, £308,000 has been raised for Macmillan Cancer Support since January

### What's next for 2019/20

- Our Charity Committee will continue to focus on driving colleague and customer engagement with our charitable activities to ensure we are giving back as much as possible
- Continue to support Macmillan Cancer Support as our charity partner
- Increase our Company matched funding
- Encourage colleagues to take their charity day
- Encourage stores to raise money and have a Charity Store of The Year
- Continue to support local causes and communities where possible to ensure we help the local areas we serve around all of our locations

### Our targets

- Exceed last year's funds raised by at least 10%

## UN Sustainable Development Goals



Sustainability:

# Bribery, Fraud and Tax Evasion

Executive responsibility:  
**Company Secretary**

Link to our Customer 1st strategy:

- **Committed colleagues**
- **Committed supplier partners**

Link to business principles:



Link to principal risks:  
**Regulatory and compliance**



## 2018/19 achievements

- Additional training provided to Finance and Logistics teams
- Externally hosted whistleblowing helpline implemented and awareness raised through colleague communications
- Policy and process for engaging self-employed contractors updated to include analysis of tax risk
- Higher risk vendors identified at contract stage, and risk assessed by the Procurement team

We are committed to acting **legally, fairly and honestly** in all of our business dealings and relationships.

### Our policies

Dunelm takes a zero tolerance approach to bribery, corruption, fraud and tax evasion.

The Group pays corporation tax on its operations in the United Kingdom and Jersey and does not operate in any tax havens, or use any tax avoidance schemes.

Our anti-corruption and anti-bribery policy and our Tax Strategy are available on our website <https://corporate.dunelm.com>.

The main areas of potential risk in Dunelm's organisation are:

- A colleague accepting a bribe or some other personal advantage in return for awarding a contract
- A supplier acting on Dunelm's behalf offering or accepting a bribe or other personal advantage
- A Dunelm colleague facilitating tax evasion by a third party, for example by making an 'off book' payment to enable a third party to avoid tax

The procedures in place to ensure compliance with the Bribery Act 2011 and other relevant legislation are set out below:

- Anti-corruption and anti-bribery policy implemented - which also covers fraud and tax evasion
- Formal procedure implemented for signing off and logging gifts and hospitality accepted by colleagues
- Executive Board members, senior colleagues, all members of the Commercial team and any individuals with authority to place significant contract orders have received anti-bribery training and complete an annual refresher
- All senior colleagues sign a declaration of compliance and conflicts of interest statement annually
- Standard terms and conditions for suppliers include a Bribery Act and tax evasion clause
- Specific training has been carried out for suppliers and agents in high-risk territories
- All payments to third parties must be supported by a valid invoice and segregated duties are in place in the Finance team; commercial checks made on all new suppliers; policy on engagement of contractors under review

- Our whistleblowing policy refers specifically to the Bribery Act, fraud and tax evasion and an externally hosted independent helpline is in place
- Standing agenda item for the Audit and Risk Committee

### Measuring our impact

- % of internal training completed - 90%

### Our targets

- 100% of internal training completed

This report was reviewed and signed by order of the Board on 4 September 2019.

## Nick Wilkinson

Chief Executive Officer

## UN Sustainable Development Goals



Read about our strategy on pages **12** and **13**

# 03 Governance

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**Our customer promises**

## **Easy and Inspiring to shop**

An experience that gives our customers ideas, and provides help when they want it, both in store and online.



# Directors and Officers



**Andy Harrison**

Chairman

**N R**

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

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

**Joined Dunelm Board:** September 2014.

**Previous experience:** Chief Executive of Whitbread plc from 2010 to 2016. Chief Executive of easyJet plc from 2005 to 2010. Chief Executive of RAC plc between 1996 and 2005. Non-Executive Director and Chair of Audit Committee at EMAP plc from 2000 to 2008.

**Other commitments:** None.



**Will Adderley**

Deputy Chairman

**N**

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

**Dunelm role:** Director and major shareholder, who spends his time on strategic activities which protect and enhance shareholder value and preserve the Group's culture and values. Member of the Nominations Committee.

**Joined Dunelm Board:** 1992, and has worked for Dunelm for his whole career. He took over the day-to-day running of the Group from his father in 1996. Remained as Chief Executive through the Group's IPO in 2006. Became Deputy Chairman in February 2011 and was reappointed Chief Executive in September 2014. Resumed his role as Deputy Chairman in January 2016. Retains an executive role to support the business in matters agreed with the CEO, as required. Current focus is on buying, merchandising and mentoring colleagues internally.

**Previous experience:** All parts of Dunelm's business.

**Other commitments:** WA Capital Limited.



**Nick Wilkinson**

Chief Executive Officer

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

**Dunelm role:** Leads the Group and chairs the Executive Board. Proposes the strategy to be approved by the Board, and accountable for delivery of strategic and financial objectives. In addition to his Board responsibilities, liaises with the Remuneration Committee in respect of below Board remuneration, and attends Audit and Risk Committee meetings by invitation.

**Joined Dunelm Board:** February 2018.

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

**Other commitments:** None.



## Committee Memberships

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



**Laura Carr**  
Chief Financial Officer

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

**Dunelm role:** Laura leads the Finance department, as well as taking responsibility for a number of strategic and cross-functional initiatives. Member of the Executive Board. Participates in Audit and Risk Committee meetings by invitation.

**Joined Dunelm Board:** November 2018.

**Previous experience:** Group Financial Controller of Compass Group plc (2017 to 2018). CFO of Indigo Books & Music Inc (Canada) (2014 to 2017). Various Finance roles at Japan Tobacco International (2004 to 2013). Qualified as a Chartered Accountant with PricewaterhouseCoopers.

**Other commitments:** None.



**Liz Doherty**  
Non-Executive Director

**A N R**

Senior Independent Director  
Chair of the Audit and Risk Committee

**Key strengths:** A former Finance Director with extensive operational experience in international consumer and retail businesses, specifically with brands, marketing and online. Long-standing plc experience and shareholder understanding.

**Dunelm role:** As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits the Dunelm website, stores and non-store sites to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Senior Independent Director and Chair of the Audit and Risk Committee.

**Joined Dunelm Board:** May 2013.

**Previous experience:** Fellow of the Chartered Institute of Management Accountants (FCMA). Finance Director of Reckitt Benckiser plc (2011 to 2013), Brambles Limited (Australia) (2007 to 2009) and Group International Finance Director of Tesco plc from 2003 to 2007.

**Other commitments:** Non-Executive Director of Corbion NV and Novartis International AG. Member of the Supervisory Board of Koninklijke Philips N.V.



**William Reeve**  
Non-Executive Director

**A N R**

Chair of the Remuneration Committee

**Key strengths:** An entrepreneur and investor with deep digital experience.

**Dunelm role:** As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Chair of the Remuneration Committee.

**Joined Dunelm Board:** July 2015.

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

**Other commitments:** Chief Executive of Oh Goodlord Limited, Chair of Nutmeg Saving and Investment Limited.

# Directors and Officers

continued



**Peter Ruis**  
Non-Executive Director

A N R

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

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

**Joined Dunelm Board:** September 2015.

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

**Other commitments:** Managing Director of URBN Corporation.



**Ian Bull**  
Non-Executive Director

A N R

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

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

**Joined Dunelm Board:** July 2019.

**Previous experience:** Chief Financial Officer of Parkdean Resorts Group (2016 to 2018). Chief Financial Officer and main Board Director at Ladbrokes plc (2011 to 2016) and Group Finance Director of Greene King plc (2006 to 2011). Early finance career at Whitbread plc, Buena Vista Home Entertainment (Walt Disney Company) and BT Group. Former Non-Executive Director of Paypoint Ltd.

**Other commitments:** Senior Independent Director and Chair of the Audit Committee of St. Modwen Properties plc, and Non-Executive Director and Chair of the Audit Committee at Domino's Pizza Group plc.



**Paula Vennells, CBE**  
Non-Executive Director

A N R

**Key strengths:** A former CEO, with experience of leading digital consumer businesses, with strengths in brands, marketing and online. Long-standing plc experience and shareholder understanding.

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

**Joined Dunelm Board:** September 2019.

**Previous experience:** CEO of the Post Office between 2012 and 2019 (Sales & Network Director 2007 to 2009, COO from 2009 to 2012). Commercial Director of Whitbread plc 2004 to 2006 (Strategy and Marketing Director, Restaurants 2001 to 2004). Marketing & eCommerce Director of Argos 1998 to 2001. Early career roles at Unilever, L'Oreal, Dixons and Sears.

**Other commitments:** Chair of the Imperial College Healthcare NHS Trust, Non-Executive Director of Wm Morrison Supermarkets plc, Non-Executive Director of the Cabinet Office.



## Committee Memberships

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



**Marion Sears**  
Non-Executive Director

**N**

Designated Non-Executive Director for colleague matters

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

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

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

**Previous experience:** Robert Fleming, JP Morgan Investment Banking.

**Other commitments:** Non-Executive Director of Persimmon plc, Fidelity European Values plc, Aberdeen New Dawn Investment Trust plc and Director of WA Capital Limited.



**Dawn Durrant**  
Company Secretary

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

**Dunelm role:** Responsible for governance, legal and regulatory matters and sustainability. Member of the Executive Board.

**Joined Dunelm:** November 2011.

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

**Other commitments:** None.



**Bill Adderley**  
Founder and Life President

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

### Notes:

Liz Doherty intends to retire from the Board at the AGM on 19 November 2019. Ian Bull will succeed her as Chair of the Audit and Risk Committee. An announcement on her successor as Senior Independent Director will be made in due course.

Rachel Osborne was appointed to the Board on 1 April 2018 as a Non-Executive Director, and stepped down on 29 August 2018 to take up an executive role on the board of a competitor.

David Stead, Dunelm's former Chief Financial Officer (September 2003 to December 2015) provided interim CFO support between April and November 2018, although he was not appointed to the Board over this short period.

# Chairman's Letter



## Dear Shareholder

### Our Board

Nick Wilkinson has completed his first full year as our Chief Executive Officer. The benefits of his leadership are evident in our strategic progress and improved financial performance. Laura Carr joined as CFO in November 2018, and has settled in well. These appointments, together with the strength of our broader Executive Team augur well for our future.

We were delighted to announce the appointment of Ian Bull in July. Ian is an experienced business and financial leader, with over 20 years' experience in a range of leading consumer-facing businesses. He is currently the Senior Independent Director and Chair of the Audit Committee of St. Modwen Properties plc, and Non-Executive Director and Chair of the Audit Committee at Domino's Pizza Group plc.

We were also pleased that Paula Vennells has agreed to join the Board. Paula is an experienced business leader, with deep consumer and retail experience. Most recently she successfully led the Post Office, a large and complex retail consumer business, through a period of great change. She is also Chair of Imperial College Healthcare NHS Trust, a Non-Executive Director of Wm Morrison Supermarkets plc, and a Non-Executive Director of the Cabinet Office.

Liz Doherty intends to retire from the Board at the AGM in November, due to the increasing time required for her other commitments. Liz has served on the Board for seven years, has chaired the Audit and Risk Committee since September 2015, and been Senior Independent Director since November 2017. Liz has made a big contribution to Dunelm and I would like to thank her for her wise guidance and the capable way in which she has chaired the Audit and Risk Committee. Ian Bull will succeed Liz as Chair of the Audit and Risk Committee. Her successor as Senior Independent Director will be announced in due course.

Throughout these changes to our Board, we have maintained a core team of Will Adderley, Liz Doherty, William Reeve, Peter Ruis, Marion Sears and myself, all of whom have served at least three years on the Board. The Non-Executive Team have ably steered Dunelm through the new executive director appointments and made important contributions to key aspects of our strategy. I thank all my colleagues for their continued support and commitment, and the time given to help with the appointment and induction of my newer colleagues.

### Purpose and culture

Dunelm has always been driven by strong business values and a deeply rooted desire to play a positive role in the communities that we serve. We are well aware that it is more important than ever that all businesses demonstrate a positive impact on society. As the Financial Reporting Council and others have stated, the starting point is to have a clear purpose, supported by strong corporate values. Last year we restated our purpose, 'to help everyone create a home that they love'; interlinked with our Customer 1st strategy and our business principles.

Our principles encompass a commitment to take long term decisions and to treat all customers, colleagues, suppliers and communities with respect as the key stakeholders and partners in our business. Our Board and the leaders in our business are accountable for role modelling these principles, and we take care to ensure that we recruit and appraise individuals against them.

### Stakeholders

An important part of our Board role is to ensure that we are listening to our stakeholders - we must always be open to feedback that will help our business improve. We have reviewed our approach to stakeholder engagement during the year, and have made some changes, as set out in the report.

### Board effectiveness

This year, as in 2018, we held an internal Board review, based around a number of questions aimed at improving the Board's effectiveness. We believe that our Board is a strong team of Executives and Non-Executives who are working well together. As always there is scope to further improve our effectiveness and we agreed a number of actions, details of which are set out in the Corporate Governance Report. We will hold an external review in 2020.

### AGM

At our AGM this year, as usual, all Directors (with the exception of Liz Doherty) will be seeking reappointment. In addition, in accordance with the Listing Rules, each of the Non-Executive Directors will also be subject to a vote of shareholders independent of the Adderley family.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

**Andy Harrison**

Chairman

4 September 2019

# Corporate Governance Report

## Code compliance

This report explains how we have applied the principles of good governance and code of best practice set out in the Corporate Governance Code published in April 2016 (the 'Corporate Governance Code'), which is available from the website of the Financial Reporting Council, [www.frc.org.uk](http://www.frc.org.uk).

The Board considers that it has fully complied with the Corporate Governance Code during the financial year covered by this Annual Report, except that during the period from 29 November 2018 to 10 July 2019 we only had three independent Non-Executive Directors on our Board, to balance the four Executive/Non-independent Directors. This is due to the resignation of one of our independent Non-Executive Directors, Rachel Osborne, following her appointment to an executive role with a competitor. Whilst we immediately commenced the search for a replacement, the process has taken longer than we had hoped, due to the care and diligence that we apply to any Board appointment. The Board will be in balance for the next financial year following the appointment of Ian Bull in July 2019, and Paula Vennells in September 2019.

We share the Government's view that good governance helps companies to take better decisions, for their own long term benefit and that of the UK economy overall. Our approach, which has not changed since the flotation of the Company in 2006, is summarised below:

- We believe that good governance leads to stronger value creation and lower risks for shareholders
- It is the Board's responsibility to instil and maintain a culture of openness, integrity and transparency throughout the business, through our policies, communications and by the way in which we act
- We support corporate governance guidelines and apply them in a way that is meaningful to our business and consistent with our culture and values
- If we decide that the interests of the Company and its shareholders can be better served by doing things in a different way, we will explain the reasons why

For more information please see the copies of the presentations that we made to our major institutional investors and shareholder representatives, available in the 'Reports and Presentations' section of our website, <https://corporate.dunelm.com>.

## Corporate Governance Code 2018

The Board has considered the provisions of the Corporate Governance Code published in July 2018, against which we will be reporting next year, and we support its aim to encourage boards to focus on their purpose and culture, and to respond to society's demand that they consider the needs and expectations of all of their stakeholders.

We have already incorporated many of its new requirements into our activities, including:

- Affirmed our corporate purpose, and how strategy is aligned to this
- Considered how the Board will monitor culture, and adopted a culture scorecard
- Marion Sears appointed as 'Designated Director' for colleague purposes. Reviewed how we engage with our stakeholders, and scheduled annual meeting with the colleague National Voice Forum
- Discussed our approach to ensuring diversity at the Board and through the business
- Formally considered "emerging risks" through our risk review process

Further details are set out in this report.

## Board role and composition

### Strategy

- Set the strategy to secure the continued growth of the Group over the long term in the interests of our shareholders, taking account of our responsibilities to colleagues, customers, the communities in which we operate and the interests of our other stakeholders
- Ensure that resources are in place to deliver the strategy

### Governance

- Instil and maintain a culture of openness, integrity and transparency
- Ensure that financial and other controls and processes for risk management are in place and working effectively
- Set an effective remuneration policy
- Maintain good relationships with shareholders and all of our stakeholders

### Performance

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

Read about our directors and officers on pages **48** to **51**

# Corporate Governance Report

continued

The Board structure at the date of this report is shown below:

Chairman – Andy Harrison	
Executives/Non-Independents	Independent Non-Executives
<p><b>Will Adderley</b> Deputy Chairman  <b>Nick Wilkinson</b> Chief Executive Officer  <b>Laura Carr</b> Chief Financial Officer  <b>Marion Sears</b> Non-Executive Director</p>	<p><b>Liz Doherty</b> Senior Independent Director  <b>William Reeve</b> Non-Executive Director  <b>Peter Ruis</b> Non-Executive Director  <b>Ian Bull</b> Non-Executive Director  <b>Paula Vennells</b> Non-Executive Director</p>

Note: Liz Doherty intends to retire at the AGM on 19 November 2019. Ian Bull will succeed her as Chair of the Audit and Risk Committee. Her successor as Senior Independent Director will be announced in due course.

## Board responsibilities

The Board has adopted written statements setting out the respective responsibilities of the Chairman, the Deputy Chairman and the Chief Executive Officer; these are available on the Group's website or from the Company Secretary. A summary of the names and responsibilities of the Directors is set out below:

<b>Chairman</b>	
<b>Andy Harrison is responsible for:</b>	
<ul style="list-style-type: none"> <li>The leadership, effectiveness and governance of the Board</li> <li>Setting the agenda, style and tone of Board discussions with a particular focus on strategic matters</li> <li>Ensuring each Non-Executive Director makes an effective contribution to the Board</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring that the Directors receive accurate, timely and clear information</li> <li>Chairing the Nominations Committee</li> </ul>
<b>Deputy Chairman</b>	
<b>Will Adderley is responsible for:</b>	
<ul style="list-style-type: none"> <li>Maintaining a close dialogue with the Chairman and the CEO</li> <li>Contributing to the development of the Group's culture and values by promoting and visibly demonstrating the Company's long established business principles</li> </ul>	<ul style="list-style-type: none"> <li>Assisting the CEO in strategic and operational activities as requested</li> <li>Supporting and deputising for the Chairman as required</li> <li>Member of the Nominations Committee</li> </ul>
<b>Senior Independent Non-Executive Director</b>	
<b>Liz Doherty is responsible for:</b>	
<ul style="list-style-type: none"> <li>Acting as a 'sounding board' for the Chairman and an intermediary for the other Directors</li> <li>Leading the Non-Executive Directors in their annual assessment of the Chairman's performance</li> </ul>	<ul style="list-style-type: none"> <li>Making herself available to shareholders, particularly if they have concerns that the normal channels have failed to resolve, or for which such contact would be inappropriate</li> <li>Chairing the Audit and Risk Committee</li> </ul>
<b>Chief Executive Officer</b>	
<b>Nick Wilkinson is responsible for:</b>	
<ul style="list-style-type: none"> <li>Proposing the strategic objectives of the Group for approval by the Board, and delivering the strategic and financial objectives in line with the agreed strategy</li> </ul>	<ul style="list-style-type: none"> <li>Leading the Executive Board and senior management in managing the operational requirements of the business</li> <li>Providing clear and visible leadership in business conduct</li> <li>Effective and ongoing communication with shareholders</li> </ul>
<b>Chief Financial Officer</b>	
<b>Laura Carr is responsible for:</b>	
<ul style="list-style-type: none"> <li>Working with the CEO to develop and implement the Group's strategic objectives</li> <li>The financial delivery and performance of the Group</li> <li>Ensuring that the Group remains appropriately funded to pursue the strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring proper financial controls and risk management of the Group and compliance with associated regulation</li> <li>Investor relations activities, and communications with investors</li> </ul>
<b>Non-Executive Directors</b>	
<b>Liz Doherty, William Reeve, Peter Ruis, Ian Bull, Paula Vennells and Marion Sears are responsible for:</b>	
<ul style="list-style-type: none"> <li>Constructive contribution and challenge to the development of strategy</li> <li>Monitoring operational and financial performance and scrutiny of management performance in the delivery of strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>Oversight of financial and other controls and processes for risk management</li> <li>William Reeve chairs the Remuneration Committee</li> <li>With the exception of Andy Harrison and Marion Sears, all Non-Executive Directors chair or sit on all Board Committees</li> </ul>
<b>Company Secretary</b>	
<b>Dawn Durrant is responsible for:</b>	
<ul style="list-style-type: none"> <li>Supporting the Chairman and the Non-Executive Directors with their responsibilities</li> <li>Advising on regulatory compliance and corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>Facilitating individual induction programmes for Directors and assisting with their development as required</li> <li>Communications with shareholders and organisation of the AGM</li> <li>Overseeing the sustainability activities of the Group</li> </ul>



## Independence of Non-Executive Directors

As required by the Corporate Governance Code and the Listing Rules of the United Kingdom Listing Authority, the Board considers annually whether all independent Non-Executive Directors continue to exhibit independence of character and judgement prior to putting them forward for reappointment at the AGM. This was last considered in August 2019 and we confirmed that Andy Harrison was independent on appointment and that Liz Doherty, William Reeve, Peter Ruis, Ian Bull and Paula Vennells are independent.

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

Marion will put herself forward for reappointment at the AGM by shareholders independent of the Adderley family as well as a full shareholder vote.

As noted in the report of the Nominations Committee, Board refreshment is a continued area of focus and we consider the tenure of all Directors as part of our succession planning. Our policy on Board diversity is explained in the Nominations Committee report.

## Change of Non-Executive Director responsibilities

There were no changes to the responsibilities of the Non-Executive Directors in the year.

When Liz Doherty retires from the Board at this year's AGM in November, Ian Bull will succeed her as Chair of the Audit and Risk Committee. Her successor as Senior Independent Director will be announced in due course.

## Board activities in the year

### Board attendance

The Board held 11 meetings in the course of the year, one of which was dedicated to a formal review of strategy. Attendance at meetings was as follows:

Director	Meetings attended
Will Adderley*	10/11
Laura Carr	9/9
Liz Doherty	11/11
Andy Harrison	11/11
Rachel Osborne	1/1
Peter Ruis	11/11
William Reeve	11/11
Marion Sears	11/11
Nick Wilkinson	11/11

\* Will Adderley was unable to attend one Board meeting in the year due to a pre-existing commitment on that day, however, he received papers and communicated his views in advance to Andy Harrison, Chairman. Ian Bull and Paula Vennells were appointed after the year end and so are not included in this table.

### Board meetings

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

At each meeting, the Chief Executive Officer reports on operational performance (including health and safety) and the Chief Financial Officer reports on financial performance. There is a rolling agenda of other operational, strategic and risk topics which is regularly refreshed to reflect the most up-to-date strategy and 'live' issues in the business. The principal areas of focus discussed by the Board in 2018/19 are set out on the next page.

Read about our directors and officers on pages **48** and **51**

# Corporate Governance Report

continued

## Areas of focus

<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Group strategy, including our purpose, goals and business plans</li> <li>• Budget and future financial plan</li> <li>• Structural changes in the retail sector</li> </ul>	<ul style="list-style-type: none"> <li>• Furniture strategy</li> <li>• Marketing strategy</li> <li>• Tax strategy</li> <li>• Impact of Brexit</li> </ul>
<b>Governance and risk</b>	<ul style="list-style-type: none"> <li>• Board succession</li> <li>• Board independence, composition and diversity</li> <li>• Investor feedback via advisers</li> <li>• AGM voting and feedback</li> <li>• Corporate governance reform</li> <li>• Stakeholder engagement</li> <li>• National Voice Forum presentation</li> </ul>	<ul style="list-style-type: none"> <li>• Supplier presentation</li> <li>• Gender pay statement</li> <li>• Culture</li> <li>• Health and safety</li> <li>• Ethical sourcing and modern slavery</li> <li>• Cyber security</li> <li>• The General Data Protection Regulation</li> </ul>
<b>Operational</b>	<ul style="list-style-type: none"> <li>• Customer insight</li> <li>• Replatform project</li> <li>• Format development</li> <li>• Product strategy</li> </ul>	<ul style="list-style-type: none"> <li>• People strategy, colleague engagement and succession planning</li> <li>• Supply chain strategy</li> <li>• Stock management</li> </ul>

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

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

## Non-Executive Director meetings

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

## Board committees

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

Details of the membership of the committees and of their activities during the past financial year can be found in the reports from the Chair of each of the committees.

## Induction and training

Upon joining the Board, any new Director is offered a comprehensive and tailored induction programme with visits to key sites and meetings with senior managers and other colleagues.

Laura Carr joined the Board as Chief Financial Officer in November 2018. Prior to this she met with all members of the Board and the Executive Board, and received a briefing from the Company Secretary on the duties of a public company director. She also had access to past Board papers and other relevant documentation, and met with the audit partner and company brokers. On joining the Group, she completed a comprehensive induction programme, visiting stores, all non-store sites, and meeting all of the senior management. She also participated in the interim results presentation and 'roadshows', and held further meetings with advisers.

The Company Secretary reports to the Board at each meeting on new legal, regulatory and governance developments that affect the Group and actions are agreed where needed. Directors attend seminars provided by independent organisations which cover a wide range of governance topics.

As part of the annual Board evaluation, any additional training or development needs are addressed by the Chairman with each Director. Please see the Directors' biographies on pages 48 to 51 for details of the specific skills and experience of each Director.

## Evaluation

Each of the Directors receives a formal evaluation of their performance during the year. The Senior Independent Director appraises the Chairman, and the Chairman appraises all of the other Directors individually. In addition, the performance of the Board and Committees are formally evaluated as a whole.

Read about our strategy on pages **12** to **13**

Read about our sustainability on pages **33** to **45**

## 2018 Board evaluation

The recommendations arising from the 2018 internal Board review conducted by the Chairman, and actions implemented in response are set out below:

Recommendation	Action taken
Nominations Committee and Board to review the Board succession plan in the light of recent Board changes, likely NED rotations and the ongoing strategic plans for the business	Formal review held at the Committee meeting in September 2018, and considered again as part of the 2019 Board evaluation  Regular Board updates from the Chairman on NED search process
People Director to be requested to provide more visibility of diversity throughout the business to enable the Board to consider how to measure and promote this	Diversity data being developed  Board dinner discussion held in October 2018, to consider how the Board can obtain input from a more diverse range of sources  Presentations from recent graduates and Chair of an Academy Trust invited to speak to the Board
Further review of Board packs to give greater focus and remove unnecessary detail	Packs reviewed and finance, customer, health and safety and investor reports shortened and refocused  'Colleague dashboard' developed to bring together a range of people/culture KPIs, which is presented twice a year

## 2019 Board evaluation

The Board last held an external evaluation in 2017. In 2019 the Chairman led an internal evaluation, based on a discussion with each Board member focused on the following topics:

1. What skills/experiences are needed when making future Non-Executive Director appointments?
2. How can the Board maximise the contribution of each of the Directors?
3. Are there any other ways in which the Board can become more effective?

The Chairman circulated the Financial Reporting Council's Guidance on Board Effectiveness dated July 2018 to stimulate thinking. The Chairman collated views and these were discussed by the Board. Broadly there was satisfaction with the way that the Board is performing, and there was consistency in the areas which need to be fine-tuned to improve our effectiveness. The following actions were agreed:

- Focus Board strategy discussions more on a smaller number of topics where the NEDs can add the most value, and allow more time for each
- Spend more time on competitor analysis
- Increase the amount of time NEDs spend in the business/ with below Board executives, one fewer Board meeting
- Aim to increase the digital/data-led expertise on the Board and in the business
- Evolve our KPIs to focus more on our customer, and to reflect the multichannel nature of our business
- Review succession plans for below Board Executives

These actions will be progressed during the year and we will report back on them in next year's report.

An external Board evaluation will be held in 2020.

## How the Board oversees culture

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

**Purpose and business principles** - The Board has defined the Group's 'purpose', namely "to help everyone create a home they love". This is supported by three customer promises, and underpinned by our business principles, which define how we will act towards others. Members of the Board and the leadership team are expected to act as role models for our business principles, and all colleagues are appraised against them. Further details of this are set out in the Strategic Report.

**Code of business conduct** - Alongside our business principles we have a Code of Business Conduct, available on our website <https://corporate.dunelm.com>, which sets out the specific standards of conduct that our Board and colleagues are expected to meet. We have a separate anti-bribery and anti-corruption policy, and senior colleagues and colleagues who have the ability to influence purchasing decisions receive training on induction and annual refresher training.

**Colleagues** - We aim to inspire, engage and develop all of our colleagues to reach their full potential, without any form of discrimination. The Board engages directly with our colleagues in a number of ways as set out below. By hearing, respecting and responding to our colleagues, we inspire them to deliver the best experience to our customers and deliver our strategy.

**Suppliers** - We also expect our suppliers to adhere to our standards of conduct; all suppliers are asked to sign our anti-bribery and anti-corruption policy (or commit to an equivalent policy), and to sign our Code of Conduct which commits them to appropriate ethical and human rights standards (including anti-slavery).

# Corporate Governance Report

continued

**'People and culture' is one of our 'principal risks'**, which are considered formally by the Executive Board and the Board twice a year.

**Monitoring** - Board members monitor adherence to the culture in a number of other ways, including by visiting Group locations and interacting with colleagues as part of their Board duties. The Board also regularly reviews a number of 'culture' indicators, such as colleague and customer satisfaction scores, accident statistics, internal audit reports, whistleblowing data, and regulatory enforcement. We review a set of culture KPIs by the Board annually, most recently in August 2019.

## s172 Companies Act 2006

As a Board we have always taken decisions for the long term, and collectively and individually our aim is always to uphold the highest standards of conduct. Similarly, we understand that our business can only grow and prosper over the long term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our suppliers, the environment and the shareholders to whom we are accountable. This is reflected in our business principles, and our Sustainability report sets out more detail on how we manage our relationships with them.

The Company Secretary sets out the text of s172 Companies Act 2006 on every Board agenda by way of a reminder. We ensure that its requirements are met and the interests of our stakeholder groups are considered through a combination of the following:

- Standing agenda points and papers presented at each Board meeting: for example, the Chief Executive Officer presents a Customer report, a Health and Safety report and an update on People matters at each meeting
- A rolling agenda of matters to be considered by the Board through the year, which includes a two-day strategy review, which considers the purpose and strategy to be followed by the Group, supported by a budget for the following year and a medium term (five-year) financial plan; agenda items for the following year are set based on the decisions and next steps agreed at these meetings
- Regularly scheduled Board presentations and reports: for example, investor feedback twice a year from our brokers and corporate PR advisors; an update on People matters and a "Colleague Dashboard" twice a year; an annual presentation on health and safety, annual updates on ethical trading, modern slavery and climate change/sustainability
- Formal consideration of any of these factors which are relevant to any major decisions taken by the Board through the year
- Review of many of these topics through the risk management process and other standard Audit and Risk Committee and Remuneration Committee agenda items, as described later in this report
- Engagement with our stakeholders, as described to the right

## How the Board engages with our stakeholders

One of our business principles is to 'keep listening and looking', no matter how big and successful we get. As a Board we must always be open to feedback from our customers, our colleagues, and anyone affected by our activities. Over a Board dinner in October, we took time to consider how we engage with our stakeholders, and as a result we included some additional items on our rolling agenda this year:

- One of our largest and long-standing suppliers met with us in January, and gave their views on the benefits and challenges of being a Dunelm supplier. As a result we have identified a number of ways in which we can work together more successfully
- Engagement with our colleagues, as described to the right
- We invited the Chief Executive of a large Academy Trust to meet with us in July, to help us understand the challenges faced by young people, our potential customers and colleagues, many of whom are growing up in a disadvantaged household



## Summary of how the Board engages with our stakeholders

Stakeholder group	How we engage	Why we engage	What matters to this group
<b>Customers</b>	<ul style="list-style-type: none"> <li>Customer insight report in Management and Board packs, which includes customer satisfaction scores</li> <li>Customer KPIs reported in Management and Board packs</li> <li>CEO/Deputy Chairman reply personally to a number of high level customer contacts</li> <li>Management and Directors visit stores regularly</li> </ul>	<p>Our purpose is to help our customers create a home they love.</p> <p>We welcome all customers, whatever their age, taste or budget, and offer them the widest range of products for their homes, whenever and however they want to shop.</p>	<ul style="list-style-type: none"> <li>Product range, price and quality</li> <li>Convenience and accessibility</li> <li>Customer service</li> <li>Fair marketing</li> <li>Product safety</li> <li>Responsible use of personal data</li> <li>Environment</li> <li>Ethics and sustainability</li> </ul>
<b>Colleagues</b>	<ul style="list-style-type: none"> <li>Designated Non-Executive Director has Board responsibility for championing the interests of colleagues</li> <li>Regional and National Voice Forums in place, feedback goes to the Executive Board and is acted upon</li> <li>NED attends two National Voice Forum meetings a year and feeds back to the Board</li> <li>Annual Board discussion with National Voice Forum representatives</li> <li>'Always on' engagement mechanism, and full engagement survey twice a year</li> <li>Colleague KPIs in management and board packs</li> <li>Annual conference for store managers and senior support colleagues, attended by Chairman, Chief Executive Officer, Chief Financial Officer and Company Secretary</li> <li>Executive Board and Directors visit stores and other sites regularly</li> <li>Weekly and monthly 'huddles' held</li> <li>Independent whistleblowing helpline</li> </ul>	<p>We believe that to be a great place to shop, Dunelm also needs to be a great place to work - we can only deliver great products and services to our customers through the hard work and commitment of our colleagues.</p>	<ul style="list-style-type: none"> <li>Fair employment</li> <li>Fair pay and benefits</li> <li>Gender pay</li> <li>Diversity and inclusion</li> <li>Training, development and career opportunities</li> <li>Health and safety</li> <li>Responsible use of personal data</li> <li>Environment</li> <li>Ethics and sustainability</li> </ul>

Read about our sustainability on pages 33 to 45

# Corporate Governance Report

continued

Stakeholder group	How we engage	Why we engage	What matters to this group
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Annual supplier conference held, attended by the Chairman and Executive management</li> <li>Supplier presentation to the Group Board</li> <li>Key suppliers attend the annual colleague conference</li> <li>Chief Executive Officer and Deputy Chairman meet regularly with key suppliers</li> <li>Annual Board presentation on ethical trading/modern slavery</li> <li>Supplier payment terms reported to the Board and published</li> </ul>	<p>We do not manufacture the vast majority of the products that we sell; therefore we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards.</p> <p>Suppliers must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.</p>	<ul style="list-style-type: none"> <li>Fair trading and payment terms</li> <li>Anti-bribery</li> <li>Ethics and slavery</li> <li>Environment and sustainable sourcing</li> <li>Operational improvement</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>Company Secretary chairs the Sustainability Committee, which considers matters relating to the environment, community and other topics</li> <li>Annual Report to the Board</li> </ul>	<p>We are committed to minimising the impact of our business operations on the environment. It is also important to our colleagues, customers and shareholders.</p>	<ul style="list-style-type: none"> <li>Energy usage</li> <li>Recycling</li> <li>Waste management</li> <li>Minimising waste, packaging materials and single-use plastics</li> <li>Sustainable sourcing (cotton, timber)</li> <li>Emissions from company vehicles</li> </ul>
<b>Community</b>	<ul style="list-style-type: none"> <li>Charity Committee in place to spearhead charitable and community activity, reports to the Executive Board and the Board</li> <li>A representative of the company-sponsored charity attends the annual Company conference</li> <li>Charitable activity reported in colleague communications</li> </ul>	<p>We aspire to be responsible members of our community as it reflects our principle to do the right thing. It is also important to our colleagues, customers and shareholders.</p>	<ul style="list-style-type: none"> <li>Charitable donations</li> <li>Employment opportunities</li> <li>Volunteering</li> <li>Environmental impact</li> <li>Fair tax</li> </ul>
<b>Shareholders and potential shareholders</b>	<ul style="list-style-type: none"> <li>Annual Report and Accounts</li> <li>Corporate website</li> <li>AGM</li> <li>Results announcements and presentation</li> <li>Shareholder and analyst meetings with management, followed up by feedback from brokers and financial PR consultants</li> <li>Capital Markets presentation</li> <li>Regular Corporate Governance presentation</li> <li>Engagement via the Company Secretary</li> </ul>	<p>Continued access to capital is important for our business. We work to ensure that our shareholders and their representatives have a good understanding of our strategy business model, opportunity and culture.</p>	<ul style="list-style-type: none"> <li>Long term value creation</li> <li>Growth opportunity</li> <li>Financial stability</li> <li>Culture</li> <li>Transparency</li> <li>Ethics and sustainability</li> </ul>

Read about our sustainability on pages **33** to **45**

## Engaging with our colleagues

We have asked Marion Sears to be our 'Designated Non-Executive Director' to engage with our colleagues. Marion attended the National Voice Forum meetings in September and April, and fed back to the Board afterwards. In addition, in November, National Voice Forum members were invited to the AGM, and met with the Board afterwards. The Chairman and other Board members answered a number of questions posed by the Forum, and also asked Forum members to suggest ways that we can improve our business for the benefit of our customers. We will repeat this meeting in November 2019. In April we used the National Voice Forum to engage with colleagues on remuneration, describing our policies and approach, and asked for feedback. Further detail is in the Implementation Report section of the Remuneration Report.

We also asked our graduate intake to meet the Board in July, to help us to understand how millennials make their decisions on where and how to buy homewares, and where they want to work. We found this to be a useful and refreshing way of learning how our younger customers and potential colleagues see us, and will invite our graduates to the Board regularly.

We have an open culture and Non-Executive Directors are free to make direct contact with senior management and store teams. Throughout the year all Directors have visited stores and other Company locations, both informally and together with members of the senior management team. The Chairman attends the annual seminar, attended by store managers and key support colleagues. We have an 'always on' colleague feedback system, and management review this and respond. We also have a twice yearly engagement survey, the results of which are fed back to managers, the Executive Board, and the People Director covers this as part of her regular presentations to the Board. During the year we have also developed a 'colleague scorecard' bringing together key colleague measures, including engagement, retention and gender pay. This is reviewed by the Board at least twice a year.

## Investor relations and understanding shareholder views

The Chief Executive Officer and the Chief Financial Officer report back to the Board after the investor roadshows. The Group's brokers and financial PR advisers also provide a written feedback report after the full and half year results announcements and investor roadshows to inform the Board about investor views, and in addition Non-Executive Directors attend a selection of investor presentations.

In January 2018, we held one of our regular Corporate Governance meetings, attended by the Chairman, Will Adderley, the Non-Executive Directors and Company Secretary, to which our major institutional shareholders were invited. This gives the corporate governance representatives of our shareholders an opportunity to discuss with us a range of governance topics. Matters discussed included Board composition, the work of the Audit and Risk Committee, remuneration, risk, cyber security, human rights and the environment. We are planning to hold another meeting in January 2020.

Our corporate website contains useful shareholder information, copies of presentations and policies in relation to governance and sustainability. Please see <https://corporate.dunelm.com>.

All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.

## Other governance matters

### Conflicts of interest

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

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

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

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

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

Conflicts that have been disclosed are reviewed annually by the Board.

The Board considers that its procedures to approve conflicts of interest and potential conflicts of interest are operating effectively.

# Corporate Governance Report

continued

## Appointment and removal of Directors

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers him or herself for election at the next Annual General Meeting of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years. The Board has decided to adopt the requirement of the Corporate Governance Code, that all Directors should stand down and offer themselves for re-election at each Annual General Meeting.

Directors may be removed by a special resolution of shareholders, or by an ordinary resolution of which special notice has been given in accordance with the Companies Act 2006. The Articles also provide that the office of a Director shall be vacated if they are prohibited by law from being a Director, or is declared bankrupt; and that the Board may resolve that his or her office be vacated if he or she is of unsound mind or is absent from Board meetings without consent for six months or more. A Director may also resign from the Board.

The Nominations Committee makes recommendations to the Board on the appointment and removal of Directors.

In accordance with the Corporate Governance Code, all Directors will retire from the Board and (apart from Liz Doherty) will offer themselves for re-election at the Annual General Meeting. Non-Executive Directors will also be subject to a separate vote by shareholders independent of the Adderley family as required by the Listing Rules of the United Kingdom Listing Authority.

## Powers of Directors

The business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Act, the Articles of Association of the Company and any special resolution of the Company. As stated above, the Board has adopted internal delegations of authority in accordance with the Code and these set out matters which are reserved to the Board or Committees and the powers and duties of the Chairman, the Deputy Chairman and the Chief Executive Officer respectively.

## Share buyback and Rule 9 waiver

Since the time of flotation of the Company, the members of the Adderley family, including Bill Adderley and Will Adderley, have been considered to be acting in concert ('a Concert Party') for the purposes of Rule 9 of the City Code on Takeovers and Mergers (the 'City Code'). In December 2018, Bill Adderley transferred the majority of his shareholding to Will Adderley. Following this transfer, Will Adderley controls 46% of the issued share capital of the Company, and the Concert Party controls 51% (the Concert Party holding did not change as a result of the above-referenced transfer). The Takeover Panel consented to the above-referenced transfers and confirmed that (i) there was no obligation on Will Adderley to make a general offer to all shareholders of the Company to acquire their Ordinary Shares in the Company pursuant to Rule 9 of the City Code; and (ii) for so long as the members of the Concert Party continue to be treated as acting in concert, the Company may exercise any authority to make market purchases of its own shares which has been approved by shareholders, without seeking a separate shareholder waiver of any resulting obligation to make a general offer under Rule 9 of the City Code and no obligation to make a general offer under Rule 9 of the City Code will result.

The Board has reviewed whether our policy to purchase shares in the market to satisfy share option entitlements (as opposed to issuing shares) is still appropriate; we believe that it is in the interests of our shareholder base as a whole as it avoids dilution of shareholdings, and it is supported by the majority of our institutional shareholders. I would like to reassure shareholders again that shares bought back by the Company will be held in treasury and used only to satisfy share option entitlements, and not cancelled. The Company did not purchase any of its own shares during the financial year.

## Advice and insurance

All Directors have access to the advice and services of the Company Secretary. In addition, Directors may seek legal advice at the Group's expense if they consider it necessary in connection with their duties.

The Group purchases Directors' and Officers' liability insurance cover for its Directors.

## Significant shareholders

The Group's significant shareholders are listed in the Directors' Report on page 98 and voting rights are stated on page 97.

## Articles of Association

The Company's Articles of Association may only be amended by a special resolution of shareholders.

## Governance and risk

Details of the Group's risk management framework, systems and controls and internal control framework are set out in the Strategic Report on pages 26 to 32.

This report was reviewed and approved by the Board on 4 September 2019.

## Andy Harrison

Chairman

4 September 2019



# Letter from the Chair of the Audit and Risk Committee



## Dear Shareholder

In the last year, Laura Carr joined the Board as CFO. The transition has been smooth, and Laura has successfully established herself both as a trusted member of the Board and Executive team, and as head of the Finance function. I would like to thank David Stead, Dunelm's CFO between 2006 and 2015 for stepping in on an interim basis between April and November 2018.

As I reported last year, Rachel Osborne resigned her position as a Non-Executive Director in August when she assumed the CFO role with a competitor; it has taken us longer than we had hoped to find a replacement, but I am delighted to welcome Ian Bull to the Committee. His financial expertise in particular will be of great assistance to the Committee going forward. I am also pleased to welcome Paula Vennells, who joins the Board today.

As part of the standard audit partner rotation process, Mark Smith of PricewaterhouseCoopers LLP stepped down as audit partner, and was replaced, with the Committee's approval, by Mark Skedgel. I would like to thank Mark Smith for his service, and welcome Mark Skedgel, who has overseen the FY19 audit. The transition has been well managed.

Internal audit activity in the year included reviews of our leavers process, controls over payment of customer compensation, compliance with expenses policy, payment controls and a follow-up to last year's report on supplier conformance to stock routines. As usual, the Committee has reviewed the process by which the register of principal risks is compiled, including how 'emerging' risks are identified. The Board held a dinner discussion of "what keeps us awake at night" and the results were fed into this process. A number of improvements were made to the process and the register as a result of the Committee's review in February, and a follow-up review in June.

The Committee has continued its oversight of the controls in place to address cyber risks and comply with the requirements of the General Data Protection Regulation (GDPR). Continued progress has been made in both of these areas over the year, and it remains a standing agenda item for Committee meetings. In June 2019, the Chief Information Officer presented his plan to increase the resource and capability of the Information Security function. The plan includes an external certification of the Group's position against the Government's 'Ten Steps to Cyber Security' standard. The Committee was satisfied that the plans are an appropriate response to the increased cyber security risk.

The Committee also reviewed and approved a change to the IT capitalisation threshold, and the plans in place to implement the new accounting standard, IFRS 16 'Leases'.

We paid our auditors PricewaterhouseCoopers LLP non-audit fees of £20,000 in the financial year in respect of the half year results review (a service now classified as 'non-audit'). This compares to the audit fee of £160,000.

Looking forward, there are developments in corporate reporting coming into effect within the next two years, and the new Corporate Governance Code, which we will review and make any changes required.

This will be my last report as Audit and Risk Committee Chair, as I will be retiring from the Board at the AGM. I will be ably succeeded by Ian Bull.

I look forward to meeting shareholders at the AGM, when I will be happy to take any questions on this report.

Yours faithfully,

**Liz Doherty**

Chair of the Audit and Risk Committee  
4 September 2019

# Audit and Risk Committee Report

## Summary of principal activities

- Reviews of the following:
  - Annual financial statements for FY18 and interim results for FY19
  - Since the year end, approval of the full year annual financial statements for FY19
  - Internal controls and the process for the identification and mitigation of principal risks
  - IT capitalisation threshold
  - Plan to implement the requirements of IFRS 16
- External auditor
  - Annual reviews of policy on rotation of external auditor and use of auditors for non-audit work
  - Approval of the new statutory audit partner for the FY19 audit onwards
- Internal Audit/Compliance
  - Internal audit reviews of the leavers process, customer compensation controls, payment controls, compliance with expenses policy, and a follow up of the 2017 review of supplier compliance with stock routines
  - Review of new structure of the Information Security function, to address the ever increasing external cyber security threat and GDPR compliance

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year and at its meeting in August 2019 when this Annual Report and financial statements were approved.

## Principal duties

The principal duties of the Committee are to:

- Oversee the integrity of the Group's financial statements and public announcements relating to financial performance
- Hold the relationship with the external auditor, agree the audit fee and oversee the external audit process
- Establish formal and transparent arrangements for considering how the Company should apply the corporate reporting, risk management and internal control principles
- Oversee the internal audit process
- Monitor the effectiveness of financial controls and the process for identifying and managing risk throughout the Group
- Monitor the financial reporting process and submit recommendations
- Monitor the statutory audit of the Annual Report and financial statements
- Review and monitor the external auditor's independence and the provision of additional services

The full terms of reference for the Committee can be found on the Group's website, <https://corporate.dunelm.com>. These terms were last reviewed by the Committee in June 2019.

The Committee has approved a policy which allows employees to raise legitimate concerns in confidence without fear of discrimination, including access to an independent whistleblowing helpline. A copy of our policy is available on our corporate website <https://corporate.dunelm.com>. During the year, the Committee received reports detailing the calls made to the helpline.

## Committee membership

The following Directors served on the Committee during the year:

Name	From:	To:
Liz Doherty (Chair)	1 May 2013	To date
William Reeve	1 July 2015	To date
Peter Ruis	10 September 2015	To date
Rachel Osborne <sup>1</sup>	1 April 2018	28 August 2018

<sup>1</sup> Rachel Osborne stepped down from the Board and the Committee on 29 August 2018. Ian Bull and Paula Vennells were both appointed to the Board and the Committee after the year end.

The Company Secretary acts as secretary to the Committee.

The Chief Executive Officer, Chief Financial Officer and the Chairman of the Board usually attend meetings by invitation, along with a representative from the external auditor. Other Directors attend by invitation as required.

The Board considers that I have recent and relevant financial experience to chair the Committee, by virtue of my professional qualification and my previous executive roles, including as Chief Financial Officer of Reckitt Benckiser Group plc. Members of the Committee can also demonstrate a breadth of experience across the retail and consumer goods sector through their current and previous roles - please see the Directors' biographies on pages 48 to 51 for full details.

## Committee activities in 2018/19

Three meetings were held in the year and members' attendance was as shown in the table below:

Name	Meetings attended
Liz Doherty	3/3
William Reeve	3/3
Peter Ruis	3/3
Rachel Osborne	0/0

The Committee also met in August 2019.

The activities of the Committee included:

### Routine items

- Approval of the full year results issued in September 2018 and the half year results issued in February 2019
- Review of the process for identifying and managing risk and a full review of the principal risks and how they are managed in September 2018, a mid-year review in February 2019, and a further 'deep dive' review in June 2019
- Verification of the independence of the auditor, approval of the scope of the audit plan and the audit fee, and review of the auditor's audit findings
- Review of fraud and Bribery Act controls and cyber security, which are standing agenda items for each meeting
- Receipt of internal audit reports (see below)
- Approval of the annual Audit and Risk Committee Report
- Review of whether the FY18 and FY19 Annual Reports are 'fair, balanced and understandable'
- Annual review of committee terms of reference, Tax Strategy, policy on use of auditors for non-audit services, and auditor rotation policy
- Formal review of auditor performance
- Formal review of committee effectiveness

### Specific topics

- Update on the steps being taken to implement the requirements of IFRS 16 'Leases'
- Review of IT capitalisation threshold
- Review of the plans to restructure and increase the resource of the Information Security team
- Internal audit reviews of the leavers process, customer compensation controls, payment controls, compliance with expenses policy and a follow up of last year's review of supplier compliance with stock routines

## Committee effectiveness

At its meeting in June 2019, the Committee carried out a review of its own effectiveness, using a checklist prepared by one of the major accounting firms. The conclusion was that the Committee is functioning well, broadly in accordance with regulatory and 'best practice' requirements, and provides appropriate assurance to the Board.

## Significant areas of judgement

Within its terms of reference, the Committee monitors the integrity of the annual and interim reports, including a review of the significant financial reporting issues and judgements contained in them.

At its meetings in September 2018 and August 2019, the Committee reviewed a comprehensive paper prepared by the Chief Financial Officer, which analysed the Group's results for the financial year; highlighted matters arising in the preparation of the Group financial statements; and provided information to support the Directors' viability and going concern statements. The Committee also considered a paper prepared by the external auditor, which included significant reporting and accounting matters.

The major accounting issues discussed by the Committee in August 2019 in relation to the FY19 Annual Report and Accounts were as follows:

### Provisions for inventory

The Committee considered the approach taken by management and assessed available evidence. Particular attention was given to reviewing the provision for obsolete, slow-moving or discontinued inventories including the utilisation of provisions reported in prior periods. The Committee noted that management have refined the calculation to be more mechanical and less judgemental. The Committee concluded that the values recorded in the financial statements are appropriate.

### Lease liabilities

The Committee considered the approach taken by management to the disclosure requirements under IFRS 16, which will be adopted in FY20 for the first time. Particular attention was given to reviewing the discount rates proposed by management in calculating the lease liabilities. The Committee concluded that the disclosures in the financial statements are appropriate.

### Capitalisation of intangible IT costs

The Committee considered the approach taken by management in identifying the capitalisation criteria required for capitalising internally generated software, and concluded that the approach taken and the values reported in the financial statements are appropriate.

## Fair, balanced and understandable

At the request of the Board, the Committee also considered whether the Annual Report and financial statements as a whole are 'fair, balanced and understandable'. Factors taken into account included:

- Does the narrative of the Business Review and Financial Review fairly reflect the performance of the Group over the period reported on?
- Are the narrative sections consistent with each other, and with the financial statements?
- Is the connection between strategy and remuneration clearly described?
- Can readers easily identify key events that happened during the year?

Committee members received the draft Annual Report in advance and had the opportunity to make comments in advance of the formal meeting at which the report was tabled for approval.

# Audit and Risk Committee Report

continued

Following its review, the Committee confirmed to the Board that in its view the FY19 Annual Report was fair, balanced and understandable.

## External auditor

The report and financial statements were audited by PricewaterhouseCoopers LLP, following the firm's appointment as statutory auditor in January 2014. The audit partner from the FY19 audit onwards is Mark Skedgel.

PricewaterhouseCoopers LLP attended the Committee meetings in September 2018, February, June and August 2019. The Committee also met privately with them during the September and August meetings, and as Chair of the Committee I had dialogue with the audit partner on a number of occasions.

## Audit effectiveness

It is the responsibility of the Audit and Risk Committee to assess the effectiveness of the external audit process.

The Chief Financial Officer and her team presented their review of the FY18 audit in February 2019. This covered a number of aspects including:

- The quality of reports provided to the Committee and the Board and the quality of advice given
- The level of understanding demonstrated by the audit team of the Group's businesses and the retail sector
- The objectivity of the external auditor's views on the controls around the Group and the robustness of challenge and findings on areas which required management judgement
- The findings from the FRC's annual inspection of auditors published in May 2018

The conclusion was that the audit had been effective and that no significant issues had been highlighted; this was endorsed by the Committee.

## Auditor appointment for FY19

It is the Committee's responsibility to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor, and to agree the audit fee.

In February 2019, the external auditor presented their strategy for the 2018/19 audit to the Committee. The Committee reviewed and agreed with the external auditor's assessment of risk. The Committee also reviewed and agreed the audit approach and the approach to assessing materiality for the Group.

The fee proposed by PricewaterhouseCoopers LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £160,000.

Taking into account the review of the FY18 audit and the proposed plan and fee, the Committee agreed that PricewaterhouseCoopers LLP be reappointed as auditor for the FY19 audit for the fee proposed. Resolutions to reappoint PricewaterhouseCoopers LLP as auditor and to authorise the Directors to agree their remuneration will be put to shareholders at the AGM.

## Use of auditors for non-audit work

The Committee is aware that the use of audit firms for non-audit work is a sensitive issue for investors and corporate governance analysts, as it could potentially give rise to a conflict of interest.

Following the issue of the EU Audit Directive in June 2016, we reviewed our policy on the use of auditors for non-audit work in September 2016. The full policy is available on our website, <https://corporate.dunelm.com>, but in summary from FY17:

- Fees for non-audit services provided by the statutory auditor in any year may not exceed 70% of the average fees for the Group statutory audit in the three previous years
- The auditor is prohibited from providing certain non-audit services, including: almost all tax work; internal audit; corporate finance; involvement in management activities, including working capital and cash management and the provision of financial information
- The external auditor may not be engaged to provide any non-audit services without the agreement of the Audit and Risk Committee Chair

During the period we paid PricewaterhouseCoopers LLP £180,000, of which £20,000 was for their review of the interim financial statements (considered to be a non-audit service). No other non-audit services were provided by the external auditor. Fees paid to PricewaterhouseCoopers LLP for audit work were £160,000.

## Auditor rotation

Our auditor rotation policy is that we will tender the audit at least every 10 years; we will change auditor at least every 20 years; and we will invite at least one firm outside the 'Big Four' to participate. This is in line with the current EU Audit Directive. The latest date for the next tender will therefore be for the FY24 audit. A competitive tender is in the best interests of shareholders.

I can confirm that the Company has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year.

## Risk management

The Committee is responsible for assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks, and to consider the level of assurance.

The Committee carried out a formal risk review in September 2018 and February 2019, as well as a review of the whole risk register in June 2019. It also noted that individual principal risk topics are reviewed by the Board through the rolling agenda. During the year, at the Committee's request, further work has been conducted by management to refine the way in which the risks are described, and to align the Internal Audit programme more closely with the Risk Register.

Read about our risks on pages **26** to **32**



## Internal control framework

In 2015 the Committee adopted a formal internal control framework, covering the following areas: business ethics including anti-bribery controls; accountabilities; people management, including succession planning; development and alignment of incentives; risk management processes; internal financial control; crisis management; monitoring and reporting. Details of internal and external assurance are included. The framework and the controls in place are reviewed annually. In view of the time that has elapsed since the framework was first put in place, and the increased size and complexity of the business, the Chief Financial Officer has agreed to review the controls framework and recommend any areas that need to be strengthened.

## Viability statement and risk management

In August 2019, the Committee reviewed the viability statement given by the Board in this report and the process in place to support the assurance given and confirmed that it is appropriate and in compliance with regulatory requirements. This review took into account the principal risks facing the Group and the process by which they are managed by the Board and management.

## Internal audit

There is an Internal audit function which conducts a programme of audits conducted either using Internal audit resource or by an external party, decided on a case-by-case basis. In either case, the review is conducted on behalf of the Committee and reports back to them. Topics for internal audit are selected by the Committee with reference to the Risk Register, any control observations made by the external auditor, and any requests made by members of the Executive Board.

Reviews completed in the year are set out below:

	Reviewed by
Leavers process	Internal Audit
Customer compensation controls	Internal Audit
Payment controls	Internal Audit
Supplier compliance with stock routines (follow-up)	Internal Audit
Payment controls review	Internal Audit
Compliance with expenses policy	Internal Audit

Reports were discussed by the Committee and the Board and a number of recommendations agreed by management. The Committee monitored progress against actions agreed following these reports, as well as the reports received in the 2017/18 financial year from internal audit/external assurance providers. The majority of these have been completed in the agreed timescale.

## Cyber security and data protection/ GDPR

Information security remains one of the most important risk areas and it is a standing Committee agenda item, as well as being one of the Board's principal risks, as outlined in the 'Risks and Uncertainties' section of this Annual Report. The coming into force of the General Data Protection Regulation in May 2018 has raised the profile and importance of managing personal data safely and lawfully, and has increased the severity of the consequences of a personal data breach. The Committee had oversight of the plan in place to secure compliance, and data protection is now considered alongside cyber security in general at every meeting.

The Committee noted that continued progress has been made over the year to strengthen controls over cyber and data security. A number of practices and systems considered 'high risk' have been changed as part of the GDPR implementation plan, and training has been rolled out across the business to increase awareness. A risk mitigation plan is in place to make further improvements during FY20. In addition, a number of legacy Worldstores systems were integrated during the year, to further enhance security and integrity.

In June 2019, the Chief Information Officer presented his plan to increase the resource and capability of the Information Security function, in response to the continuing external threat and the need to reinforce controls to secure GDPR compliance. In addition, as part of the replatform project we are moving our IT platform and supporting systems from a solution based on third party software to a bespoke solution, and therefore we need to ensure that we build in appropriate security. The new plan includes an external certification of the Group's position against the Government's 'Ten Steps to Cyber Security' standard. The Committee was satisfied that the plans are an appropriate response to the increased cyber security risk.

## IFRS 16 'Leases'

The Group will be adopting IFRS 16 for the FY20 year end, and has made its first disclosures in this report. At each meeting during the year, the Committee considered a report by management, summarising the approach being taken, the impact on external and internal reporting, and the implications for bank covenants and measurement of performance under remuneration schemes.

Approved by the Board on 4 September 2019.

## Liz Doherty

Chair of the Audit and Risk Committee

# Letter from the Chair of the Remuneration Committee



## Dear Shareholder Overview

Financial performance in the past year has been strong. We have also grown our customer base substantially, and improved our customer and colleague satisfaction scores. This is reflected in our share price, which rose significantly during the year. This, together with very strong performance against personal and strategic objectives, gave rise to a bonus award to our Executive Directors of 98% of potential opportunity for Nick Wilkinson, CEO, and 100% for Laura Carr, our new CFO. The Committee considers that this is a fair, reasonable and appropriate outcome, in the context of Dunelm's overall performance, stakeholder engagement and shareholder return in the year.

We are also pleased that colleagues throughout the business, who are entitled to receive a bonus payment and performed strongly, earned a similar percentage of their maximum entitlement. Amidst challenging times for our sector, the talent and commitment of our people are enabling us to win versus our competitors. We are proud of them and proud to be able to reward them appropriately.

## Executive Director shareholding

It is part of our remuneration strategy that our Executives should build alignment with shareholders through shareholding. We require that Executives make a personal investment in shares when they join the Company. Thereafter they must invest two thirds of all bonus and share incentives earned (after payment of tax and NI) in Dunelm shares, all of which must be held for the duration of employment, and at least 50% for a further two years. We also ask Executives to build a holding of 1x salary after three years and 2x salary after five years. I am pleased that Nick and Laura have respectively built shareholdings equivalent to 193% of salary (after 19 months) and 91% of salary (after nine months).

## Pension

In the past year, our Remuneration Committee has been listening to the calls from government, regulators and shareholders for boards to show restraint, and to be able to demonstrate fairness in how Executive Directors are paid. Dunelm's policy has always been to pay its Executives fairly for the role, and for the majority of pay to be variable and performance-linked. We have also designed a simple policy that is easy for the Executives and our shareholders to understand.

Since 2017, our policy has provided for a maximum pension entitlement of 15% of base salary. In 2018 we decided to reduce this to 10% for newly appointed Executives, which is the entitlement of Nick and Laura, both of whom joined in 2018. In June this year, we took the decision to reduce this further for newly appointed Executives - the maximum that we will now apply is 5% of base salary, which is the entitlement of the vast majority of our management population. This will, subject to agreement by shareholders, be enshrined in our policy on renewal.

## Gender pay

Our Board now comprises four women and six men, and our Executive Board has five women to three men. However, the gender pay gap report which we published in April showed a widening of the gap on both the median and mean measures. This widening was caused primarily by an increase in the size of our Technology (IT) team; these colleagues are relatively highly paid, and this function is historically predominantly male. We are continuing to take a long term approach to addressing the barriers that prevent women from reaching senior, higher paid roles (holding an 'Empowering Female Leaders', a 'Women in Tech' event, introducing a flexible holiday entitlement for example). We are also looking at how we can address any diversity 'gaps', to ensure that we are recruiting from the widest possible pool of talent.

## Governance reform

Although we are not obliged to adopt the requirements of the 2018 Corporate Governance Code until the next financial year, we have decided to implement some of its provisions in advance:

- The Committee already had oversight of the remuneration of the Executive Board (which includes the Company Secretary). Remuneration of this group (including pay increases, and bonus and share incentive plan awards and outcomes) is now formally approved by the Committee
- When discussing base pay increases and bonus awards for the Executive Directors and the Executive Board, we have also taken into account awards to be made throughout the Company. We now also formally consider whether variable pay outcomes are reasonable in the light of Company performance

- In last year's report, I described how we had widened the circumstances in which variable pay can be subject to malus and claw back; and how we had decided to reduce pension entitlement of newly appointed Executive Directors to 10% of base salary. As stated above, we have now decided to align the pension of entitlement of newly appointed Executives to our management colleagues
- We appointed Marion Sears as our 'Designated NED' for colleague purposes. As described elsewhere in the Annual Report, Marion and the Board now engage formally with the National Voice Forum, and we used this forum to explain the structure and rationale for executive pay, and to seek feedback

Other provisions, and the publication of a CEO pay ratio, will be adopted in the FY20 financial year.

## Policy renewal

This is the final year of operation of our 2017 remuneration policy. We will take developments in governance, best practice and shareholder preferences into account as we formulate the policy for discussion with our major shareholders, before putting it forward for approval at our AGM in 2020. As ever, we welcome our shareholders' thoughts and suggestions in advance of this process so we can proceed with as much support as possible.

I look forward to meeting shareholders at the AGM.

Yours faithfully,

**William Reeve**

Chair of the Remuneration  
Committee

4 September 2019



# Remuneration Report

## How our remuneration policy is linked to our strategy

### Group strategy

Deliver shareholder value through long term, sustainable, profitable growth

#### Remuneration strategy

Pay fairly for an individual's role and responsibilities

Reward strong performance

Focus on long term value creation

Align executives with shareholders through share ownership

#### Remuneration structure

Base pay and benefits at median or below

Annual bonus at median

Long Term Incentive Plan at upper quartile

Two thirds of variable pay retained in shares for duration of employment and half of these for a further two years

Our binding remuneration policy was last updated in 2017, and approved by shareholders at the AGM on 21 November 2017 with 99.47% of votes in favour of it.

The principles behind, and the reasons for, the overall remuneration structure that we have adopted for our Executive Directors are directly related to our long term strategic goal of delivering shareholder value through the profitable growth of a quality business.

Since the flotation of the Company our Executive remuneration has been structured specifically:

- To pay fairly and appropriately for an individual's role and responsibilities
- To reward strong performance
- To be focused on long term value creation
- To align Executives strongly with shareholders through share ownership

The majority of the Executive Directors' potential remuneration is variable and performance-related in order to encourage and reward superior business performance and shareholder return. Discretion is allowed in certain circumstances to ensure rewards are appropriate and overall levels of pay are analysed carefully each year.

This is consistent with the creation of long term, sustainable growth in shareholder value through delivery of the objectives set out in our corporate purpose and supporting strategy, which are all long term in nature; namely to help our customers create a home they love, through offering products that are famous for style, value and quality; and an easy and inspiring shopping experience. Our approach is also in keeping with the family origin of the business, and is important to the Adderley family who remain our majority shareholders.

It is our intention to maintain a simple and transparent remuneration structure for the benefit of all parties.

## Introduction

This Directors' Remuneration Report is divided into three sections: the **Letter from the Chair of the Remuneration Committee**, set out on pages 68 to 69; the **Policy Report**; and the **Annual Report on Implementation**.

The **Policy Report** sets out the 2017 remuneration policy which has been in force since 21 November 2017, when it was approved by shareholders at the AGM with a vote of 99.47% in favour of it. No changes to our policy are being put forward this year.

The **Annual Report on Implementation** sets out how the policies approved in November 2014, 2015 and 2017 have been applied during the financial year being reported on and how policy will be applied in the coming year. This report will be put to shareholders for approval at the Annual General Meeting in November 2019, although the vote on the implementation report is advisory.

This report complies with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 (as amended), as well as the UK Corporate Governance Code and the UKLA Listing Rules.

Read about our sustainability on pages **33** to **45**



## The policy report

### Directors' remuneration policy 2017

The policy set out below (the '2017 policy') is the policy approved by shareholders at the AGM on 21 November 2017, and applied from that date.

The information contained in this report is unaudited unless specifically stated as being audited.

### Future policy table

The following table sets out the structure of remuneration for Directors of the Company.

#### Executive Directors

Base salary	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>• Fixed remuneration for the role</li> <li>• To attract and retain the high calibre talent necessary to develop and deliver the business strategy</li> <li>• Reflects the size and scope of the Executive Director's responsibilities</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>• Normally paid monthly</li> <li>• Base level set in the context of:               <ul style="list-style-type: none"> <li>– Pay for similar roles in companies of similar size and complexity in the relevant market</li> <li>– Scale and complexity of the role</li> </ul> </li> <li>• Should comprise a minority of potential remuneration</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>• Reviewed annually, with percentage increases in line with the company-wide review unless other circumstances apply, such as:               <ul style="list-style-type: none"> <li>– A significant change in the size, scale or complexity of the role or of the Company's business</li> <li>– Development and performance in role (for example, on a new appointment, base salary might be initially set at a lower level with the intention of increasing over time)</li> </ul> </li> <li>• The Committee does not consider it to be appropriate to set a monetary limit on the maximum base salary that may be paid to an Executive Director within the terms of this policy</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>• None, although performance of the individual is considered at the annual salary review</li> <li>• No recovery provisions apply to base salary</li> </ul>
Retirement benefits	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>• To provide a competitive post-retirement benefit</li> <li>• To attract and retain the high calibre talent necessary to develop and deliver the business strategy</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>• Contribution equivalent to a percentage of base salary made to a defined contribution plan or paid as a cash allowance</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>• Up to 15% of base salary (for Executive Directors appointed from November 2017 onwards. For Executive Directors appointed prior to that, the maximum is 20% of base salary). No element other than base salary is pensionable. Note that the contractual pension entitlement of the current Executives is 10% of base salary. The Committee has agreed in June 2019 that the pension entitlement for any newly appointed Executives will not exceed the entitlement of management colleagues, which is currently 5%. This will be incorporated into our next binding policy</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>• None</li> <li>• No recovery provisions apply to retirement benefits</li> </ul>

# Remuneration Report

continued

Benefits	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>To provide a competitive benefits package</li> <li>To attract and retain the high calibre talent necessary to develop and deliver the business strategy</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>A range of benefits are provided, which may include car or car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; use of a car and driver in connection with the role; colleague discount</li> <li>Additional benefits, such as relocation expenses, housing allowance and school fees may also be provided in certain circumstances if considered reasonable and appropriate by the Committee</li> <li>For non-UK Executives (none at present) the Committee may consider additional allowances in accordance with standard practice</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>Current benefits provided are described in the Implementation Report on page 80.</li> <li>The Committee reserves the right to provide such benefits as it considers necessary to support the strategy of the Company</li> <li>The Committee does not consider it to be appropriate to set a maximum cost to the Company of benefits to be paid</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>None</li> <li>No recovery provisions apply to benefits</li> </ul>

Annual bonus - awards to be made to Executive Directors other than Will Adderley, who has requested that he not be considered for annual bonus	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>Rewards and incentivises delivery of annual financial, strategic and personal targets</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>Paid in cash, after the results for the financial year have been audited, subject to performance targets having been met</li> <li>Two-thirds of bonus earned must be invested in Dunelm shares after tax and National Insurance obligations have been met</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>Maximum opportunity - 125% of base salary per annum</li> <li>For on-target performance - 40% of maximum opportunity</li> <li>For threshold performance - 5% of maximum opportunity</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>Stretching performance targets are set each year. Performance targets for the Executive Directors are typically based on financial and strategic objectives set by the Remuneration Committee annually</li> <li>Financial objectives include, but are not limited to, budgeted PBT for the financial year taking into account market consensus and individual broker expectations</li> <li>The strategic objectives will vary depending on the specific business priorities in a particular year</li> <li>Typically, the majority of the annual bonus for Executives is subject to financial objectives</li> <li>Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the year in respect of which the bonus is paid, or if there has been an error in calculating performance, or in the case of gross misconduct</li> <li>The Remuneration Committee also has the discretion to claw back the bonus up to three years after payment in the above circumstances, and in cases of fraud, the Committee can apply malus and claw back for an unlimited period of time</li> <li>Please note that in 2018 the Committee decided to widen the circumstances in which malus and clawback may apply to awards made from 2018 onwards - further details are set out below</li> </ul>

Long Term Incentive Plan - awards to be made to Executive Directors other than Will Adderley, who has requested that he not be considered for LTIP awards	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>• Supports delivery of strategy by targeting EPS growth, which the Committee believes to be closely aligned to the drivers of growth in the business over the long term</li> <li>• Rewards strong financial performance and sustained increase in shareholder value over the long term</li> <li>• Aligns with shareholder interests through the delivery of shares, the majority of which (after payment of tax liabilities) are retained</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>• Conditional awards are made annually (which can take the form of a conditional award, nil-cost option or nominal value option), with vesting subject to performance over three financial years</li> <li>• Two-thirds of all shares vesting must be retained by the Executive (after sale of shares to meet tax and National Insurance obligations)</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>• For awards to be made in respect of the FY18-FY20 performance period, the maximum annual award is 110,000 shares for the Chief Executive Officer and 60,000 shares for the Chief Financial Officer, subject in either case to such adjustment as the Committee determines to take account of any variation in the Company's share capital</li> <li>• For awards to be made in respect of the FY19-FY21 performance period and awards to be made in future years, the maximum annual award for Executive Directors is shares with a value up to 200% of salary, calculated by reference to the market price of Dunelm shares on the date preceding the date of grant</li> <li>• For threshold performance: 10% of the award will vest</li> <li>• For maximum performance: 100% of the award will vest</li> <li>• Straight-line vesting between the threshold and maximum levels will apply for performance between threshold and maximum points</li> <li>• Dividend accruals may be made in respect of special dividends paid during the performance period applicable to an award and up to the vesting date. Payment would only be made in respect of shares vesting after applying performance criteria. This will apply to all awards vesting after the 2017 policy comes into effect</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>• Growth in diluted EPS over the three-year performance period compared with growth in the index of retail prices (RPI) over the same period</li> <li>• The Remuneration Committee considers the target annually taking into account market consensus and individual broker expectations</li> <li>• For information, the targets applicable to awards to be made are: <ul style="list-style-type: none"> <li>• No part of the award will vest until compound annual EPS growth exceeds RPI growth by 3%</li> <li>• For awards to be made in respect of the FY18-FY20 performance period, 10% of the award vests at compound annual EPS growth in excess of RPI plus 3%. 100% of the award vests at compound annual EPS growth in excess of RPI plus 15%</li> <li>• For awards to be made in respect of the FY19-FY21 performance period, and for awards made in future years, 10% of the award vests at compound annual EPS growth in excess of RPI plus 3%. 100% of the award vests at compound annual EPS growth in excess of RPI plus 12%</li> <li>• Between those figures the award will vest on a straight-line basis</li> </ul> </li> <li>• Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the performance period to which the award relates, or if there has been an error in calculating performance or in the case of gross misconduct</li> <li>• The Remuneration Committee also has the discretion to claw back vested awards for up to three years from vesting in these circumstances and in cases of fraud, the Committee can apply malus and claw back for an unlimited period of time</li> <li>• Please note that in 2018 the Committee decided to widen the circumstances in which malus and clawback may apply to awards made from 2018 onwards - further details are set out below</li> </ul>

# Remuneration Report

continued

Lifetime lock-in and personal shareholding targets	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>Aligns with shareholder interests through shareholding and promotes long term thinking</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>Executive Directors are required to build a beneficial holding of shares equal to 100% of salary after three years and 200% of salary after five years from appointment</li> <li>A personal investment in Dunelm shares should be made on appointment as an Executive Director (subject to closed periods)</li> <li>Two-thirds of amounts earned under the annual bonus and the LTIP (after payment of tax and National Insurance) must be retained in Dunelm shares</li> <li>These shares must be held during employment and at least 50% of them retained for at least two years after employment ends</li> <li>The Remuneration Committee retains the right to waive this requirement in exceptional circumstances, such as death, divorce, ill health or severe financial hardship</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>

All employee share plan (Sharesave)	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>Promotes share ownership by all eligible colleagues (including Executive Directors)</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>All UK employees with a minimum service requirement are eligible to join the UK tax approved Dunelm Group Savings Related Share Option Plan (the Sharesave)</li> <li>Monthly savings are made over a period of three years linked to the grant of an option over Dunelm shares at a discount of up to 20% of the market price (or such other amount as permitted by law) at the date of invitation to join the plan</li> <li>Invitations are normally issued annually at the discretion of the Remuneration Committee, which also has discretion to set the minimum service requirement, maximum discount, maximum monthly savings and any other limits (such as scaling back) within the terms of the scheme rules</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>Maximum participation limits are set by the UK tax authorities. Currently the maximum limit is savings of £500 per month</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>None</li> </ul>

## Non-Executive Directors

Fees	
<b>Purpose and link to strategic objectives</b>	<ul style="list-style-type: none"> <li>To attract and retain a high calibre Chairman and Non-Executive Directors by offering competitive fee levels</li> </ul>
<b>Operation</b>	<ul style="list-style-type: none"> <li>Fees for the Chairman and Non-Executive Directors are set by the Board. No Director participates in any decision relating to his or her own remuneration</li> <li>The Chairman is paid an all-inclusive fee for all Board responsibilities</li> <li>The Non-Executive Directors receive a basic fee, with supplemental fees for additional Board responsibilities</li> <li>The level of fee reflects the size and complexity of the role and the time commitment</li> <li>Fees are reviewed annually and increased in line with the company-wide increase. In addition, there will be a periodic review against market rates and taking into account time commitment and any change in size, scale or complexity of the business</li> <li>Flexibility is retained to increase fee levels in certain circumstances, for example, if required to recruit a new Chairman or Non-Executive Director of the appropriate calibre</li> <li>With the exception of colleague discount, no benefits are paid to the Chairman or the Non-Executive Directors, and they do not participate in any incentive scheme</li> </ul>
<b>Maximum opportunity</b>	<ul style="list-style-type: none"> <li>Maximum fees to be paid by way of fees to the Non-Executive Directors are set out in the Company's Articles of Association</li> <li>Fees paid to each Director are disclosed in the Annual Report on Implementation</li> </ul>
<b>Performance metrics</b>	<ul style="list-style-type: none"> <li>None</li> </ul>



The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy, where the terms of the payment were agreed: (i) before the policy came into effect; or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration, and in relation to an award over shares, the terms of payment are 'agreed' at the time the award is granted.

The Committee may also make minor changes to this policy which do not have a material advantage to Directors, to aid its operation or implementation without seeking shareholder approval, but taking into account the interests of shareholders.

## Performance measures and how targets are set

The Remuneration Committee selects performance measures that it believes are:

- Aligned with the Group's strategic goals
- Unambiguous and easy to calculate
- Transparent to Directors and shareholders

### Annual bonus

For the financial year 2018/19, 80% of the annual bonus is linked to PBT and 20% to personal and strategic objectives. Each Director's annual bonus is therefore linked primarily to delivery of Group financial performance, but also to personal performance and contribution to the strategic progress of the Group. The PBT target is set by the Remuneration Committee each year, taking into account market consensus and broker expectations. Personal and strategic objectives are set at the commencement of the year and assessed by the Remuneration Committee.

The Committee reserves the right to adjust the financial performance target or change the performance condition if justified by the circumstances, for example if there was a major capital transaction.

For future years, the Committee will determine the financial measures and the weighting of financial and non-financial measures based on specific business priorities in a particular year.

### LTIP

The EPS target for the LTIP is based on growth in diluted EPS compared to the increase in the Index of Retail Prices (RPI) over each performance period. The targets that apply to awards are set out in the policy table on page 73.

The Remuneration Committee considered the use of EPS as a performance measure carefully when the Company was floated in 2006, and has discussed it with shareholders regularly. EPS is believed to be closely aligned to the drivers of growth for the business and in the long term, EPS performance is expected to be reflected in shareholder value. EPS is a more suitable performance measure for Dunelm than for many other companies and it is therefore considered appropriate to use it as a single measure for the LTIP. The use of EPS as a primary measure for Dunelm's LTIP is considered appropriate because of the low level of leverage in the business and because the capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital.

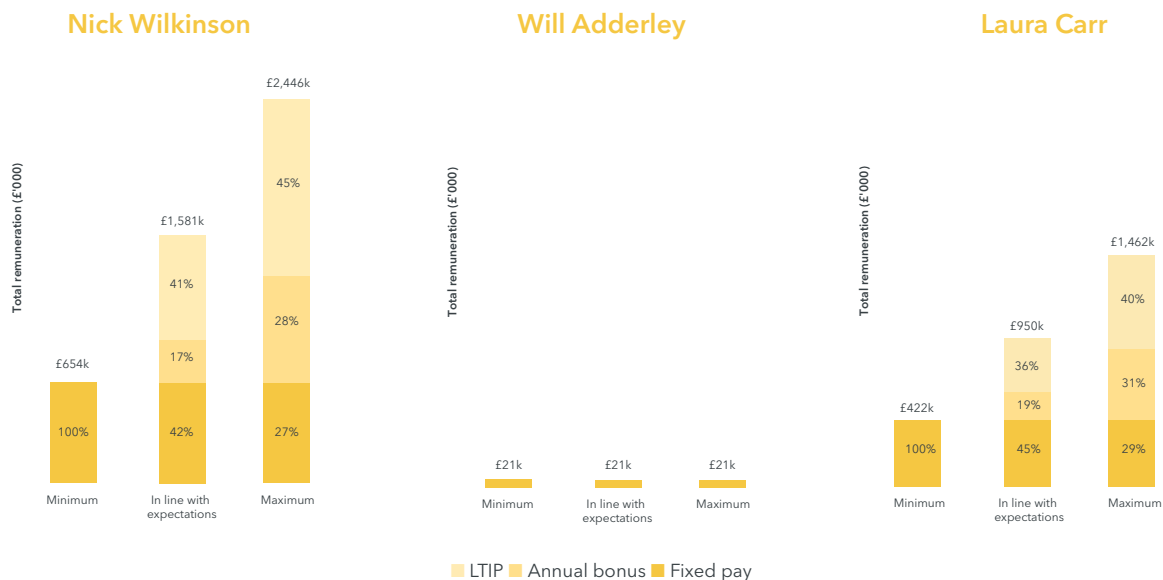
The number of shares comprised in an award or the performance target which applies may be adjusted by the Remuneration Committee in accordance with the plan rules if justified by the circumstances, for example, if there were a major capital transaction. Any amendment and the reason for it would be fully disclosed. A copy of the plan rules is available from the Company Secretary on request.

# Remuneration Report

continued

## Illustrative performance scenarios

The following graphs set out what Will Adderley, Nick Wilkinson and Laura Carr, the Executive Directors in office at the date of this report, could earn in the financial year 2019/20 under the following scenarios:



The following assumptions have been made in respect of the scenarios above:

**Minimum (performance below threshold)** – Fixed pay (comprising base salary, benefits and pension) only with no vesting under the annual cash bonus or LTIP (see table below).

	Base (last known salary) £'000	Benefits (as in single figure table) £'000	Pension (10% of last known salary) £'000
Will Adderley	–	21	–
Nick Wilkinson	551	48	55 <sup>1</sup>
Laura Carr	365	20	37 <sup>1</sup>

<sup>1</sup> 10% of salary reflecting pension provision for 2019/20.

**In line with expectations** – Fixed pay plus annual cash bonus at on-target performance of 40% of maximum opportunity (i.e. 50% of salary) and vesting of 59% of the award of shares under the LTIP.

**Maximum performance** – Fixed pay plus 100% of maximum annual bonus opportunity (i.e. 125% of salary) and 100% of shares vesting under the LTIP.

Please note that two-thirds of performance pay earned by Nick Wilkinson and Laura Carr (after payment of tax and National Insurance liability) must be invested in Dunelm shares pursuant to the 'Lifetime Lock-in'.

Will Adderley has requested that his annual salary be maintained at £1 per annum, and he has asked not to be considered for an LTIP award.

It should be noted that the illustrative performance number is likely to be different to the actual pay that is earned by Nick Wilkinson and Laura Carr during the year:

- Actual pay will reflect company and personal performance over the relevant performance period

- We are required to show the value of the LTIP awards that are expected to be made in the year, not those which will actually vest. This valuation is based on the expected face value at the date of grant without making any assumptions for share price growth, and assuming that the award vests in full at the end of the three-year performance period. The value of the LTIP award to be made is based on the grant to Nick Wilkinson of an award over shares to the value of 200% of salary, and to Laura Carr of an award over shares to the value of 160% of salary
- No adjustment is made for payment of special dividend equivalents as the level of these cannot be determined at the date of this report

## Recovery

There is provision for recovery of variable pay, as highlighted in the policy table.

For bonus and LTIP awards made prior to September 2018, at the discretion of the Remuneration Committee, recovery (malus) may be made against any unpaid cash bonus or unvested LTIP options in the following circumstances:

- Performance to which a bonus or LTIP award relates proves to have been misstated; or
- There has been a miscalculation in the extent to which performance conditions have been met in respect of previous awards made to the individual that have vested and been exercised; or
- There has been gross misconduct on the part of the individual.

Clawback may be operated at the discretion of the Remuneration Committee against all variable awards in the above circumstances, for up to three years from payment or vesting as appropriate; and in cases of fraud the Committee can apply malus and claw back for an unlimited period of time.

In respect of bonus and LTIP awards made from September 2018 onwards, the Remuneration Committee has discretion to apply malus and claw back as stated above in the following circumstances:

- A material misstatement of any Group company's financial results;
- A material error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or vests;
- A material failure of risk management in any Group company or a relevant business unit;
- Serious reputational damage to any Group company or a relevant business unit;
- Serious misconduct or material error on the part of the Participant;
- A material corporate failure as determined by the Board; or
- Any other circumstances which the Committee in its discretion considers to be similar in their nature or effect to those set out above.

Salary, pension, benefits and Sharesave options are not subject to recovery.

## Service contracts and loss of office payments

All of the Executive Directors have service contracts. The notice period for termination for Will Adderley is 12 months from either party, and for Nick Wilkinson and Laura Carr is six months from either party. If the Company terminates the employment of the Executive Director it would honour its contractual commitment. Any payment of salary on termination is contractually restricted to a maximum of the value of salary plus benefits for the notice period. If termination was with immediate effect, a payment in lieu of notice may be made. The Remuneration Committee may apply mitigation in respect of any termination payment.

The Remuneration Committee has discretion to make a payment in respect of annual bonus, provided that it is prorated to service.

The limited circumstances in which unexercised LTIP awards might be exercised following termination of an Executive Director's service contract are set out below. If the Remuneration Committee exercises its discretion to allow exercise of an unvested LTIP award, it may make a cash payment in lieu of the anticipated value of the award, calculated at the date of the payment (taking into account prorating of the award and the extent to which performance criteria may apply, as appropriate).

Non-Executive Directors have letters of appointment. The term is for an initial period of three years with a provision for termination on one month's notice from either party, or three months' notice from either party in the case of Andy Harrison, the Chairman. Letters are renewed for up to two additional three-year terms, and then renewed annually. The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM.

The Directors' service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office.

## Exercise of LTIP and Sharesave options following termination of employment

### LTIP

If a participant leaves the employment of the Group, the following provisions apply to options granted under the LTIP:

- Options that have vested but have not yet been exercised may be exercised within six months of cessation of employment (12 months in the case of death)
- Except in the case of dismissal for gross misconduct, options which have not yet vested, but where the performance period has elapsed, may be exercised within six months of the relevant vesting date (or 12 months in the case of death), to the extent that the performance condition has been met. The Remuneration Committee has discretion to allow earlier exercise but would only use this in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver
- If the participant leaves the Group before an option has vested and before the performance period has elapsed, the option will usually lapse. Except in the case of dismissal for gross misconduct, the Remuneration Committee has the discretion to allow the exercise of options for which the performance period has not elapsed at the date of cessation of employment, within six months of the relevant vesting date (or 12 months in the case of death). The Remuneration Committee also has discretion to allow earlier exercise. The Remuneration Committee would only use this discretion in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver
- If early exercise is permitted, the Remuneration Committee may apply an adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met

In all cases, unexercised LTIP awards would be subject to recovery (malus) in the relevant circumstances. In respect of LTIP awards made after 1 July 2014, clawback may also apply to vested awards.

### Sharesave

If a participant leaves the Group, options granted under the Sharesave will normally lapse, but may be exercised within six months from the cessation of employment due to injury, disability, retirement, or redundancy (or 12 months in the case of death), or the employing company leaving the Group or, provided that the option has been held for at least three years, cessation for any other reason (apart from dismissal by the Company).

# Remuneration Report

continued

## Change of control and other corporate events

### LTIP

The following provisions apply to awards made under the Long Term Incentive Plan in accordance with the Plan rules if there is a change of control or winding up of the Company:

- Any vested but unexercised options may be exercised
- Any options in respect of which the performance period has elapsed and to which the performance condition has been applied will vest and may be exercised
- Any options in respect of which the performance period has not elapsed may be exercised at the discretion of the Remuneration Committee, subject to any adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met
- The Executive Director may agree that his or her awards are 'rolled over' into shares of the acquiring company as an alternative

If the Company has been or will be affected by any demerger, dividend in specie, special dividend or other transaction which will adversely affect the current or future value of any awards under the LTIP, the Plan rules allow the Remuneration Committee, acting fairly and reasonably, to determine the extent to which any awards should vest and the period within which Options may be exercised.

A copy of the Plan rules is available from the Company Secretary on request.

### Sharesave

Sharesave options may be exercised within six months following a change of control or winding up of the Company, using savings in the participant's account at the date of exercise. The participant may agree that his or her awards are 'rolled over' into shares of the acquiring company as an alternative.

If the Company has been or will be affected by a capitalisation, rights issue, subdivision, reduction, consolidation, special dividend or other variation in respect of which HMRC will allow the variation of options, the Plan rules allow the Remuneration Committee, with the consent of HMRC, to vary the number and/or nominal value of shares covered by an option or the option price to be varied proportionately.

A copy of the Plan rules is available from the Company Secretary on request.

## Executive pay and the pay of other colleagues

The principles set out on the remuneration strategy on page 70 are applied consistently to pay throughout the Group.

Pay for all colleagues is set at a level that is fair for the role and responsibilities of the individual, and is designed to attract and retain high calibre talent that is needed to deliver the Group's strategy, without paying too much.

The remuneration of Executive Directors is more heavily weighted towards variable pay than other colleagues, so that a greater part of their pay is linked to successful delivery of strategy and aligned with shareholders. They are also required to retain two-thirds of post-tax performance pay in Dunelm shares to be held for the duration of employment and beyond, and are subject to higher personal shareholding targets.

The remuneration of colleagues below the Board reflects the seniority of the role, market practice and the ability of the individual to influence company performance.

All eligible colleagues are encouraged to participate in the Sharesave plan, which enables them to become shareholders at a discounted rate. Participation is usually offered annually at the maximum price discount permitted (currently 20%), at the discretion of the Remuneration Committee.

In setting the policy for the Executive Directors' remuneration, the Committee takes note of the overall approach to remuneration in the Group. In previous years, the Committee had formal oversight of the remuneration of Executive Board members. In anticipation of the implementation of the 2018 Corporate Governance Code:

- Since June 2018 the Committee has formally approved the remuneration of the Company Secretary and all members of the Executive Board
- Since November 2018, in at least one of her twice yearly Board updates, the People Director has provided information about workforce policies and practices
- Since November 2018, the Board has received a 'Colleague Dashboard' twice a year, which contains a number of colleague measures, including gender and age split, gender pay, reward, Sharesave participation, colleague engagement, voluntary turnover and internal promotion.

The base salary of Executive Directors may be increased annually in line with the company-wide award unless other circumstances apply, as set out in the policy table.

Details of how we engage with our colleagues on pay are set out in the Implementation Report below.

## Shareholder views

The Board is committed to ongoing engagement with shareholders in respect of all governance matters, including executive remuneration.

In addition to this, the Company holds a Corporate Governance Day, usually every two years, hosted by the Chairman, the Deputy Chairman and the other Non-Executive Directors, to which all major shareholders are invited. This enables both parties to discuss governance topics informally, including remuneration. In addition, the Chairman and Non-Executive Directors usually attend results presentations and a selection of shareholder meetings. The last Corporate Governance Day was in January 2018, and a copy of the presentation is on our website <https://corporate.dunelm.com>.

Formal feedback on shareholder views is given to the Board twice per annum by the Company's brokers and financial public relations advisers. The AGM reports issued by the Investment Association (IA), the Pension and Lifetime Savings Association, ISS and Pensions Investment Research Council (PIRC) are also considered by the Board.

Read about our sustainability on pages **33** to **45**



All Directors usually attend the Annual General Meeting, and the Chairman and the Chair of the Remuneration Committee may be contacted via the Company Secretary during the year.

If any significant change to policy were proposed, the Committee would consult with major shareholders in advance. Shareholders were consulted prior to putting forward both the 2015 policy and the 2017 policy for approval.

## Approach to recruitment remuneration

The Remuneration Committee will apply the principles set out below when agreeing a remuneration package for a new Director (whether an external candidate or an internal promotion). The package must be sufficient to attract and retain the high calibre talent necessary to develop and deliver the Company's strategy:

- No more should be paid than is necessary
- Notwithstanding the approved policy, which has a maximum pension entitlement of 15% of base salary, the maximum pension entitlement (or cash allowance) for an Executive Director appointed after June 2019 will be the management entitlement of other colleagues throughout the Company (currently 5% of base salary). For Executive Directors appointed from 1 January 2018 - which includes Nick Wilkinson and Laura Carr - the Committee had already decided to apply a maximum of 10% of base salary
- Remuneration should be in line with the policy approved by shareholders set out above; however, the Committee reserves the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual needs of the recruitment provided the Committee believes the relevant decisions are in the best interests of the Company

Circumstances in which the Committee might apply this discretion include:

- Where an interim appointment is made on a short term basis, including where the Chairman or another Non-Executive Director has to assume an executive position
- Where employment commences at a time in the year when it is inappropriate to provide a bonus or share incentive award as there is insufficient time to assess performance, the quantum for the subsequent year might be increased proportionately instead
- An executive is recruited from a business or location that offered benefits that the Committee considers it appropriate to 'buy out' but cannot do so under the specific terms of the Regulations, or which the Committee considers it appropriate to offer

Examples of remuneration decisions that the Committee may make are set out below:

- It may be appropriate to offer a lower salary initially, with a series of increases to reach the desired salary over a period of time, subject to performance
- A longer notice period of up to a maximum of 24 months might be offered, reducing by one month for every month served until the policy position is reached

- The Committee may also alter the performance criteria applicable to the initial annual bonus or LTIP award so that they are more applicable to the circumstances of the recruitment
- An internal candidate would be able to retain any outstanding variable pay awarded in respect of their previous role that pays out in accordance with its terms of grant
- Appropriate costs and support will be provided if the recruitment requires the relocation of the individual

The maximum level of variable pay that could be awarded to a new Executive Director in the first year of employment, excluding any buyout arrangements, would normally be in line with the policy table set out on pages 71 to 74. The Committee would explain the rationale for the remuneration package in the next Annual Report of the Company.

In addition, on hiring an external candidate the Committee may make arrangements to buy out remuneration that the individual has forfeited on leaving a previous employer. The Committee will generally seek to structure buyout awards and payments on a comparable basis to remuneration arrangements forfeited. These awards or payments are excluded from the maximum level of variable pay referred to in the policy tables; however, the Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements.

In order to implement the arrangements described, the Committee may rely on the exemption in Listing Rule 9.4.2, which allows for the grant of share or share option awards to facilitate, in unusual circumstances, the recruitment of a Director.

The Committee does not intend to use any discretion in this section to make a non-performance-related incentive payment (for example a 'golden hello').

On the appointment of a new Chairman the fee will be set taking into account the experience and calibre of the individual and pay for similar roles in companies of similar size and complexity in the market. All other Non-Executive Directors receive the same base and Committee chair fees, which are set at median or below. No share incentives or performance-related incentives would be offered.

Details of the remuneration offered to Laura Carr who was appointed in April 2018, and joined the Board on 29 November 2018, are set out in the Implementation Report.

# Remuneration Report

continued

## Implementation report

This section of the report sets out how the Directors' remuneration policy which was approved by shareholders on 21 November 2017 has been applied in the financial year being reported on.

### Committee membership and meetings

The following Directors served on the Remuneration Committee during the year:

**Table 1 - Committee membership**

Member	Period from:	To:
William Reeve (Chair)	1 July 2015	To date
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date
Peter Ruis	10 September 2015	To date
Rachel Osborne <sup>1</sup>	1 April 2018	28 August 2018

<sup>1</sup> Rachel Osborne stepped down from the Board and the Committee on 29 August 2018. Ian Bull and Paula Vennells were appointed to the Board and the Committee after the year end.

The Company Secretary acts as secretary to the Committee.

Three meetings were held in the year and members' attendance was as shown in the table below:

**Table 2 - Attendance at Committee meetings**

Member	Meetings attended:
William Reeve (Chair)	3/3
Liz Doherty	3/3
Andy Harrison	3/3
Peter Ruis	3/3
Rachel Osborne	1/1

No Director ever participates when his or her own remuneration is discussed.

### Advisers

The Committee uses Deloitte for general advice in relation to executive remuneration on an ad hoc basis. Deloitte is a member of the Remuneration Consultants' Group and as such voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice that they have received from Deloitte in the year has been objective and independent.

Total fees paid to Deloitte for remuneration-related work in the year were £5,800 (2018: £8,150).

Deloitte were also engaged to provide non-remuneration-related consultancy services and were paid £117,500 in the year (2018: nil).

The Chief Executive Officer attends Committee meetings by invitation to make recommendations as to the remuneration payable to below Board Executives. The People Director attends all meetings by invitation to advise on remuneration-related issues and provide details of the remuneration applied throughout the Group so that a consistent approach can be adopted.

## Single figure for total remuneration (audited information)

The following table sets out total remuneration for Directors for the period ended 29 June 2019:

**Table 3 - Directors' remuneration - single figure table-**

Director	Salary/fees <sup>6</sup> £'000		Benefits <sup>3</sup> £'000		Bonus <sup>4,7</sup> £'000		LTIP awards <sup>2</sup> £'000		Pension <sup>5</sup> £'000		Total £'000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Executive</b>												
Nick Wilkinson	541	221	108	28	662	37	-	-	54	22	1,365	308
Laura Carr <sup>1</sup>	216	-	312	-	270	-	-	-	22	-	820	-
Will Adderley	-	-	21	21	-	-	-	-	-	-	21	21
John Browett <sup>1,2</sup>	-	347	-	13	-	-	-	-	-	69	-	429
Keith Down <sup>1,2</sup>	-	327	-	20	-	-	-	172	-	49	-	568
<b>Non-Executive</b>												
Andy Harrison	212	208	-	-	-	-	-	-	-	-	212	208
Marion Sears	51	50	-	-	-	-	-	-	-	-	51	50
Liz Doherty <sup>1</sup>	68	64	-	-	-	-	-	-	-	-	68	64
William Reeve <sup>1</sup>	61	56	-	-	-	-	-	-	-	-	61	56
Peter Ruis	51	50	-	-	-	-	-	-	-	-	51	50
Rachel Osborne <sup>1</sup>	8	12	-	-	-	-	-	-	-	-	8	12
Simon Emeny <sup>1</sup>	-	26	-	-	-	-	-	-	-	-	-	26
<b>Total</b>	<b>1,208</b>	<b>1,361</b>	<b>441</b>	<b>82</b>	<b>932</b>	<b>37</b>	<b>-</b>	<b>172</b>	<b>76</b>	<b>140</b>	<b>2,657</b>	<b>1,792</b>

<sup>1</sup> John Browett stepped down from the Board on 29 August 2017, Simon Emeny retired on 21 November 2017, Keith Down stepped down from the Board on 24 May 2018. Nick Wilkinson was appointed on 1 February 2018. Laura Carr joined on 29 November 2018. Rachel Osborne joined the Board on 1 April 2018 and stepped down on 29 August 2018. Liz Doherty was appointed the Senior Independent Director and William Reeve was appointed Chair of the Remuneration Committee on 22 November 2017. Basic salary/fee, SID fees and Committee Chair fees for Simon Emeny, Rachel Osborne, Liz Doherty and William Reeve, and salary, pension and benefits for John Browett, Keith Down, Nick Wilkinson and Laura Carr are prorated over the relevant year. The total figure for John Browett includes £322,120 in respect of salary and benefits paid for his six-month notice period.

<sup>2</sup> As John Browett and Keith Down stepped down during 2018 neither of them qualified for bonus in respect of FY18 and all LTIP and Sharesave options have lapsed. The sum for 2018 LTIP paid to Keith Down relates to the second tranche of his Joining Award over 26,488 shares which was exercised on 19 September 2017. The closing mid market share price of Dunelm shares on vesting date (15 September 2017) was 650p.

<sup>3</sup> Benefits include the cost to the Company of a car allowance and private health insurance for the individual and their family. Nick Wilkinson is also entitled to an allowance of 5% of his annual salary towards the cost of travel from home to Leicester; and a relocation allowance of £50,000, partially in the form of Dunelm store credit, plus a contribution of £1,500 per month towards the cost of temporary accommodation for the first 12 months of employment. Laura Carr was entitled to a relocation allowance of £50,000 and also received a payment of £250,000 when she commenced employment, in partial compensation for remuneration foregone when she left her former employer to join Dunelm. Further details are set out below.

<sup>4</sup> Annual bonus is the amount earned in respect of performance in the relevant year. Details of how this, the FY19 bonus was calculated, are set out below.

<sup>5</sup> Pension was 20% of salary for John Browett, 15% of base salary for Keith Down, and is 10% of salary for Nick Wilkinson and Laura Carr. Will Adderley waived his entitlement to pension from 1 July 2015.

<sup>6</sup> From 1 July 2019, Nick Wilkinson's base salary was increased by 2%, in line with the company-wide award for monthly paid colleagues. Laura Carr was not eligible for an increase in base salary. Will Adderley's base salary is held at £1 per annum. The fee for the Chairman and the base fee for the other Non-Executive Directors, the SID fee and the Committee fees were also increased by 2%.

<sup>7</sup> Nick Wilkinson and Laura Carr were each awarded an annual performance-related cash bonus for FY19 with a maximum potential payment of 125% of salary. Laura Carr's bonus was prorated from the date of her appointment of 29 November 2018. The performance conditions which applied to the bonus were those set in September 2018. The performance condition was linked to PBT versus budget (80%), and performance against personal and strategic objectives (20%). Although not exercised this year, the Committee has the ability to apply judgement to increase or decrease the amount payable by application of the formula, although no more than the maximum potential opportunity would be paid. Will Adderley has asked that he not be considered for a bonus award.

# Remuneration Report

continued

## Annual bonus

Each of Nick Wilkinson and Laura Carr were entitled to receive an annual bonus of up to 125% of base salary during the year, subject to satisfaction of the performance targets set out below. Laura's bonus was prorated from the commencement of her employment on 29 November 2018. Will Adderley asked not to be considered for annual bonus.

## Financial target – 80% of bonus opportunity

For the period ended 29 June 2019, budget PBT was £114.0m. The financial target set was such that no bonus would be paid until PBT reached £108.3m and maximum bonus would be paid at £122.6m. Between those numbers, bonus would be payable calculated on a straight-line basis. Market consensus for 2018/19 PBT at the date the target was set in early September 2018 was £112.4m.

PBT for 2018/19 was £125.9m. There was full payment in respect of this PBT element of the bonus of £540,600 for Nick Wilkinson (2018: nil) and £215,682 for Laura Carr (2018: nil), Laura Carr's bonus being prorated from the date of joining the Group on 29 November 2018.

## Strategic and personal objectives – 20% of bonus opportunity

Assessment was made by reference to personal performance of both Nick Wilkinson and Laura Carr.

In the case of Nick, assessment was also made of progress against the strategic objectives set out below, and a number of specific quantifiable measures. The assessment was made by reference to performance across the objectives as a whole, with no specific weighting. Performance against these objectives was assessed as follows:

Objective	Performance
Grow Dunelm's active customer base by 1 million by the end of FY23	Performance significantly exceeded expectations – active customer base grew by 8.5% (+7.3% stores and 28.4% online) in the year, which is over half way to the original five-year target. We have now increased the FY23 target to 2 million.
Increase shopping frequency by 1x per annum by the end of FY23	Frequency improved in the year, on track to meet the target by FY23, with some specific initiatives planned for FY20.
Open four new stores (two relocations) and eight refits, hitting financial targets	One new store opening delayed by the landlord – we anticipate that this store will now open in FY20. Cost efficiencies delivered on the planned refits to reduce capital spend and improve cash position over the year. Overall financial targets were achieved.
Complete online integration project (including Click and Collect) on time	Full roll-out delayed to Autumn 2019, to ensure the quality of the solution being delivered and that the business was ready to implement a smooth transition. Performance of the existing site over the year has been strong, and further mitigating steps were taken to ensure that the delay has not adversely impacted budgeted financial performance.
Improve customer engagement score	Achieved – increased customer satisfaction across all of our channels, with particular progress on deliveries by our own two-man home delivery fleet.
Improve colleague engagement score	Achieved – our colleague NPS improved by 14%, on top of a 30% increase over the previous year. We have also made good progress on a number of our other internal colleague measures, as well as being recognised by Glassdoor as being in the "top 50 best companies to work for in the UK".
Hit full year budgeted free cash flow figure (£105m)	Significantly exceeded target – free cash flow was £154.4m at year end. This represents a year-on-year improvement of £101.5m, or 192%.
Hit full year budgeted central cost figures	Target exceeded – central wages cost 3.5% of sales versus target of 3.7% and other costs 0.9% of sales, below target of 1.3%.

Note that the figures for customer numbers, frequency, colleague and customer engagement have been withheld as they are commercially sensitive, and the Committee considers that disclosure would be harmful to the Company.

The Committee carefully considered the above performance. It was noted that there has been significant overachievement of the key colleague and customer measures which are important to the delivery of the Company's strategy over the long term, whilst cost and cash control measures have been strictly maintained. The lead indicators for strategic development, being new active customers and customer engagement, were above expectation. At the same time an improvement in the colleague engagement score was achieved. These results provide a strong basis for sustainable strategic development and shareholder value creation. However, notwithstanding our strong strategic and financial performance, a delay to the online integration programme meant that the Committee was unable to award Nick the maximum bonus. Taking all of the above into account, it was determined that performance had greatly exceeded expectations, and therefore 90% (2018: 67%) of this element of his bonus had been earned, giving rise to a payment of £121,635 to Nick Wilkinson (2018: £36,879).



As Laura Carr joined part way through the year, this element of the bonus was assessed by reference to overall performance, and a specific set of personal objectives as set out below:

Objective	Performance
Build key external relationships	Strong relationships built with brokers, financial PR advisers and key shareholders. Good working relationship with auditors. Good feedback received from all advisers.
Effective delivery of interim results presentation and quarterly trading updates	Interim results and updates well received. Analysts and shareholder feedback conducted by brokers and financial PR advisers commented positively on the quality of the management presentation.
Embed monthly financial reviews	Monthly financial review process now firmly embedded, with increased accountability by Executive Board members for financial performance in their functional areas. Greater focus on stock and working capital management has delivered strong improvements in the year. Productivity working group re-invigorated for the new financial year.
Effective delivery of the FY20 budget and financial plan	The budget and financial planning process has been conducted well, and reporting has been clear. Laura has recruited an experienced Finance Director and has restructured her team to focus on the needs of the business going forward.

The Committee considered Laura's performance across these measures as a whole, as well as the quality of her contribution at Board and Audit and Risk Committee meetings. Further, she has built strong internal relationships and put in place plans to strengthen the quality and performance of the Finance team. In a part-year, and without continuity from her predecessor, taking all of the above into account, it was determined that Laura has had a strong start and her performance has significantly exceeded the Board's expectations and therefore 100% (2018: N/A) of this element of her bonus had been earned, giving rise to a payment of £53,920 to Laura Carr (prorated from the date of joining the Group on 29 November 2018 (2018: N/A)).

The Committee considered whether these bonus outturns were fair, reasonable and appropriate in the context of Dunelm's overall performance, stakeholder engagement and shareholder return over the year. It concluded that it would not exercise discretion to amend the bonus awards to Nick Wilkinson and Laura Carr for any reason.

Total bonus earned is set out in the table below:

**Table 4 - Annual bonus earned in respect of 2018/19 performance**

	Bonus awarded £	Percentage of maximum award
Nick Wilkinson	£662,235	97.9%
Laura Carr	£269,602	100%
Will Adderley (waived entitlement)	–	N/A

### LTIP - awards earned in respect of performance in 2017-19

No awards under the LTIP are due to vest to Nick Wilkinson or Laura Carr in respect of 2017-19 performance and Will Adderley waived his entitlement to receive an LTIP award in 2016.

Over the three-year performance period which ended on 29 June 2019, reported diluted EPS declined at a compound annual rate of -0.3%. This is 3.5% below the compound annual growth in RPI over the same period. Accordingly, all LTIP awards due to vest in 2019 to colleagues below the Board will lapse as the financial performance criteria have not been met.

**Table 5 - LTIP awards earned in respect of performance in 2017-19**

	Shares vesting	Percentage of maximum award
None awarded to current Executive Directors	0	0%

# Remuneration Report

continued

## LTIP awards made to Directors during 2018/19

LTIP awards were made on 17 October 2018 to Nick Wilkinson, and on 30 November 2018 to Laura Carr as set out below:

Table 6 - LTIP awards made to Directors during 2018/19

Name	Award	Number of shares	Face value at date of award	Performance condition	Performance period	Vesting date	% vesting at threshold performance
Nick Wilkinson	Nil cost option under LTIP	180,802	£1,081,196 <sup>1</sup>	<p>Growth in diluted EPS over the three-year performance period compared with growth in the index of retail prices (RPI) over the same period.</p> <p>No part of the award will vest until compound annual EPS growth exceeds RPI growth by 3%.</p> <p>10% of the award vests when compound annual growth in EPS exceeds RPI growth by 3%.</p> <p>100% of the award vests when compound annual growth in EPS exceeds RPI by 12%. Between those figures the award will vest on a straight-line basis.</p> <p>Two-thirds of shares vesting (after payment of tax and National Insurance) must be held for the duration of employment, and 50% of these retained for two years following termination of employment.</p>	July 2018 to June 2021	17 October 2021	10%
Laura Carr	Nil cost option under LTIP	105,893	£584,000 <sup>2</sup>	As for Nick Wilkinson	July 2018 to June 2021	30 November 2021	10%

<sup>1</sup> Based on the closing share price on 16 October 2018 of 598.0p per share.

<sup>2</sup> Based on the closing share price on 29 November 2018 of 551.5p per share.

## Joining arrangements

Last year we stated that, although Laura Carr was offered a remuneration package that is in line with that of her predecessor, except that her pension entitlement (10% of base salary) is lower than that of the previous CFO (15%), in order to secure her services we needed to agree certain joining arrangements. At the time of issue of the Annual Report these had not been finalised.

Laura was financially disadvantaged by leaving her previous role after a relatively short tenure to join Dunelm. We also asked her to relocate her family to Leicestershire. We therefore agreed that we would partially compensate her for costs incurred and remuneration foregone.

The joining compensation comprised relocation expenses of £50,000; and a cash payment of £250,000 when she joined the Company. Laura was required to vest the net amount of the cash payment (after deduction of tax and National Insurance) in Dunelm shares. She purchased 25,000 shares at 552.5p per share on 30 November 2018. These shares are subject to the 'Lifetime Lock-in' described in the remuneration policy, which requires her to hold the shares for the duration of her employment, and at least 50% must be held for at least two years after she leaves the Company.

The payment of £250,000 was to compensate her for loss of cash bonus, the value of deferred shares otherwise due to vest unconditionally in November 2018, and a portion of in-flight LTIP awards forfeited, taking into account the time that had elapsed through the performance period and extent to which the conditions were likely to be met. The Committee determined that the cash compensation of £250,000 awarded was at least on a 'like-for-like' basis to remuneration foregone, both in terms of quantum (as outlined above) and timing: cash and shares vesting in 2018 from her previous employer which could have been sold immediately, as well as the expected value of shares due to vest in 2019/20 that could also have been sold on vesting, have been exchanged for cash that was required to be invested in Dunelm shares to be held at least for the duration of employment, and 50% for a further two years. It is also fully in line with our remuneration policy. The compensation was carefully considered after taking advice from Deloitte and looking at Laura's remuneration package as a whole, and taking into account the need to secure a permanent candidate of her calibre.

The maximum amount of Laura's joining compensation is less than that put in place for her predecessor, Keith Down, in 2015. If Laura voluntarily leaves the business or is lawfully dismissed within two years of commencing her employment with the Company, she will be liable to repay this joining compensation.

## Payments to past Directors and for loss of office (audited)

### David Stead

David Stead retired from the Board on 31 December 2015. David received his salary, benefits and pension allowance as usual until his leaving date of 31 December 2015, at the rate set out in the Annual Report for 2014/15.

At 31 December 2015, David had three outstanding awards under the LTIP:

**Table 7 - David Stead's LTIP awards at his retirement date (31 December 2015):**

Award date	Performance period	Normal vesting date	No. of shares	No. of shares prorated to 31 December 2015	No. of shares to vest after applying performance condition
7 October 2013	FY14-FY16	7 October 2018*	49,216	40,976	18,029
9 October 2014	FY15-FY17	9 October 2019*	53,922	27,035	Nil
15 October 2015	FY16-FY18	15 October 2020*	44,592	7,350	Nil

\* Includes two-year holding period following the end of the three-year performance period.

The Remuneration Committee determined that as a 'good leaver' with 12 years' service during a time of substantial growth in shareholder value, David may exercise the above awards, subject to time prorating, and after applying the applicable performance criteria over the full performance period. The maximum possible vesting, if performance conditions were fully met, is set out in the table above (column headed 'No. of shares prorated to 31 December 2015'). The awards may be exercised within six months of the normal vesting date specified above.

The above arrangements are fully in line with the remuneration policy approved at the AGM in November 2015. The LTIP award made to David Stead in October 2015 was disclosed in the 2015 and 2016 remuneration reports which were approved by shareholders. The Remuneration Committee's decision reflects the service provided by David over the financial years covered by the applicable performance periods and has been prorated according to that service over those periods.

No further payments have been or are being made to David Stead in respect of loss of office or the termination of his employment.

David Stead exercised the nil cost LTIP options granted on 7 October 2013 over 18,029 shares on 12 October 2018. The closing share price on that date was 578.5p per share.

Having retired on 31 December 2015, on 16 April 2018, at the request of the Board, David Stead entered into a new short term service contract with the Company to provide interim support on a part-time basis pending Laura Carr joining the Company as CFO in November 2018. Since Laura joined the Group he has continued to provide consultancy services on approximately one day per month. David was not appointed as a Director of Dunelm Group plc or any other Group company. Details of payments made to David in the year can be found in note 26 to the financial statements.

# Remuneration Report

continued

## Statement of Directors' share interests

Executive Directors are subject to a shareholding target which requires them to build a beneficial holding of Dunelm shares with a value of 1× salary after three years and 2× salary after five years (measured by reference to share price at the financial year end). In addition, they are required to make a personal investment in Dunelm shares on appointment (subject to Company closed periods); and to invest two-thirds of any annual bonus paid and LTIP awards earned (after payment of tax and National Insurance liability on exercise) in Dunelm shares.

Will Adderley complies with this requirement at the financial year end.

Nick Wilkinson was appointed on 1 February 2018 and Laura Carr was appointed on 29 November 2018. At the date of this report, they have beneficial shareholdings equal to 193.4% and 90.7% of salary respectively (based on closing share price at the year end - please see below for detail).

Table 8 and Table 9 show the interests of the Directors in shares of the Company at 29 June 2019.

**Table 8 - Directors' beneficial shareholdings (audited)**

	At 29 June 2019 1p Ordinary Shares	At 30 June 2018 1p Ordinary Shares	Percentage of salary (where applicable)*	Shareholding target (where applicable)
Will Adderley	90,231,779	54,161,779		
Andy Harrison	416,480	416,480		
Marion Sears	105,000	105,000		
Nick Wilkinson	87,731	38,855	149%	1× salary by February 2021 2× salary by February 2023
Laura Carr	25,000	–	63%	1× salary by November 2021 2× salary by November 2023
William Reeve	12,500	12,500		
Liz Doherty	2,500	2,500		
Peter Ruis	–	–		

\* Based on the closing share price of 920p at 28 June 2019 and base salary at 1 July 2019.

Between the financial year end and the date of this report Directors have purchased shares as follows:

Director	Date of purchase	No. purchased	Total beneficial holding following purchase	Percentage of salary (where applicable)*
Ian Bull (appointed 10 July 2019)	11 July 2019	4,000	4,000	N/A
Nick Wilkinson	17 July 2019	26,021	113,752	193.4%
Laura Carr	17 July 2019	11,000	36,000	90.7%

\* Based on the closing share price of 920p at 28 June 2019 and base salary as at 1 July 2019.

**Table 9 - Directors' interests in options at the period end (audited)**

Director	Date of award	Nature of award	Share options at 29 June 2019	End of performance period	Option price	Market price of shares at date of award
Will Adderley	–	–	Nil	–	–	–
Nick Wilkinson	February 2018	2018–20 LTIP	110,000	June 2020	Nil	584.0p
	October 2018	2019–21 LTIP	180,802	June 2021	Nil	598.0p
		2019–21 Sharesave	3,757	December 2021	479.0p	598.0p
Laura Carr	November 2018	2019–21 LTIP	105,893	June 2021	Nil	551.5p

The LTIP awards above granted to Nick Wilkinson and Laura Carr are subject to the performance conditions noted in the policy table in the remuneration policy above.



## Share options and dilution

The Remuneration Committee considers the provisions of the Investment Association's Guidelines on Executive Remuneration when determining the number of shares over which share scheme incentive awards may be made. At the date of this report, over the last 10-year period options have been granted over 2.8% of the Company's issued share capital (adjusted for share issuance and cancellation). The Group does not hold any shares in an employee benefit trust.

## Service contracts

In accordance with the Group's policy, the service contracts of the Executive Directors have no fixed term, the notice period for termination is 12 months from either party for Will Adderley, and six months for Nick Wilkinson and Laura Carr. Service contracts for the Executives include a non-compete arrangement. Payments on termination are restricted to a maximum of the value of base salary and benefits for the notice period. The Remuneration Committee may apply mitigation in respect of any termination payment.

The Non-Executive Directors have letters of appointment for an initial period of three years with a provision for termination of one month's notice from either party, or three months' notice from either party in the case of Andy Harrison, the Chairman.

**Table 10 - Directors' service contracts**

	Start date under contract	Unexpired term	Notice period
Will Adderley	28 September 2006	N/A	12 months
Nick Wilkinson	1 February 2018	N/A	6 months
Laura Carr	29 November 2018	N/A	6 months
Marion Sears	22 July 2004	10 months	1 month
Liz Doherty	1 May 2013	31 months	1 month
Andy Harrison	1 September 2014	12 months	3 months
William Reeve	1 July 2015	21 months	1 month
Peter Ruis	10 September 2015	24 months	1 month
Ian Bull	10 July 2019	35 months	1 month
Paula Vennells	4 September 2019	36 months	1 month

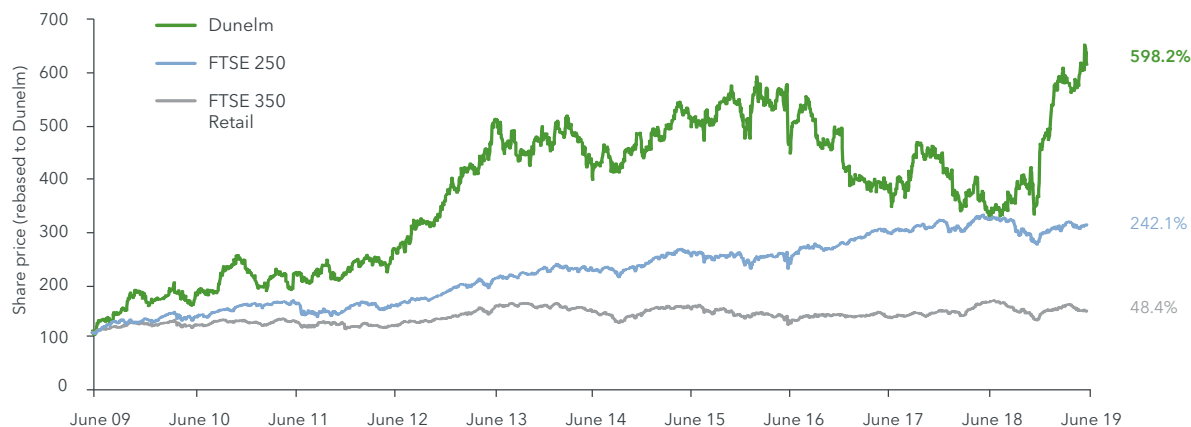
Since Marion Sears has now served 15 years on the Board (13 of which are post flotation of the Company in 2006), her contract is renewed for one-year terms (rather than three), with the notice period referred to above.

## Relative TSR performance

The graph below shows the Group's performance over ten years, measured by total shareholder return, compared with the FTSE 350 General Retail Index and the FTSE 250. The Remuneration Committee has chosen these indices for comparison because they provide a range of comparator companies which have similar market capitalisation, which are in the same sector and which face similar market and economic challenges in the long term.

**Table 11 - Total shareholder return performance graph (rebased to 2 July 2009 = 100)**

The shares traded in the range of 468.5p to 981.0p during the year and stood at 920.0p at 29 June 2019



# Remuneration Report

continued

**Table 12 - Historic Chief Executive Officer pay**

The table below sets out the prescribed remuneration data for each of the individuals undertaking the role of Chief Executive Officer during each of the last ten financial years:

		CEO Single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
FY18/19	Nick Wilkinson	1,365	97.9%	N/A
FY17/18	Nick Wilkinson <sup>5</sup>	308	13.3%	N/A
FY17/18	John Browett <sup>5</sup>	429	N/A	N/A
FY16/17	John Browett	722	14.0%	N/A
FY15/16	John Browett <sup>1</sup>	489	57.7%	N/A
FY15/16	Will Adderley <sup>1</sup>	10	N/A	N/A
FY14/15	Will Adderley <sup>2</sup>	507	5%	N/A
FY14/15	Nick Wharton <sup>2</sup>	110	N/A	N/A
FY13/14	Nick Wharton <sup>3</sup>	1,509	22.5%	77.5%
FY12/13	Nick Wharton	1,292	97.0%	86.7%
FY11/12	Nick Wharton	853	100.0%	N/A
FY10/11	Nick Wharton <sup>4</sup>	429	6.0%	N/A
FY10/11	Will Adderley <sup>4</sup>	1,413	4.0%	100.0%
FY09/10	Will Adderley	1,366	100.0%	100.0%

<sup>1</sup> Will Adderley was succeeded by John Browett as Chief Executive Officer on 1 January 2016. The data for each Director for 2015/16 is prorated by time of service as Chief Executive Officer. Will Adderley's base salary was reduced to £1 on 1 July 2015.

<sup>2</sup> Will Adderley was reappointed Chief Executive Officer on 11 September 2014, following the resignation of Nick Wharton on 10 September 2014. The data for each Director for 2014/15 is prorated by time of service as Chief Executive Officer.

<sup>3</sup> Nick Wharton's first LTIP award vested and was exercised in December 2013. No LTIP awards have vested to John Browett since his appointment.

<sup>4</sup> Will Adderley was Chief Executive Officer until he was succeeded by Nick Wharton on 1 February 2011. The data for each Director for 2010/11 is prorated by time of service as Chief Executive Officer.

<sup>5</sup> John Browett left the Group on 29 August 2017. He was succeeded by Nick Wilkinson on 1 February 2018. The total figure for John Browett includes £322,120 in respect of salary and benefits paid for his six-month notice period. The data for each Director for 2017/18 is prorated by time of service as Chief Executive Officer.

The table below sets out the increase in total remuneration of the Chief Executive and that of our other colleagues:

**Table 13 - Relative change in Chief Executive Officer pay**

	Change in base salary 2018 to 2019	Change in benefits 2018 to 2019	Bonus earned as % of salary 2019	Bonus earned as % of salary 2018	% change in bonus earned 2018 to 2019	% change in bonus earned 2017 to 2018
Chief Executive Officer <sup>2</sup>	(4.8%)	163.4%	122.4%	6.5%	1,689.2%	(58.6%)
All colleagues (per capita)	3.6%	22.9%	18.7%	6.0% <sup>1</sup>	318.6%	101.9%

<sup>1</sup> Bonus percentage has been calculated in relation to only those employees receiving a bonus in the period as this is considered a more appropriate comparator group.

<sup>2</sup> John Browett left the Group on 29 August 2017. Nick Wilkinson was appointed on 1 February 2018. 2018 Chief Executive Officer figures used in the above calculation include both John Browett and Nick Wilkinson and are as per the Single Figure Table in the 2018 Annual Report. These therefore include £322,120 in respect of John Browett's salary and benefits paid for his six-month notice period. The large increase in bonus earned by the Chief Executive Officer year-on-year is due to the 2018 bonus figures being prorated for Nick Wilkinson's length of service. 2019 Chief Executive Office salary includes one-off benefits for Nick Wilkinson.

### Table 14 - Relative spend on pay

The table below shows the all employee pay cost and returns to shareholders by way of dividends (including special dividends) and share buyback for 2018/19 and 2017/18:

	2018/19 £'m	2017/18 £'m	% increase
Total spend on pay	143.0	139.8	2.3%
Ordinary dividend to shareholders	54.6	53.4	2.2%
Distributions to shareholders via treasury share purchases	–	–	N/A
Special distributions to shareholders	–	–	N/A
Total distributions to shareholders	54.6	53.4	

This information is based on the following:

- Total spend on pay - total employee costs excluding car allowances and bonuses from note 6 on page 122
- Dividends taken from note 9 on page 124

### Executive Director external Board appointments

Executive Directors are permitted to hold one external appointment as a Non-Executive Director or similar advisory or consultative role, subject to the Board being satisfied that there is no conflict of interest and that the position will not impact negatively on the Executive's commitment to their Dunelm role. The Board may allow the Executive to retain any remuneration received in respect of the appointment.

Will Adderley and Laura Carr do not hold any external plc board appointments. Will Adderley is a Director of WA Capital Limited.

Nick Wilkinson was a trustee of Age UK during the period, but retired from this position in May 2019. This role is unremunerated.

### Senior Executive remuneration

The Remuneration Committee approved the remuneration of the Company Secretary and Executive Board members. The package for new appointments is formally presented to the Committee for approval. In conducting its assessment of Executive Board remuneration, the Committee pays particular regard to whether any individual is incentivised to take risks inappropriate to their role and responsibilities.

Members of the Executive Board and senior management team are eligible for awards under the LTIP.

All members of senior management who receive share awards are also subject to shareholding targets, in order to improve their alignment with shareholders, as follows:

Executive Board and certain other senior Executives	1× base salary to be acquired over time
Other Executives	0.5× base salary to be acquired over time

# Remuneration Report

continued

## Gender pay disclosures

At the end of March, Dunelm published its second gender pay report. We are committed to paying men and women equally for roles of the same size and scale. We are proud that 67% of our colleagues are female. However, in common with many other retailers, 75% of our colleagues are employed in our retail operations, and these roles tend to be lower paid. As a result, we have a gap in the pay between genders (our mean gap is 19.4% and our median gap is 8.1%), very much in line with our peers in the UK retail sector.

This year the gap widened slightly, in part as we recruited several new highly paid roles into our Technology team. Technology is historically a male-dominated function, with only 15% of Technology roles in the UK filled by women - our Technology team is currently 20% female. However we have seen progress in our balance of males and females in the workforce and a shift towards female representation on our senior leadership team: 30% of our senior leadership roles are held by women, and four of our ten Board members, and five of our eight Executive Board members are female.

We don't believe short term fixes will fundamentally address the gender pay gap – our plans are focused on taking long term, sustainable actions. This year these included continuing our Empowering Female Leaders programme, holding a 'Women in Tech' event, and introducing the ability for colleagues of both sexes to take unpaid leave in addition to their holiday entitlement so that they can manage family commitments alongside work.

## Engaging with our colleagues on pay

In a new process introduced in the financial year, Marion Sears, the Non-Executive Director who has been designated to consider colleague views, attended two National Voice Forum meetings, and at one of these gave a presentation about remuneration. Our approach to remuneration throughout the Group, and the key elements of our remuneration policy specifically for Executive Directors, were discussed, and colleagues were invited to comment or ask questions. No concerns were expressed, and there was a general discussion about how to make potential bonus pay more understandable and motivating. Colleagues were also reminded that they may raise any questions or make comments about executive pay via the People Director, directly with Marion, or anonymously through our engagement survey.

## Statement of implementation of policy in the 2019/20 financial year

Base salary and benefits for each of the Executive Directors for 2019/20 are set out in the table below:

Table 15 - Base salary, benefits and pension for 2019/20

	Base salary	Increase to base salary year-on-year	Benefits	Increase to benefits year-on-year	Pension	Increase to pension year-on-year
Nick Wilkinson	£551,412	2%	Car allowance; travel allowance of 5% of salary; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount; relocation expenses	N/A	£55,141	2%
Laura Carr	£365,000	N/A	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount; relocation expenses	N/A	£36,500	N/A
Will Adderley	£1	Nil	As for Laura Carr above	Nil	Nil	N/A

Basic salary increase for Nick Wilkinson is in line with the company-wide award for monthly paid colleagues of 2%. Laura Carr was not eligible for an increase in base salary in 2019.

Will Adderley has asked that he not be considered for a pay increase.



## Annual bonus

Nick Wilkinson and Laura Carr have each been awarded a bonus opportunity of up to 125% of base salary. The performance conditions attached to the bonus are:

- 80% linked to achievement of budget PBT;
- 20% linked to achievement of strategic and personal targets, aligned to the Group strategy.

The budget PBT is set taking into account market consensus and broker expectations. The actual financial and strategic targets have not been disclosed at this time as they are commercially sensitive. The targets and an assessment of the extent to which they have been achieved will be disclosed in next year's Remuneration Report.

Nick Wilkinson and Laura Carr have committed that two-thirds of the bonus earned (after payment of income tax and National Insurance) will be invested in Dunelm shares, to be held for the duration of employment, with 50% of these shares to be retained for two years following cessation of employment.

Will Adderley has asked that he not be considered for a bonus award.

## LTIP

In line with our policy, an award is expected to be made to Nick Wilkinson and Laura Carr in October 2019 under the Long Term Incentive Plan over shares to the value of 200% and 160% of salary respectively.

The award will vest, subject to continued employment, on the third anniversary of the grant date, to the extent that performance conditions have been met. Two-thirds of vested shares (after sale to cover tax and National Insurance liability on exercise) must be retained for the duration of employment, and 50% of these must be retained for two years following cessation of employment.

Will Adderley has asked that he not be considered for an LTIP award.

## Sharesave

An invitation will be issued in October 2019 to all eligible employees, to apply for options to be granted under the Sharesave scheme at a 20% discount to the closing market price of Dunelm Group shares on the dealing day preceding the issue of the invitation. The maximum monthly savings will be £500 per month. Executive Directors employed at the eligibility date may apply for Sharesave options, subject to the plan rules.

## Non-Executive Director fees for 2019/20

Fees to be paid to Non-Executive Directors are as set out in the table below:

**Table 16 - Non-Executive Director Fees**

	Position	Base fee	Committee/ SID fee	Increase in base fee year-on-year	Increase in Committee fee year- on-year	Comment
Andy Harrison	Chairman	£216,487	Nil	2%	N/A	
Liz Doherty	Audit and Risk Committee Chair	£51,957	£10,404	2%	2%	
	Senior Independent Director		£6,496	2%	2%	
William Reeve	Non-Executive Director	£51,957	£10,404	2%	N/A	
Peter Ruis	Non-Executive Director	£51,957	Nil	2%	N/A	
Marion Sears	Non-Executive Director	£51,957	Nil	2%	N/A	
Ian Bull	Non-Executive Director	£51,957	Nil	N/A	N/A	Appointed on 10 July 2019
Paula Vennells	Non-Executive Director	£51,957	Nil	N/A	N/A	Appointed on 4 September 2019

Fees above are for the full year and reflect Board responsibilities at the date of this report.

Base fee, Senior Independent Director (SID) fee and Committee Chair fee increases with effect from 1 July 2019 were in line with the company-wide increase of 2%.

# Remuneration Report

continued

## Statement of shareholder voting

At the Annual General Meeting on 29 November 2018, the total number of shares in issue with voting rights (excluding treasury shares) was 201,937,325. Details of voting on remuneration-related resolutions are set out below:

**Table 17 - Voting on remuneration-related resolutions at the 2018 AGM**

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve Annual Remuneration Report	180,952,492	99.47%	958,872	0.53%	697,013	0.38%

In summary, we believe our remuneration policy and practices are in good shape, steadily improving, and playing their part in strengthening the Company over the long term.

Approved by the Board on 4 September 2019.

## William Reeve

Chair of the Remuneration Committee

4 September 2019

# Letter from the Chair of the Nominations Committee



## Dear Shareholder

### Board Succession

We have a proactive board succession philosophy, to ensure that the composition of our Board enables us to deliver our ambition of being the leading multichannel retailer in homewares. We are a small and collegiate Board, and take care to ensure that all new members of our Board are a complementary fit in terms of experience, skills and culture.

Last year, the focus of the Committee was on the recruitment of our new Executive Team. This year, we have been refreshing our Non-Executive Team.

We were delighted that Ian Bull joined the Board in July, and to welcome Paula Vennells to the Board today. I have referred to their background and experience in my Board Chairman's letter and later in this report. I am confident that they will both make a strong contribution to our Board Team. Ian will succeed Liz Doherty as Chair of the Audit and Risk Committee when she retires from the Board at the AGM in November.

### Culture and diversity

The Committee has continued to monitor external developments, including the increasing emphasis on diversity and culture which is set out in the 2018 Corporate Governance Code and supporting guidance. Preservation of our deep-rooted culture has always been a priority, which stems from the values instilled by the Adderley family who founded the business. We are actively monitoring the culture of the business, and more detail is in this report.

Diversity of thought is essential to both good quality decision-making and innovative thinking. Even more so in our increasingly international business world and multicultural communities. Four members of our Board are female, and a majority of our Executive Board members are women. Of course, diversity goes wider than gender, and this year we have reviewed how we might increase diversity at the Board and below. Details are in this report.

### Board effectiveness

In 2016 and 2017 we had an externally facilitated Board review. As in 2018, this year we conducted an internal review based on a number of questions aimed at improving the Board's effectiveness. We concluded that we are a broadly effective team of Executives and Non-Executives working well together. There is always room for improvement and we agreed a number of actions, details of which are set out in the Corporate Governance Report. We will hold an external review in 2020.

I look forward to meeting shareholders at the AGM.

Yours faithfully,

### Andy Harrison

Chair of the Nominations Committee

4 September 2019

# Nominations Committee Report

## Summary of principal activities

- Appointment of Ian Bull as an Independent Non-Executive Director, to succeed Liz Doherty as Chair of the Audit and Risk Committee in November
- Appointment of Paula Vennells as Independent Non-Executive Director
- Laura Carr joined the Board as Chief Financial Officer in November 2018
- Review of the Group's approach to diversity
- Board now 40% female (45% including the Company Secretary)

This report provides details of the role of the Nominations Committee and the work it has undertaken during the year.

## Principal duties

The purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process against objective criteria, and with due regard for the benefits of diversity of the Board, when new appointments to the Board are made. The full terms of reference for the Committee can be found on the Company's website, <https://corporate.dunelm.com>.

While all Board appointment processes and succession discussions are led by the Nominations Committee, these are viewed as important whole-Board topics and no appointment has been or will be made to the Board without agreement of all Directors.

## Committee membership

The following Directors served on the Committee during the year:

Member	Period from:	To:
Andy Harrison (Chair)	1 September 2014	To date
Will Adderley	17 February 2011	To date
Liz Doherty	1 May 2013	To date
William Reeve	1 July 2015	To date
Peter Ruis	10 September 2015	To date
Marion Sears	18 January 2005	To date
Rachel Osborne <sup>1</sup>	1 April 2018	28 August 2018

<sup>1</sup> Rachel Osborne stepped down from the Board and the Committee on 29 August 2018. Ian Bull and Paula Vennells were appointed to the Board and the Committee after the year end.

There was one Committee meeting in the year and members' attendance was as shown in the table below. The Company Secretary acts as secretary to the Committee.

No Director attended that part of a meeting during which his or her own position was discussed.

Member	Meetings attended:
Andy Harrison (Chair)	1/1
Will Adderley	1/1
Liz Doherty	1/1
William Reeve	1/1
Peter Ruis	1/1
Rachel Osborne	0/0
Marion Sears	1/1

## Committee activities in 2018/19

### Board changes in 2018/19

During the year, the Committee has led the search for two new Non-Executive Directors. The first was to replace Rachel Osborne, who stepped down from the Board to take up a position as the Chief Financial Officer of a competitor. We were delighted to announce the appointment of Ian Bull to replace her. Ian is an experienced finance and strategy specialist, with over 20 years' business and financial experience with a range of leading consumer-facing businesses. This includes senior roles as Group Finance Director of Greene King plc, Chief Financial Officer at Ladbrokes plc, and latterly Chief Financial Officer of Parkdean Resorts Group. His early finance career included Whitbread plc and BT Group. He is a Fellow of the Chartered Institute of Management Accountants.

Ian is currently the Senior Independent Director and Chair of the Audit Committee of St. Modwen Properties plc, and Non-Executive Director and Chair of the Audit Committee at Domino's Pizza Group plc. He was formerly a Non-Executive Director of Paypoint Ltd.

Ian joined the Board on 10 July 2019, and will succeed Liz Doherty as Chair of the Audit and Risk Committee when she retires from the Board in November 2019.

As mentioned above, Liz Doherty will retire from the Board at the AGM in November, due to the increasing time required for her other commitments. Liz has served on the Board for seven years, and has been Chair of the Audit and Risk Committee since September 2015, and Senior Independent Director since November 2017. An announcement on who will succeed Liz as Senior Independent Director will be made in due course.

We are also pleased to announce the appointment of Paula Vennells as a Non-Executive Director today. Paula is an experienced business leader, with deep consumer and retail experience. As CEO of the Post Office between 2012 and 2019, she led the separation from the Royal Mail and delivered a major turnaround of the business, including a dramatic restructuring of the portfolio and investment in new online services. Prior to joining the Post Office in 2007, she was Group Commercial Director of Whitbread. Her career began with Unilever and L'Oreal, and she also held senior positions in sales and marketing, commercial and supply chain with a number of major retailers including Dixons and Argos.



Paula is Chair of Imperial College Healthcare NHS Trust, a Non-Executive Director of Wm Morrison Supermarkets plc, and a Non-Executive Director of the Cabinet Office.

We adopted a similar search process for the appointment of both Directors: the Nominations Committee drew up a detailed role and person specification. An independent external search consultant (MWM Consulting) was appointed to conduct the process, and as is usual, we asked for an equal number of male and female candidates to feature on the 'long list'. We also advertised each vacancy on the Nurole platform, to open the search to a potentially wider and more diverse range of applicants. Candidates met initially with the Chairman and at least one other Board member, and finalists met with other Board members. Extensive references were taken. Whilst the process was led by the Committee, who made the final recommendation, any Board appointment is regarded as a 'whole Board' issue, and no appointment is made without unanimous Board support.

## Board succession planning

For a number of years we have had a formal, long range plan for how Board membership should develop. As usual, we aim to balance continuity with regular refreshment of skill and experience and the corporate governance guidance on Chairman and Non-Executive Director tenure.

As part of our Board evaluation process, we review the balance of skills on the Board as a whole, taking account of the future needs of the business, and the knowledge, experience, length of service and performance of the Directors. In accordance with our policy, we also had regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members.

We have a short-term/contingency plan for the Chief Executive Officer and CFO positions, together with an experienced and capable Executive Board, who are able to continue to run the business for a short period of time in the absence of a permanent CEO or CFO.

## Board evaluation

The Board held a scheduled external evaluation in 2016, and a follow up by the same provider in 2017. This year, as in 2018, I led an internal evaluation, based on a discussion with each Board member focused on a number of relevant topics, followed by a Board discussion of the output from this.

The results of the evaluation are described in the Corporate Governance Report.

We will hold an external evaluation in 2020.

## Our purpose, culture and values

Our purpose is - 'helping everyone create a home they love' - articulated more simply to our customers as 'home of homes'. This purpose drives our Customer 1st strategy, which is described elsewhere in our report.

Our purpose is underpinned by our business principles, which were formulated by Will Adderley, our Deputy Chairman, and which encapsulate the values of the Company's founders, the Adderley family. These set out how all colleagues in the Company are expected to act. Key themes running through our principles are to 'take long term decisions' and 'do the right thing'; these drive our decisions, and how we behave towards our customers, colleagues, suppliers, the community,

the environment, investors, and regulators. Our approach is also reflected in our Code of Business Conduct, our anti-bribery policy, our ethical policy and our Tax Strategy.

All colleagues learn about our purpose and business principles on induction, they form part of our communications, and colleagues are appraised against them. Our Board and senior leadership team are expected to role model the business principles.

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

- Through interaction with Executives, members of the leadership team, and other colleagues in Board meetings and on visits to stores and other Company locations
- Through regular Board agenda items and supporting papers, covering 'culture indicators' such as risk management, internal audit reports and follow-up actions, customer engagement, health and safety, colleague engagement and retention, Glassdoor scores, whistleblowing, regulatory breaches
- We review a colleague scorecard at least twice a year, looking at a range of colleague indicators
- We engage formally with the colleague representative body, the National Voice Forum, as well as informally through site visits
- We engage with other stakeholders, as described in the Corporate Governance Report
- We review a set of 'culture KPIs' once a year alongside our risk register

## Diversity

In October 2018, we reviewed how we might improve diversity at Board level and throughout the business. The Board agreed that diversity of input is a good thing and helps to produce better decision-making, especially in a more diverse UK and increasingly international business world. We already have on our Board and our Executive Board a diversity of gender, skills, experience, personality and cognitive approach. However, our leadership population does not currently reflect the broader gender and ethnic mix of our colleagues and our customers. This suggests that the business may be missing a talent opportunity.

The Board agreed a number of actions to start to develop greater diversity throughout the Company. These include:

- Requesting that candidates from a more diverse range of backgrounds be brought forward for any Board vacancy, and openly advertising vacancies on a specialist Board recruitment website where any approved candidate may apply and present their credentials
- Starting to measure ethnic diversity throughout the business and considering what steps we might take to encourage this, in particular, how we might secure the best talent in the wider leadership team
- Inviting external input to Board meetings from our stakeholders - for example a regular supplier presentation, and a meeting with the Principal of a Foundation Trust
- Engagement with our colleague National Voice Forum, as described above

Read about our sustainability on pages **33** to **45**

# Nomination Committee Report

## continued

We also reviewed the diversity policy which has been in place since 2011, and confirmed that it is still appropriate. It is set out below:

- Our overriding concern is to ensure the Board comprises outstanding individuals who can lead the Group, and we believe the Group's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives, including gender. Naturally it is our policy that the Board should always be of mixed gender
- We support the objective of promoting diversity on our Board and throughout the Group. Quotas are a blunt instrument but they do bring focus, as well as the risk of compromised decisions on Board membership, quality and size, particularly with a small and collegiate Board
- We shall continue to ensure that specific effort is made to bring forward female candidates for Board appointments
- We will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, regardless of gender and background, to enjoy career progression within Dunelm

## Tenure and re-election of Directors

The tenure of the Non-Executive Directors is set out below:

	Appointment	Current term (years)	Next renewal	Additional Board role
Andy Harrison	September 2014	5	September 2020	Chairman
Marion Sears	July 2004	15	July 2020	
Liz Doherty	May 2013	6	N/A*	SID, Audit and Risk
William Reeve	July 2015	4	July 2021	Remuneration
Peter Ruis	September 2015	4	September 2021	
Ian Bull	July 2019	0	July 2022	
Paula Vennells	September 2019	0	September 2022	

\* As mentioned above, Liz Doherty will be retiring from the Board at the AGM on 19 November 2019.

Marion Sears has served 15 years on the Board. Marion is now considered by the Board to be 'non-independent' in view of her tenure.

In accordance with the UK Corporate Governance Code, all Directors (apart from Liz Doherty), will seek re-election at the 2019 AGM, and as now required by the Listing Rules, the Non-Executives will be subject to an additional vote by shareholders independent of the Adderley family.

## Executives below Board

The Committee has for some years had both formal and informal oversight of the Executive team below Board. Dunelm Board members have regular contact with these Executives, both through formal Board presentations, attendance of the Executive Board at the annual Strategy Days, and in regular visits to stores and other Company sites, when a Non-Executive Director meets a member of the Executive Board or Leadership team on a less formal basis. Each Non-Executive Director also mentors one of the members of the Executive Board.

The Board receives an annual presentation from the People Director which covers succession planning for the Executive Board. Although these activities are not formally conducted as part of the work of the Nominations Committee, we see this as a useful way of preserving our culture and an important aspect of our oversight of the Executive team development and succession process.

Approved by the Board on 4 September 2019.

## Andy Harrison

Chair of the Nominations Committee

4 September 2019

# Directors' Report

The Directors present their report together with the audited financial statements for the period ended 29 June 2019.

Where reference is made to other sections of the Annual Report and Accounts, these sections are incorporated into this report by reference.

## Strategic Report

The Group's Strategic Report is set out on pages 6 to 45. This contains an indication of likely future developments in the business of the Company and the Group.

## Results and dividends

The consolidated profit for the year after taxation was £101.3m (2018: £73.3m). The results are discussed in greater detail in the Financial Review on pages 20 to 23.

A special dividend of 32.0p per share (2018: nil) will be paid on 11 October 2019 to shareholders on the register at 20 September 2019.

A final ordinary dividend of 20.5p per share (2018: 19.5p) is proposed in respect of the period ended 29 June 2019, to add to an interim ordinary dividend of 7.5p per share paid on 12 April 2019 (2018: 7.0p). The final dividend will be paid on 22 November 2019 to shareholders on the register at 1 November 2019.

## Shareholder and voting rights

All members who hold Ordinary Shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every Ordinary Share held.

On 2 October 2006, Jean Adderley, Bill Adderley and Will Adderley (all shareholders) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Will Adderley undertook to the Company that, for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30% or more of the rights to vote at general meetings of the Company or they are able to control the appointment of Directors who are able to exercise a majority of votes at Board meetings of the Company, they will:

- Conduct all transactions and relationships with any member of the Group on arm's length terms and on a normal commercial basis
- Not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley and their associates (as defined in the Listing Rules)
- Not exercise any of their voting rights or other powers to procure any amendment to the Articles of Association of the Company which would be inconsistent with or undermine any of the provisions of the Relationship Agreement
- Abstain from voting on any resolution to which LR11.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Will Adderley or any of their associates as the related party

- Not carry on (other than through their holding of securities of the Company) or have any financial interest (other than a financial interest in securities which are held for investment purposes only) in any person who carries on a business as a homewares retailer, to the extent that it would be inconsistent with or undermine any provisions of the Relationship Agreement
- Only enter into, amend or terminate any transaction, agreement or relationship between themselves or any of their associates and any member of the Group with the approval of a majority of the independent Non-Executive Directors

WA Capital Limited and Nadine Adderley, to whom Will Adderley transferred shares by way of a gift, have subsequently become party to this agreement.

In July 2014, the Relationship Agreement was amended so as to comply with Listing Rule LR 9.2.2A(2)(a), which came into effect on 16 May 2014. The following additional undertakings were given by the parties:

- No action will be taken that would have the effect of preventing the Company from complying with its obligations under the Listing Rules
- No resolution will be proposed, or procured to be proposed, which is intended to, or appears to be intended to circumvent the proper application of the Listing Rules

In addition, the Articles of Association of the Company provide that the election and re-election of independent Directors must be conducted in accordance with the election provisions set out in LR 9.2.2ER and LR 9.2.2FR. This means that the election or re-election of each independent Director at the Annual General Meeting will be subject to an additional separate resolution upon which parties controlling 30% or more of the voting shares of the Company are not eligible to vote.

The Company confirms that it has complied with its obligations under the Relationship Agreement during the financial period under review, and that so far as it is aware, all other parties to that agreement have complied with it.

The Company confirms that there are no contracts of significance between any member of the Group and any of the parties to the Relationship Agreement, with the exception of Will Adderley's service agreement as a Director of the Company, the terms of which are outlined in the Remuneration Report.

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading and marketing requirements relating to closed periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

# Directors' Report

continued

## UK Listing Authority Listing Rules (LR) - compliance with LR 9.8.4C

The majority of the disclosures required under LR 9.8.4 are not applicable to Dunelm. The table below sets out the location of those requirements that are applicable:

Applicable sub-paragraph within LR 9.8.4	Disclosure provided
(14) A statement made by the Board that the Company has entered into an agreement under LR 9.2.2A, that the Company has, and as far as it is aware, the other parties to the agreement have, complied with the agreement.	See section headed 'Shareholder and voting rights'.

## Change of control

The Company is not party to any significant agreements which take effect, alter or terminate solely on a change of control of the Company following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Details of the rights of employees to exercise options on a change of control of the Company are set out in the remuneration policy section of this report.

## Share capital and treasury shares

The Company has only one class of shares, Ordinary Shares of 1p each.

The issued Ordinary Share capital of the Company has not changed during the period.

At 29 June 2019, the Company held 867,642 Ordinary Shares in treasury (2018: 914,635).

During the period the Company did not purchase any Ordinary Shares into treasury. 46,993 shares were transferred to employees who exercised options under a share incentive scheme or Directors under the LTIP scheme. Details of option exercises by Directors are set out in the Remuneration Report.

Since the financial year end, 12,694 Ordinary Shares have been moved out of treasury to employees who exercised options under a share incentive scheme.

## Substantial shareholders

At 29 June 2019 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's Ordinary Shares:

	Ordinary Shares	Percentage of share capital
Will Adderley	90,231,779	44.68
Jean Adderley	12,000,000	5.94
Standard Life Aberdeen plc	10,274,359	5.09
Royal London Asset Management Limited	9,907,809	4.91

Will Adderley is also deemed to hold a legal interest in 967,250 Ordinary Shares held by The Stoneygate Trust (formerly known as The Leicester Foundation) and 172,750 Ordinary Shares held by the Paddocks Discretionary Trust, by virtue of the fact that he is a trustee of those trusts.

There have been no other changes in the holdings of substantial shareholders between the period end date and 4 September 2019.

## Directors

Details of the Directors of the Company who served on the Board during the year, and the biographies of those on the Board at the date of this report are set out on pages 48 to 51. Details of changes to the Board during the period are set out on page 51.

## Powers of Directors

Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance Report on page 62.

## Employee information

Information relating to employees of the Group, including our approach to disabled persons, is set out in the 'People' section of the Sustainability report on pages 38 to 39.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 70 to 92.

## Donations

The Group does not make any political donations.



## Greenhouse gas emissions

The Sustainability report on page 43 sets out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

## Non-financial information statement 2019

The following sets out how we have complied with the Non-Financial Reporting Requirements set out in sections 414CA and 414CB of the Companies Act 2006. Where these provisions do not form part of the Strategic Report, they are deemed to be incorporated into it by cross reference for the purposes of compliance with these sections.

Reporting requirement	Some of our relevant policies (see <a href="https://corporate.dunelm.com">https://corporate.dunelm.com</a> )	Where to read about our impact, including the principal risks relating to these matters in this report and KPIs
<b>Environmental matters</b>	Animal welfare Policy Timber Policy	'Climate change and environment' section of Sustainability report  'Climate change and environment' Principal Risk in the Principal Risks and Uncertainties  S172 Companies Act statement – Environment
<b>Employees</b>	Equality and Diversity Policy Health and Safety Policy Colleague Privacy Policy	Chairman's Letter Business Review  'People' section of Sustainability report  'People and culture' Principal Risk in the Principal Risks and Uncertainties  Corporate Governance Report S172 Companies Act statement – colleagues Corporate Governance Report Remuneration Report
<b>Human rights</b>	Ethical Code of Conduct Modern Slavery Statement	'Suppliers and Human Rights' section of Sustainability Report  'Brand damage' Principal Risk in the Principal Risks and Uncertainties  S172 Companies Act statement - Suppliers
<b>Social matters</b>	Our Purpose Ethical Code of Conduct Modern Slavery Statement Tax Strategy	'Our Purpose and Strategy' section of Strategic Report Chairman's Letter Business Review  'Customers' and 'Community' section of Sustainability report  'People and Culture' Principal Risk in the Principal Risks and Uncertainties  Corporate Governance Report S172 Companies Act statement – Customers and Suppliers
<b>Anti-bribery and corruption</b>	Ethical Code of Conduct Anti-Corruption and Anti-Bribery Policy Whistleblowing Policy	'Bribery, fraud and tax evasion' section of Sustainability report  'Brand damage' Principal Risk in the Risk and Risk Management Report
<b>Business model</b>		'Our Business Model' section of Strategic Report

Read about our sustainability on pages **33** to **45**

# Directors' Report

continued

## Treasury and risk management

The Group's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Principal Risks and Uncertainties section on page 31 and note 18 to the annual financial statements.

## Independent Auditors

In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit and Risk Committee, a resolution is to be proposed at the AGM for the reappointment of PricewaterhouseCoopers LLP as auditor of the Group.

## Disclaimer

This Directors' Report, Strategic Report and the financial statements contain certain forward-looking statements with respect to the financial condition, results, operations and business of Dunelm Group plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Directors' Report and Strategic Report or in these financial statements should be construed as a profit forecast.

## Annual General Meeting

The Annual General Meeting will be held at 11.30am on Tuesday 19 November 2019 at the Dunelm Store Support Centre, Watermead Business Park, Syston, Leicester, LE7 1AD. A formal notice of meeting, explanatory circular and a form of proxy will accompany this Annual Report and financial statements.

This report was reviewed and signed by order of the Board on 4 September 2019.

## Dawn Durrant

Company Secretary

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial 52-week period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Corporate Governance Report confirm that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Parent Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Parent Company's auditors are aware of that information

## Nick Wilkinson

Chief Executive Officer

4 September 2019

# 04 Financials

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# Independent Auditors' Report

to the members of Dunelm Group plc

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 29 June 2019 and of the group's profit and the group's and the parent company's cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated statement of financial position and the parent company statement of financial position as at 29 June 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows and the parent company statement of cash flows, the consolidated statement of changes in equity and the parent company statement of changes in equity for the 52 week period then ended; the accounting policies; and the notes to the financial statements.

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

### Basis for opinion

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

### Independence

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

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

Other than those disclosed in the Audit and Risk Committee Report, we have provided no non-audit services to the group or the parent company in the period from 1 July 2018 to 29 June 2019.

## Our audit approach

### Overview



- Overall group materiality: £6.3 million (2018: £5.1 million), based on 5% of profit before tax (2018: 5% of profit before taxation after adjusting for exceptional items).
  - Overall parent company materiality: £3.7 million (2018: £1.2 million), based on 1% of total assets (2018: 0.5% of total assets).
- 
- The group is structured with one segment which comprises a consolidation of six legal entities.
  - We conducted an audit of the complete financial information of these six legal entities, together with additional procedures performed, including over the group consolidation.
- 
- Inventory provisions.
  - Capitalisation of intangible costs in relation to IT.
  - Disclosure of the impact of IFRS 16.

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to unethical and prohibited business practices and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing Rules and UK Tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The Group Engagement team audits the whole group, therefore this risk assessment and procedures performed was consistent throughout the whole group. Audit procedures performed by the Group Engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the inventory provision (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

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

### Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Inventory provisions</b> <b>Group</b></p> <p>Refer to page 65 (Audit Committee Report), page 114 (Use of estimates and judgements) and page 127 (notes).</p> <p>Inventory represents a significant asset on the group's balance sheet and is carried at the lower of cost and net realisable value ("NRV"). The group's accounting policy is to determine a provision based upon the historic negative margin of the type of inventory, by ageing category, which is calculated by analysing the historic sales price compared to the cost of inventory, and applying a percentage provision to each line of inventory.</p>	<p>We tested the inputs to the provision calculation, including the classification of inventory and sales data for each of the ageing categories from the Buying department, which is segregated from the Finance department, and found them to be consistent.</p> <p>We tested the average cost of inventory by agreeing the inputs to source documentation and testing freight and duty costs.</p> <p>We reviewed inventory write-offs in the financial period to ensure they are not inconsistent with the key assumptions used in the inventory provision model at the year end.</p> <p>We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately. We found that the provision rates were consistent with the evidence obtained, based on past activity, and appropriately applied.</p>

# Independent Auditors' Report

to the members of Dunelm Group PLC

continued

Key audit matter	How our audit addressed the key audit matter
<p><b>Capitalisation of intangible costs in relation to IT Group</b></p> <p>Refer to page 65 (Audit Committee Report), page 114 (Use of estimates and judgements) and page 125 (notes).</p> <p>During the year ended 29 June 2019, there were numerous internal IT projects which were capitalised, including the development of a new online platform.</p> <p>The intangible IT spend relates to the capitalisation of external contractors costs and internal labour costs performing work on key IT projects.</p>	<p>We agreed a sample of capitalised IT costs to source documentation. We assessed whether the costs capitalised relating to IT met the criteria set within IAS 38 'Intangible assets' noting no exceptions.</p> <p>We have assessed whether IT projects are sustainable and will be used within the business. We have challenged management on the viability of projects in development to ensure they will continue to completion noting no exceptions.</p> <p>We have tested disposals in the year to ensure that former assets have been removed where a platform is now unused noting no exceptions.</p>
<p><b>Disclosure of the impact of IFRS 16 Group</b></p> <p>Refer to page 65 (Audit Committee Report), page 114 (Use of estimates and judgements) and page 120 (notes).</p> <p>The Group is applying IFRS 16 from 30 June 2019 so the expected impact on the financial statements is required to be disclosed this year in line with IAS 8. The Group has used a spreadsheet model to calculate these numbers. In addition judgements have been taken by the Group, including the discount rate to be applied.</p>	<p>We have obtained and inspected a sample of inputs into management's model and agreed these data points back to the underlying lease agreements. We have recalculated the accounting entries for a sample of leases and confirmed management's model is performing this calculation accurately. We have tested the completeness of management's model with reference to the lease commitments note in the financial statements and our knowledge of contracts containing lease agreements in the Dunelm business.</p> <p>We have assessed the methodology applied to calculate the discount rate using an incremental borrowing rate specific to the Group in line with IFRS 16. We have considered the discount rate and other assumptions to be appropriate, including ensuring all the leases meet the definition of a lease under IFRS 16 and that the expected lease term is accurate.</p> <p>We have reviewed the workings for calculating the dilapidations provision and agree with the methodology applied.</p> <p>We have reviewed the disclosures in the financial statements and are satisfied that they are consistent with the evidence obtained and compliant with IAS 8.</p>

We determined that there were no key audit matters applicable to the parent company to communicate in our report.



### How we tailored the audit scope

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

The group is structured with one segment. The group financial statements are a consolidation of six legal entities within this segment, comprising the group's operating business and centralised functions.

In establishing the overall approach to the group audit, we identified one legal entity: Dunelm (Soft Furnishings) Limited, which, in our view, required an audit of its complete financial information due to its financial significance to the group.

In addition, we also conducted the statutory audits of the five non-significant legal entities such that the audit work was complete prior to finalisation of the audit of the group financial statements, thereby providing further evidence in support of our group opinion.

The audits of these six legal entities, together with the additional procedures performed at the group level, including over the group consolidation, gave us the evidence we needed for our opinion on the group financial statements as a whole.

### Materiality

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

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

	Group financial statements	Parent company financial statements
<b>Overall materiality</b>	£6.3 million (2018: £5.1 million).	£3.7 million (2018: £1.2 million).
<b>How we determined it</b>	5% of profit before tax (2018: 5% of profit before taxation after adjusting for exceptional items).	1% of total assets (2018: 0.5% of total assets).
<b>Rationale for benchmark applied</b>	We have applied this benchmark, a generally accepted auditing practice, as we believe this is the key measure used by the shareholders in evaluating the performance of the group.	We have applied this benchmark, a generally accepted auditing practice, as we believe this is the key measure used by the shareholders in evaluating the performance of the parent company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £5.9 million and £0.05 million. Certain components were audited to a statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.25 million (Group audit) (2018: £0.25 million) and £0.25 million (Parent company audit) (2018: £0.25 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to.  However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.



# Independent Auditors' Report

to the members of Dunelm Group PLC

continued

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 29 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 53 to 62) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 53 to 62) with respect to the parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the parent company. (CA06)

### The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 26 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 32 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (Listing Rules)

### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 101, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on pages 64 and 65 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

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

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

#### Auditors' responsibilities for the audit of the financial statements

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

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

### Use of this report

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

### Other required reporting

#### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

#### Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 14 January 2014 to audit the financial statements for the year ended 28 June 2014 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 28 June 2014 to 29 June 2019.

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

4 September 2019

# Consolidated Income Statement

For the 52 weeks ended 29 June 2019

	Note	2019 52 weeks £'m	2018 52 weeks £'m Underlying	2018 52 weeks £'m Exceptional items	2018 52 weeks £'m Reported
<b>Revenue</b>	1	<b>1,100.4</b>	1,050.1	-	1,050.1
Cost of sales		<b>(554.8)</b>	(546.5)	-	(546.5)
<b>Gross profit</b>		<b>545.6</b>	503.6	-	503.6
Operating costs	4	<b>(418.7)</b>	(398.9)	(8.9)	(407.8)
<b>Operating profit</b>	5	<b>126.9</b>	104.7	(8.9)	95.8
Financial income	7	<b>0.9</b>	-	-	-
Financial expenses	7	<b>(1.9)</b>	(2.7)	-	(2.7)
<b>Profit before taxation</b>		<b>125.9</b>	102.0	(8.9)	93.1
Taxation	8	<b>(24.6)</b>	(21.0)	1.2	(19.8)
<b>Profit for the period</b>		<b>101.3</b>	81.0	(7.7)	73.3
Earnings per Ordinary Share - basic	10	<b>50.2p</b>	40.1p		36.3p
Earnings per Ordinary Share - diluted	10	<b>49.9p</b>	40.0p		36.2p

# Consolidated Statement of Comprehensive Income

For the 52 weeks ended 29 June 2019

	2019 52 weeks £'m	2018 52 weeks £'m
Profit for the period (reported)	<b>101.3</b>	73.3
Other comprehensive income/(expense):		
Items that may be subsequently reclassified to profit or loss:		
Movement in fair value of cash flow hedges	<b>6.6</b>	1.6
Transfers of cash flow hedges to inventory	<b>(3.9)</b>	2.6
Deferred tax on hedging movements	<b>(0.5)</b>	(0.7)
Other comprehensive income for the period, net of tax	<b>2.2</b>	3.5
<b>Total comprehensive income for the period</b>	<b>103.5</b>	76.8

# Consolidated Statement of Financial Position

As at 29 June 2019

	Note	29 June 2019 £'m	30 June 2018 £'m
<b>Non-current assets</b>			
Intangible assets	11	27.3	28.6
Property, plant and equipment	12	180.6	198.6
Deferred tax assets	13	0.8	-
Derivative financial instruments	18	1.0	1.4
<b>Total non-current assets</b>		<b>209.7</b>	228.6
<b>Current assets</b>			
Inventories	14	157.7	154.7
Trade and other receivables	15	25.6	23.9
Derivative financial instruments	18	5.1	2.8
Cash and cash equivalents	16	19.0	15.0
<b>Total current assets</b>		<b>207.4</b>	196.4
<b>Total assets</b>		<b>417.1</b>	425.0
<b>Current liabilities</b>			
Trade and other payables	17	(136.3)	(101.8)
Liability for current tax		(13.5)	(7.8)
Derivative financial instruments	18	-	(0.7)
<b>Total current liabilities</b>		<b>(149.8)</b>	(110.3)
<b>Non-current liabilities</b>			
Bank loans	19	(44.3)	(139.0)
Trade and other payables	17	(35.5)	(38.3)
Deferred tax liabilities	13	-	(1.0)
Provisions	20	(1.7)	(1.7)
<b>Total non-current liabilities</b>		<b>(81.5)</b>	(180.0)
<b>Total liabilities</b>		<b>(231.3)</b>	(290.3)
<b>Net assets</b>		<b>185.8</b>	134.7
<b>Equity</b>			
Issued share capital	21	2.0	2.0
Share premium account		1.6	1.6
Capital redemption reserve		43.2	43.2
Hedging reserve		5.0	2.8
Retained earnings		134.0	85.1
<b>Total equity attributable to equity holders of the Parent</b>		<b>185.8</b>	134.7

The financial statements on pages 110 to 136 were approved by the Board of Directors on 4 September 2019 and were signed on its behalf by:

**Laura Carr**  
Chief Financial Officer



# Consolidated Statement of Cash Flows

For the 52 weeks ended 29 June 2019

	Note	2019 52 weeks £'m	2018 52 weeks £'m
<b>Profit before taxation</b>		<b>125.9</b>	93.1
Adjustment for exceptional operating costs	3	-	8.9
Adjustment for net financing costs	7	1.0	2.7
<b>Operating profit before exceptional operating costs</b>		<b>126.9</b>	104.7
Depreciation and amortisation	5	32.7	33.5
Loss on disposal and impairment of non-current assets before exceptional items	5	6.7	1.4
<b>Operating cash flows before exceptional operating costs and movements in working capital</b>		<b>166.3</b>	139.6
(Increase)/decrease in inventories		(3.0)	8.6
(Increase)/decrease in trade and other receivables		(1.7)	2.5
Increase/(decrease) in payables		31.2	(31.4)
<b>Net movement in working capital before exceptional operating costs</b>		<b>26.5</b>	(20.3)
Share based payments expense	6	1.4	0.3
Interest received	7	0.3	-
Tax paid		(20.5)	(18.9)
<b>Net cash generated from operating activities before exceptional operating costs</b>		<b>174.0</b>	100.7
Cash flows in respect of exceptional operating costs		-	(2.2)
<b>Net cash generated from operating activities</b>		<b>174.0</b>	98.5
<b>Cash flows from investing activities</b>			
Acquisition of intangible assets		(13.0)	(12.1)
Proceeds on exceptional disposal of property, plant and equipment and intangible assets		-	0.6
Proceeds on disposal of property, plant and equipment and intangibles		5.4	-
Acquisition of property, plant and equipment		(12.0)	(34.1)
<b>Net cash used in investing activities</b>		<b>(19.6)</b>	(45.6)
<b>Cash flows from financing activities</b>			
Proceeds from issue of treasury shares	22	0.2	1.3
Drawdowns on Revolving Credit Facility	19	25.0	10.0
Repayments of Revolving Credit Facility	19	(120.0)	(10.0)
Interest paid	7	(1.6)	(1.9)
Loan transaction costs		-	(0.8)
Ordinary dividends paid	9	(54.6)	(53.4)
<b>Net cash used in financing activities</b>		<b>(151.0)</b>	(54.8)
Net increase/(decrease) in cash and cash equivalents		3.4	(1.9)
Foreign exchange revaluations	7	0.6	(0.5)
<b>Cash and cash equivalents at the beginning of the period</b>	16	<b>15.0</b>	17.4
<b>Cash and cash equivalents at the end of the period</b>	16	<b>19.0</b>	15.0

# Consolidated Statement of Changes in Equity

For the 52 weeks ended 29 June 2019

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
<b>As at 1 July 2017</b>		<b>2.0</b>	<b>1.6</b>	<b>43.2</b>	<b>(0.7)</b>	<b>64.0</b>	<b>110.1</b>
Profit for the period		-	-	-	-	73.3	73.3
Fair value gains of cash flow hedges	18	-	-	-	1.6	-	1.6
Loss on cash flow hedges transferred to inventory	18	-	-	-	2.6	-	2.6
Deferred tax on hedging movements	13	-	-	-	(0.7)	-	(0.7)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>3.5</b>	<b>73.3</b>	<b>76.8</b>
Proceeds from issue of treasury shares	22	-	-	-	-	1.3	1.3
Share based payments	23	-	-	-	-	0.3	0.3
Deferred tax on share based payments	13	-	-	-	-	(0.3)	(0.3)
Current tax on share options exercised		-	-	-	-	(0.1)	(0.1)
Ordinary dividends paid	9	-	-	-	-	(53.4)	(53.4)
<b>Total transactions with owners, recorded directly in equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52.2)</b>	<b>(52.2)</b>
<b>As at 30 June 2018</b>		<b>2.0</b>	<b>1.6</b>	<b>43.2</b>	<b>2.8</b>	<b>85.1</b>	<b>134.7</b>
Profit for the period		-	-	-	-	101.3	101.3
Fair value gains of cash flow hedges	18	-	-	-	6.6	-	6.6
Gain on cash flow hedges transferred to inventory	18	-	-	-	(3.9)	-	(3.9)
Deferred tax on hedging movements	13	-	-	-	(0.5)	-	(0.5)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>2.2</b>	<b>101.3</b>	<b>103.5</b>
Proceeds from issue of Treasury shares	22	-	-	-	-	0.2	0.2
Share based payments	23	-	-	-	-	1.4	1.4
Deferred tax on share based payments	13	-	-	-	-	0.7	0.7
Current tax on share options exercised		-	-	-	-	(0.1)	(0.1)
Ordinary dividends paid	9	-	-	-	-	(54.6)	(54.6)
<b>Total transactions with owners, recorded directly in equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52.4)</b>	<b>(52.4)</b>
<b>As at 29 June 2019</b>		<b>2.0</b>	<b>1.6</b>	<b>43.2</b>	<b>5.0</b>	<b>134.0</b>	<b>185.8</b>

# Accounting Policies

For the 52 weeks ended 29 June 2019

## General information

The Group financial statements consolidate those of Dunelm Group plc ('the Company') and its subsidiaries (together referred to as 'the Group'). The Company financial statements on pages 137 to 144 present information about the Company as a separate entity and not about its Group.

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

The primary business activity of the Group is the sale of homewares in the UK through a network of stores and websites.

## Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards 'IFRS' and IFRS Interpretations Committee 'IFRS IC' interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS and these are presented on pages 110 to 136.

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

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

## Going concern

The Group has considerable financial resources together with long-standing relationships with a number of key suppliers and an established reputation in the retail sector across the UK. In their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data and past experience. The Directors are of the opinion that the Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group is able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial information.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 6 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 23. In addition, note 18 to the Annual Report and Accounts includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

## Use of estimates and judgements

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

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

The key estimates and judgements used in the financial statements are as follows:

### Estimate: Inventory provisions

The Group provides against the carrying value of the inventories held where it is anticipated that net realisable value (NRV) will be below cost. NRV is calculated as the expected selling price. Future price reductions are assumed to be in line with historic margin analysis on a line-by-line basis, and are applied to the inventory population as deemed appropriate given the level of cover in relation to recent sales history and discontinuation status. A 1% change in historic margins of each stock discontinuation category would lead to a change in the provision of £1.5m (14.4%).

### Estimate: Lease liabilities

On transition to IFRS 16 from 30 June 2019 the Group will recognise a lease liability as outlined on page 120. The lease liability will be calculated by discounting the future lease payments. Lease payments shall be discounted using the incremental borrowing rate (IBR). This rate will be calculated based on the Revolving Credit Facility rate adjusted for a factor based on the lease term.

### Judgement: Intangible IT capitalisation

Certain costs incurred in the developmental phase of internally generated software are capitalised as intangible assets once a number of qualifying criteria have been met. Management has made judgements and assumptions when assessing whether a project meets these criteria, and on measuring the costs and the economic life attributed to such projects.

### Judgement: Exceptional items

The Group exercises its judgement in the classification of certain items as exceptional and outside of the Group's underlying results. The determination of whether an item should be separately disclosed as an exceptional item requires judgement on its materiality, nature and incidence, as well as whether it provides clarity on the Group's underlying trading performance. In exercising this judgement, the Group takes appropriate regard of IAS 1 'Presentation of financial statements' as well as guidance issued by the Financial Reporting Council on the reporting of exceptional items and alternative performance measures. The overall goal of the Group's financial statements is to present the Group's underlying performance without distortion from one-off or non-trading events regardless of whether they are favourable or unfavourable to the underlying result. Further details of the individual exceptional items, and the reasons for their disclosure treatment, are set out in note 3.

## Basis of consolidation

### Subsidiaries

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

### Transactions eliminated on consolidation

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

## Revenue

Revenue is generated from the sale of homewares and related goods and services through the Group's stores and websites, excluding sales between Group companies and is after deducting returns, any discounts given and VAT. Revenue is recognised when the Group has satisfied its performance obligations to its customers and the customer has obtained control of the goods and services being transferred. These conditions are met, predominantly, at the point of sale.

The exceptions to this are for: custom-made products, where revenue is recognised at the point that the goods are collected; gift vouchers, where revenue is recognised when the vouchers are redeemed; and web sales, where revenue is recognised at the point of delivery. Revenue is settled in cash at the point of sale for all revenue channels.

The Group holds a sales return provision in the Consolidated Statement of Financial Position to provide for expected levels of returns on sales made before year end. The Group recognises the expected value of revenue relating to returns within sales.

## Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material either because of their size or their non-recurring nature and are presented within the line items to which they best relate.

## Expenses

### Property leases

Lease incentives received in respect of operating leases are recognised in the income statement evenly over the full term of the lease.

Where leases for land and buildings provide for fixed rent review dates and amounts, the Group financial statements account for such reviews by recognising, on a straight-line basis, the total implicit minimum lease payments over the non-cancellable period of the lease term.

### Financial income and expenses

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

## Retirement benefits

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

## Share based payments

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

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

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

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

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

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

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

## Foreign currencies

Transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date. Resulting exchange gains or losses are recognised in the income statement for the period in financial income and expenses, except when deferred in other comprehensive income as qualifying cash flow hedges.

# Accounting Policies

For the 52 weeks ended 29 June 2019

continued

## Taxation

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

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

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

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

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

## Dividends

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

## Intangible assets

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

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

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

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

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;

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

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

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

## Amortisation

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

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

## Property, plant and equipment

### Owned assets

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

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

### Depreciation

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

Freehold buildings	50 years
Leasehold improvements	over the remaining period of the lease
Refit improvements	7 years
Plant and machinery	4 years
Fixtures and fittings	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.



## Derivative financial instruments

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

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

For cash flow hedges the Company has adopted IFRS 9 for the first time in the current year which replaces IAS 39. The Group's new accounting policy has been outlined on pages 118 to 119.

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

## Offsetting financial instruments

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

## Trade and other receivables

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

## Inventories

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

## Cash and cash equivalents

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

## Trade and other payables

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

## Bank borrowings and borrowing costs

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

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

## Impairment

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

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount. Impairment losses are recognised in the income statement.

## Share capital

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

## Provisions

A provision is recognised in the balance sheet when the Group has a current legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably measured. A provision for onerous contracts, including property leases, is recognised when the expected benefit to be derived by the Group from a contract is lower than the unavoidable costs of meeting its obligations under the contract.

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

## Operating leases

The Group leases certain property, plant and equipment and motor vehicles. Where a significant portion of the risks and rewards of ownership are retained by the lessor, these leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

# Accounting Policies

For the 52 weeks ended 29 June 2019

continued

## IFRS 15 'Revenue from contracts with customers'

The Group has adopted IFRS 15 'Revenue from contracts with customers' for the first time in the current financial year. The standard applies a five-step approach to the timing of revenue recognition.

The Group's revenues are mainly from individual products which are sold directly to customers via our stores or website. The standard establishes a principle-based approach for revenue recognition that we recognise revenue to reflect the transfer of control of goods and services, measured as the amount to which the Group expects to be entitled in exchange for those goods or services.

The standard has been applied using the modified retrospective approach without adjusting prior periods. The Group has considered the following in assessing the impact of the new standard:

### (a) Principal versus agent consideration

The Group has two types of products which are stocked and non-stocked products. Management has established that the Group acts as a principal for both types of products and thus should recognise revenue in the gross amount of consideration to which it expects to be entitled. The Group already recognised revenue on a gross basis including delivery charges, therefore the Group's revenue recognition is unchanged in this regard.

### (b) Gift cards

The Group issues gift cards and credit notes to customers. IFRS 15 requires an entity to recognise gift cards and credit notes (non-refundable prepayments) as a liability. However, customers may choose not to redeem their gift cards and credit notes, therefore not exercising all their contractual rights. Management has estimated the value of gift cards which it expects not to be redeemed based on prior history of gift card redemption and has recognised this amount in the financial statements at the date of transition. This adjustment does not have a material impact on the financial statements and therefore a reconciliation of the relevant values has not been provided.

### (c) Sales return provision

The Group holds a sales return provision in the Consolidated Statement of Financial Position to provide for expected levels of returns. Under IFRS 15 the expected value of revenue relating to returns will continue to be recognised within sales provisions.

However, the expected value of cost of sales relating to the returned items will be included within inventories instead of sales provision. This adjustment does not have a material impact on the financial statements and therefore a reconciliation of the relevant values has not been provided.

### (d) Disclosure of disaggregated revenue

IFRS 15 requires the disaggregation of revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Management has considered how information about the entity's revenue has been presented for other purposes such as internal management accounts and investor presentations. For the purposes of these, revenue is disaggregated between stores and online (please refer to the Financial Review on page 20). However, for the purposes of the financial statements management has concluded that since customers access the Group's products across multiple channels and often their journey involves more than one channel, disaggregation of revenue would not be appropriate.

## IFRS 9 'Financial instruments'

The Group has adopted IFRS 9 'Financial Instruments' for the first time in the current financial year. IFRS 9 replaces IAS 39 which relates to the recognition, classification, measurement and impairment of financial assets and liabilities and hedge accounting.

### Impact of adoption

The adoption of IFRS 9 had no material impact on the Group's retained earnings at 1 July 2018 or the financial statements at 29 June 2019.

### Classification of financial assets

IFRS 9 contains two principal classification categories for financial assets: measured at amortised cost or measured at fair value (through profit or loss or through other comprehensive income). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, investments in equity instruments that do not have a quoted price in an active market for an identical instrument are now measured at fair value rather than at cost.

On 1 July 2018 the Group reassessed the classification and measurement of financial assets of the business and has classified its financial instruments into the appropriate IFRS 9 categories.

Financial Assets	Classification (IAS 39)	Classification (IFRS 9)
Derivative financial instruments	Held for trading (Designated in hedge relationships)	Fair value through profit/loss (Designated in hedge relationships)
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

## Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

## Measurement

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

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

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.
- **FVPL:** All other financial assets that do not meet the criteria for amortised cost are measured at FVPL, unless the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

## Impairment

From 1 July 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See note 18 for further details.

## Hedge accounting

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with risk management objectives and strategy and to apply a forward-looking approach to assessing hedge effectiveness.

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

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument. Until 30 June 2018, the Group classified foreign currency options as held-for-trading derivatives and accounted for them at FVPL.

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

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

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

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

# Accounting Policies

For the 52 weeks ended 29 June 2019

continued

## New standards and interpretations

IFRS 16, 'Leases', will be effective for annual periods beginning on or after 1 January 2019.

The Group will adopt IFRS 16 for the first time in its financial statements for the period beginning on 30 June 2019.

The standard will have a material impact on the financial statements of the Group due to the large number of property leases it holds as well as leases relating to machinery and vehicles.

The implementation of IFRS 16 has no impact on cash flows generated and will not impact management's decisions. It does, however, have an impact on the assets, liabilities and income statement of the Group. The presentation of the Cash Flow Statement will also change, with an increase in net cash flows generated from operating activities being offset by an increase in net cash flows used in financing activities.

IFRS 16 will give rise to a lease liability and right-of-use asset upon transition. The lease liability will be equal to the value of the remaining lease payments, discounted at the incremental borrowing rate. The Group intends to apply the retrospective modified approach on transition and will not restate the comparative information. Under this approach, the right-of-use asset will equal the lease liability for all leases, adjusted by any lease prepayments and deferred income relating to landlord incentives at the date of transition (IFRS 16 para C8b(ii)). As a result, there will be no impact on retained earnings.

In adopting this approach, the Group intends to use the following practical expedients and options as offered by the standard:

- Application of the standard only to leases previously identified under IAS 17
- No recognition of leases where the lease term is less than 12 months - the Group has chosen to apply this expedient to non-property leases only
- No recognition of low value leases - the Group has chosen to apply this expedient to non-property leases where the total lease cost is under £5,000. This expedient has not however been applied to cars
- Application of a single discount rate to all leases with similar characteristics
- On transition, no recognition of initial direct costs incurred in entering the lease within the value of the right-of-use asset

The lease liability will be calculated by discounting the future lease payments. Lease payments shall be discounted using the incremental borrowing rate (IBR). This rate will be calculated based on the Revolving Credit Facility rate adjusted for a factor based on the lease term.

The first results that will be published on an IFRS 16 basis will be in FY20, where we expect IFRS 16 to reduce Group profit before tax by c.£3m. On transition, a lease liability of c.£330m will be recognised on the balance sheet. A right-of-use asset of c.£290m will also be recognised, being equal to the value of the lease liability less the value of accrued rent incentives at the transition date. As a result, there will be no impact on net assets.

In order to familiarise readers of the accounts with the likely impact of transitioning to IFRS 16 on the Group financial statements, we show a proforma unaudited reconciliation for FY19 for illustrative purposes.

## Proforma Income Statement

	2019 52 weeks £'m	Exclude rent £'m Estimated	Include depreciation £'m Estimated	Include financing cost £'m Estimated	Post IFRS 16 £'m Estimated
Revenue	1,100	-	-	-	1,100
Gross profit	546	-	-	-	546
Operating costs	(419)	51	(47)	-	(415)
<b>Operating profit</b>	<b>127</b>	51	(47)	-	131
Financial income	1	-	-	-	1
Financial expenses	(2)	-	-	(7)	(9)
<b>Profit before taxation</b>	<b>126</b>	<b>51</b>	<b>(47)</b>	<b>(7)</b>	<b>123</b>

# Notes to the Consolidated Financial Statements

For the 52 weeks ended 29 June 2019

## 1 Segmental reporting

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

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

The Chief Operating Decision-Maker is the Executive Board of Directors of Dunelm Group plc. Internal management reports are reviewed by them on a monthly basis. Performance of the segment is assessed based on a number of financial and non-financial KPIs as well as on profit before taxation. The list of our financial and non-financial KPIs can be found on page 14.

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

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

## 2 Acquisitions and disposals

In the prior year, the trade and assets of Achica, a subsidiary undertaking, were sold to BrandAlley UK Limited, a London-based flash sales business for a total consideration of £0.6m. The transaction included the sale of trademarks and customer lists and resulted in an overall loss on disposal of £0.3m.

## 3 Exceptional items

In the prior year, we treated as exceptional those non-recurring items which relate to the acquisition, integration and/or disposal of the Worldstores businesses.

	2019 52 weeks £'m	2018 52 weeks £'m
<b>Exceptional operating costs</b>		
Retention and redundancy payments	-	1.2
Loss on disposal, asset write-offs, impairments and accelerated amortisation	-	5.8
Other integration costs	-	1.9
	-	8.9

## 4 Operating costs before exceptional items

	2019 52 weeks £'m	2018 52 weeks £'m
Selling and distribution costs	350.2	345.9
Administrative expenses	68.5	53.0
	418.7	398.9

For details on exceptional items please refer to note 3. The increase in administrative expenses is mainly due to higher colleague incentive costs, increased investment in technology and a £3.8m impairment charge against the Fogarty brand.

## 5 Operating profit

Operating profit is stated after charging the following items:

	2019 52 weeks £'m	2018 52 weeks £'m Underlying	2018 52 weeks £'m Exceptional items	2018 52 weeks £'m Reported
Cost of inventories included in cost of sales	548.3	539.2	-	539.2
Amortisation of intangible assets	6.7	7.3	1.1	8.4
Depreciation of owned property, plant and equipment	26.0	26.2	-	26.2
Loss on disposal and impairment of property, plant and equipment and intangible assets	6.7	1.4	2.9	4.3
Operating lease rentals	51.6	51.1	-	51.1



# Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 29 June 2019

## 5 Operating profit continued

For details on exceptional items please refer to note 3.

The cost of inventories included in cost of sales includes the favourable impact of a net reduction in the provision for obsolete inventory of £1.4m (2018: £2.6m increase).

The analysis of the auditor's remuneration is as follows:

	2019 52 weeks £'m	2018 52 weeks £'m
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual financial statements	18	18
Fees payable to the Company's auditors and their associates for other services to the Group		
- audit of the Company's subsidiaries pursuant to legislation	142	102
- other services (See Audit and Risk Committee Report on page 66 for further information)	20	15

## 6 Employee numbers and costs

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

	2019 52 weeks Number of heads	2019 52 weeks Full time equivalents	2018 52 weeks Number of heads	2018 52 weeks Full time equivalents
Selling	8,262	5,106	8,353	5,172
Distribution	736	719	706	689
Administration	655	645	698	690
	9,653	6,470	9,757	6,551

The aggregate remuneration of all employees including Directors comprises:

	2019 52 weeks £'m	2018 52 weeks £'m
Wages and salaries including termination benefits	156.7	143.5
Social security costs	10.3	10.0
Share based payment expense (note 23)	1.4	0.3
Pension costs - defined contribution plans	3.2	2.4
	171.6	156.2

Details of Directors' remuneration, share options, long term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 70 to 92.

## 7 Financial income and expenses

	2019 52 weeks £'m	2018 52 weeks £'m
<b>Financial income</b>		
Interest on bank deposits	0.3	-
Net foreign exchange gains	0.6	-
	0.9	-
<b>Financial expenses</b>		
Interest on bank borrowings	(1.6)	(1.9)
Amortisation of issue costs of bank loans	(0.3)	(0.3)
Net foreign exchange losses	-	(0.5)
	(1.9)	(2.7)
Net financial expense	(1.0)	(2.7)

## 8 Taxation

	2019 52 weeks £'m	2018 52 weeks £'m
<b>Current taxation</b>		
UK corporation tax charge for the period	26.6	19.8
Adjustments in respect of prior periods	(0.4)	(0.3)
	26.2	19.5
<b>Deferred taxation</b>		
Origination of temporary differences	(1.1)	(0.4)
Adjustments in respect of prior periods	(0.5)	0.7
	(1.6)	0.3
Total tax expense	24.6	19.8

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

	2019 52 weeks £'m	2018 52 weeks £'m
Profit before taxation	125.9	93.1
UK corporation tax at standard rate of 19% (2018: 19%)	23.9	17.7
Factors affecting the charge in the period:		
Non-deductible expenses	1.8	1.4
Profit on disposal of non-qualifying assets	(0.2)	0.4
Adjustments in respect of prior periods	(0.9)	0.4
Utilisation of previously unrecognised tax losses	-	(0.1)
Tax charge	24.6	19.8

The taxation charge for the period as a percentage of profit before tax is 19.5% (2018: 21.3%).

The UK Government substantively enacted reductions in future tax rates by 2% from 19% to 17% from 1 April 2020. The deferred tax asset is therefore measured at 17%.

# Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 29 June 2019

## 9 Dividends

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

		2019 52 weeks £'m	2018 52 weeks £'m
Final for the period ended 1 July 2017	- paid 19.5 pence	-	39.3
Interim for the period ended 30 June 2018	- paid 7.0 pence	-	14.1
Final for the period ended 30 June 2018	- paid 19.5 pence	39.4	-
Interim for the period ended 29 June 2019	- paid 7.5 pence	15.2	-
		54.6	53.4

The Directors are proposing a final dividend of 20.5 pence per Ordinary Share for the period ended 29 June 2019 which equates to £41.4m. The dividend will be paid, subject to shareholder approval, on 22 November 2019 to shareholders on the register at the close of business on 1 November 2019. The Directors have declared a special dividend of 32.0 pence per Ordinary Share for the period ended 29 June 2019 which equates to £64.6m. The dividend will be paid on 11 October 2019 to shareholders on the register at close of business on 20 September 2019.

## 10 Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by the Company and held as treasury shares (note 22).

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

Weighted average numbers of shares:

	2019 52 weeks '000	2018 52 weeks '000
Weighted average number of shares in issue during the period	201,936	201,801
Impact of share options	1,040	936
Number of shares for diluted earnings per share	202,976	202,737

	2019 52 weeks £'m	2018 52 weeks £'m
Profit for the period	101.3	73.3
Profit for the period before exceptional costs	101.3	81.0
Earnings per Ordinary Share - basic	50.2p	36.3p
Earnings per Ordinary Share - basic before exceptional costs	50.2p	40.1p
Earnings per Ordinary Share - diluted	49.9p	36.2p
Earnings per Ordinary Share - diluted before exceptional costs	49.9p	40.0p

## 11 Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
<b>Cost</b>			
At 1 July 2017	41.5	11.6	53.1
Additions	13.2	-	13.2
Disposals	(10.6)	(0.6)	(11.2)
At 30 June 2018	44.1	11.0	55.1
Additions	12.5	-	12.5
Disposals	(6.8)	-	(6.8)
<b>At 29 June 2019</b>	<b>49.8</b>	<b>11.0</b>	<b>60.8</b>
<b>Accumulated amortisation</b>			
At 1 July 2017	20.0	5.6	25.6
Charge for the financial period	8.1	0.3	8.4
Impairment	0.5	1.2	1.7
Disposals	(9.0)	(0.2)	(9.2)
At 30 June 2018	19.6	6.9	26.5
Charge for the financial period	6.4	0.3	6.7
Impairment	-	3.8	3.8
Disposals	(3.5)	-	(3.5)
<b>At 29 June 2019</b>	<b>22.5</b>	<b>11.0</b>	<b>33.5</b>
<b>Net book value</b>			
At 1 July 2017	21.5	6.0	27.5
At 30 June 2018	24.5	4.1	28.6
<b>At 29 June 2019</b>	<b>27.3</b>	<b>-</b>	<b>27.3</b>

All amortisation is included within operating costs in the income statement.

Within software development and licences, £2.3m (2018: £3.9m) of additions relates to internally generated assets.

Within rights to brands and customer lists the impairment of £3.8m (2018: nil) relates to the Fogarty brand.

# Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 29 June 2019

## 12 Property, plant and equipment

	Land and buildings £'m	Leasehold improvements £'m	Refit improvements £'m	Plant and machinery £'m	Fixtures and fittings £'m	Total £'m
<b>Cost</b>						
At 1 July 2017	96.3	145.1	4.3	5.0	93.8	344.5
Additions	2.1	10.4	2.5	0.3	15.5	30.8
Disposals	-	(1.8)	-	(0.1)	(2.3)	(4.2)
At 30 June 2018	98.4	153.7	6.8	5.2	107.0	371.1
Additions	-	5.9	0.6	0.6	5.9	13.0
Disposals	(6.3)	(0.7)	-	-	(0.9)	(7.9)
<b>At 29 June 2019</b>	<b>92.1</b>	<b>158.9</b>	<b>7.4</b>	<b>5.8</b>	<b>112.0</b>	<b>376.2</b>
<b>Accumulated depreciation</b>						
At 1 July 2017	12.8	62.3	0.2	3.9	70.1	149.3
Charge for the financial period	1.7	11.1	0.9	0.4	12.1	26.2
Disposals	-	(1.0)	-	-	(2.0)	(3.0)
At 30 June 2018	14.5	72.4	1.1	4.3	80.2	172.5
Charge for the financial period	1.7	11.4	1.0	0.4	11.5	26.0
Disposals	(2.0)	(0.4)	-	-	(0.5)	(2.9)
<b>At 29 June 2019</b>	<b>14.2</b>	<b>83.4</b>	<b>2.1</b>	<b>4.7</b>	<b>91.2</b>	<b>195.6</b>
<b>Net book value</b>						
At 1 July 2017	83.5	82.8	4.1	1.1	23.7	195.2
At 30 June 2018	83.9	81.3	5.7	0.9	26.8	198.6
<b>At 29 June 2019</b>	<b>77.9</b>	<b>75.5</b>	<b>5.3</b>	<b>1.1</b>	<b>20.8</b>	<b>180.6</b>

All depreciation and impairment charges have been included within operating costs in the income statement.

## 13 Deferred tax assets/(liabilities)

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 17% (2018: 17%).

Deferred taxation assets are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Property, plant and equipment	1.6	0.2	-	-	1.6	0.2
Share based payments	0.3	-	-	(0.6)	0.3	(0.6)
Hedging	-	-	(1.1)	(0.6)	(1.1)	(0.6)
	1.9	0.2	(1.1)	(1.2)	0.8	(1.0)

	Assets		Liabilities		Net assets/(liabilities)	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Deferred tax recoverable/(payable) after more than 12 months	1.1	0.2	-	(0.6)	1.1	(0.4)
Deferred tax recoverable/(payable) within 12 months	0.8	-	(1.1)	(0.6)	(0.3)	(0.6)
	1.9	0.2	(1.1)	(1.2)	0.8	(1.0)



### 13 Deferred tax assets/(liabilities) continued

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

	Balance at 1 July 2017 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 30 June 2018 £'m
Property, plant and equipment	0.4	(0.2)	-	0.2
Share based payments	(0.2)	(0.1)	(0.3)	(0.6)
Hedging	0.1	-	(0.7)	(0.6)
	0.3	(0.3)	(1.0)	(1.0)

	Balance at 30 June 2018 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 29 June 2019 £'m
Property, plant and equipment	0.2	1.4	-	1.6
Share based payments	(0.6)	0.2	0.7	0.3
Hedging	(0.6)	-	(0.5)	(1.1)
	(1.0)	1.6	0.2	0.8

### 14 Inventories

	2019 £'m	2018 £'m
Goods for resale	157.7	154.7

Goods for resale includes an NRV provision of £11.4m (2018: £12.8m).

### 15 Trade and other receivables

	2019 £'m	2018 £'m
Trade receivables	1.3	0.3
Other receivables	5.6	4.3
Prepayments and accrued income	18.7	19.3
	25.6	23.9

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

A total of £14.6m of prepayments and accrued income are property-related (2018: £14.7m).

No impairment was incurred on trade and other receivables during the year and the expected credit loss provision held at period end is nil (2018: nil). Materially, no amounts are overdue (2018: nil).

### 16 Cash and cash equivalents

	2019 £'m	2018 £'m
Cash at bank and in hand	19.0	15.0

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

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For the 52 weeks ended 29 June 2019

## 17 Trade and other payables

	2019 £'m	2018 £'m
<b>Current</b>		
Trade payables	62.6	51.1
Accruals and deferred income	56.0	36.6
Taxation and social security	17.3	13.8
Other payables	0.4	0.3
<b>Total current trade and other payables</b>	<b>136.3</b>	<b>101.8</b>
<b>Non-current</b>		
Accruals and deferred income	35.5	38.3
<b>Total non-current trade and other payables</b>	<b>35.5</b>	<b>38.3</b>
<b>Total trade and other payables</b>	<b>171.8</b>	<b>140.1</b>

Current accruals and deferred income include lease incentives of £6.5m (2018: £5.6m), capital accruals of £3.2m (2018: £2.7m) and a returns provision of £2.2m (2018: £2.0m). Contract liabilities of £2.2m (2018: £2.8m) for gift cards and credit notes is included within accruals and deferred income.

The maturity analysis of non-current accruals and deferred income, all of which relate to lease incentives, is as follows:

	2019 £'m	2018 £'m
One to two years	6.1	5.8
Two to five years	15.4	15.6
After five years	14.0	16.9
	<b>35.5</b>	<b>38.3</b>

## 18 Financial risk management

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

There are no changes to exposures to risk and how they arise and the Group objectives, policies and procedures for managing the risk and methods used to measure the risk from the previous period.

### Credit risk

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

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of 'A' credit rating. Credit limits with approved counterparties are limited to £25m for any individual party.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets. No collateral is held (2018: none). At the period end the maximum exposure is detailed in the table below:

	2019 £'m	2018 £'m
<b>Current</b>		
Cash and cash equivalents	19.0	15.0
Trade and other receivables	6.9	4.6
Prepayments and accrued income (excluding prepayments)	0.3	0.2
Derivative financial instruments	5.1	2.8
<b>Total current financial assets</b>	<b>31.3</b>	<b>22.6</b>
<b>Non-current</b>		
Derivative financial instruments	1.0	1.4
<b>Total financial assets</b>	<b>32.3</b>	<b>24.0</b>

Trade and other receivables include rebates due back from suppliers. The rebates are recovered through deductions from future payments to suppliers and therefore management is confident of the recoverability of these balances.

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

## 18 Financial risk management<sup>continued</sup>

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

On that basis, the loss allowance as at 30 June 2018 and 29 June 2019 was determined to be nil for trade and other receivables, accrued income and cash and cash equivalents.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances. The Group manages this risk by continuously monitoring cash flow forecasts. Further details of the Group's available facilities can be found in note 19.

All cash flows on financial liabilities for 2019 and 2018 are contractually due within one year.

Total borrowings of £45m (2018: £140m) reflect the level of facility drawdown at the period end on the Group's Revolving Credit Facilities.

### Interest rate risk

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

At the period end, if Libor interest rates had been 10 basis points higher with all other variables held constant, post-tax profit would have been £0.2m lower (2018: £0.1m lower) as a result of higher interest expense on floating rate borrowings.

### Foreign currency risk

All of the Company's revenues are in sterling. The majority of purchases are also in pounds sterling, but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just over 20% of stock purchases in the period ended 29 June 2019.

The Company uses various means to cover its exposure to US dollars: holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of US dollars.

All the Company's foreign exchange transactions are designed to satisfy US dollar denominated liabilities. The maximum level of hedging coverage which will be undertaken is 100% of anticipated expenditure on a three month horizon, stepping down to 75% on a four to 12 month horizon and 50% on a 13 to 18 month horizon. Coverage beyond 18 months is minimal.

Cash flow hedges are in place to manage foreign exchange rate risk arising from forecast purchases denominated in US dollars. At the balance sheet date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was £6.1m asset (2018: £3.5m asset) which relates to a commitment to purchase \$190.5m (2018: \$164.0m) for a fixed sterling amount. A fair value gain of £6.6m (2018: £1.6m) was recognised in other comprehensive income and no ineffectiveness (2018: nil) was noted on cash flow hedges during the period. In the period, a gain of £3.9m (2018: £2.6m loss) was recycled from the cash flow hedge reserve to inventory to offset foreign exchange movements on purchases. The remaining hedge reserve balance will be recycled to the income statement to offset future purchases occurring after the balance sheet date, the majority of which expire in the next 12 months.

The outstanding US dollar liabilities at the period end were \$1.1m (2018: \$0.3m).

In the event of a significant adverse movement in the US dollar exchange rate, the Company could seek to minimise the impact on profitability by changing the selling price of goods, renegotiating terms with suppliers or sourcing from alternative markets.

At the period end if GBP had strengthened by 10% against USD with all other variables held constant, post-tax profit would have been £0.1m higher (2018: £0.4m higher) as a result of foreign exchange gains on translation of USD denominated trade payables compensated by foreign exchange losses on translation of USD cash and cash equivalents. Other components of equity would have been £13.6m lower (2018: £9.0m lower) as a result of a decrease in fair value of derivatives designated as cash flow hedges.

Conversely, if GBP had weakened by 10% against USD with all other variables held constant, post-tax profit for the year would have been £0.3m lower (2018: £0.5m lower) and other components of equity would have been £16.7m higher (2018: £11.0m higher).

The US dollar period end exchange rate applied in the above analysis is 1.2690 (2018: 1.3152).

### Capital management

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

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

From time to time the Group purchases its own shares on the market. The shares are intended to be used for issuing shares under the Group's share option programmes. The Board has authorised a share purchase programme designed to ensure that all options expected to vest under share option schemes can be fulfilled out of treasury shares.

# Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 29 June 2019

## 18 Financial risk management continued

During the prior period, the Group amended and extended its syndicated Revolving Credit Facility (RCF). The RCF was increased to £165m and extended until 2023. The optional accordion facility of £75m remains in place. The terms of the RCF are unchanged and are consistent with normal practice and include covenants in respect of leverage (net debt to be no greater than 2.5× EBITDA before exceptional items) and fixed charge cover (EBITDA before exceptional items to be no less than 1.75× fixed charges), both of which were met comfortably as at 29 June 2019. In addition, the Group maintains £20m of uncommitted overdraft facilities with two syndicate partner banks.

The gearing ratio and banking covenants were as follows:

	2019 £'m	2018 £'m
Total borrowings (note 19)	45.0	140.0
Less: unamortised debt issue costs (note 19)	(0.7)	(1.0)
Less: cash and cash equivalents (note 16)	(19.0)	(15.0)
Net debt	25.3	124.0
Total equity	185.8	134.7
Total capital	211.1	258.7
Gearing ratio	12%	48%
Operating profit	126.9	104.7
Add: Depreciation and amortisation (note 5)	32.7	33.5
Add: Loss on disposal and impairment of non-current assets before exceptional items (note 5)	6.7	1.4
EBITDA before exceptional items	166.3	139.6
Net debt: EBITDA before exceptional items ratio	0.15	0.89
EBITDA before exceptional items	166.3	139.6
Rent	48.0	47.4
EBITDAR before exceptional items	214.3	187.0
Net interest (note 7)	1.0	2.7
Rent	48.0	47.4
Fixed charges	49.0	50.1
Fixed charge cover	4.4	3.7

## 18 Financial risk management continued

### Derivatives: Hedge ineffectiveness

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

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item.

The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

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

### Market risk

The Group uses a combination of foreign currency options and foreign currency forwards to hedge its exposure to foreign currency risk. Under the Group's policy the critical terms of the forwards and options must align with the hedged items.

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

The intrinsic value of foreign currency options is determined with reference to the relevant spot market exchange rate.

The differential between the contracted strike rate and the discounted spot market exchange rate is defined as the time value. It is discounted, where material.

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

### Effects of hedge accounting on the financial position and performance

	2019 £'m	2018 £'m
Foreign currency forwards		
Carrying amount of asset	6.1	3.4
Notional amount	142.3	119.7
Maturity date	July 2019 - June 2021	July 2018 - June 2020
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness	£(6.6)m	£(1.6)m
Change in the value of hedging instruments	£6.6m	£1.6m
Weighted average hedged rate for the year (including forward points)	US\$ 0.7459:£1	US\$ 0.7298:£1

### Fair values

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

### Fair value hierarchy

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

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

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



# Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 29 June 2019

## 18 Financial risk management continued

### Financial assets/(liabilities)

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

	Loans and receivables £'m	Other financial liabilities at amortised costs £'m	Derivatives used for hedging £'m	Total £'m
<b>At 30 June 2018</b>				
Cash and cash equivalents	15.0	-	-	15.0
Trade and other receivables	4.6	-	-	4.6
Prepayments and accrued income (excluding prepayments)	0.2	-	-	0.2
Derivative financial instruments	-	-	4.2	4.2
<b>Total financial assets</b>	<b>19.8</b>	<b>-</b>	<b>4.2</b>	<b>24.0</b>
Trade and other payables	-	(51.4)	-	(51.4)
Accruals and deferred income (excluding deferred income)	-	(26.2)	-	(26.2)
Bank borrowings	-	(139.0)	-	(139.0)
Derivative financial instruments	-	-	(0.7)	(0.7)
<b>Total financial liabilities</b>	<b>-</b>	<b>(216.6)</b>	<b>(0.7)</b>	<b>(217.3)</b>
<b>Net financial assets/(liabilities)</b>	<b>19.8</b>	<b>(216.6)</b>	<b>3.5</b>	<b>(193.3)</b>

	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
<b>At 29 June 2019</b>				
Cash and cash equivalents	19.0	-	-	19.0
Trade and other receivables	6.9	-	-	6.9
Prepayments and accrued income (excluding prepayments)	0.3	-	-	0.3
Derivative financial instruments	-	-	6.1	6.1
<b>Total financial assets</b>	<b>26.2</b>	<b>-</b>	<b>6.1</b>	<b>32.3</b>
Trade and other payables	-	(63.0)	-	(63.0)
Accruals and deferred income (excluding deferred income)	-	(42.3)	-	(42.3)
Bank borrowings	-	(44.3)	-	(44.3)
<b>Total financial liabilities</b>	<b>-</b>	<b>(149.6)</b>	<b>-</b>	<b>(149.6)</b>
<b>Net financial assets/(liabilities)</b>	<b>26.2</b>	<b>(149.6)</b>	<b>6.1</b>	<b>(117.3)</b>

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

	2019 £'m	2018 £'m
Sterling	14.1	8.8
US dollar	4.5	5.9
Euro	0.4	0.3
	<b>19.0</b>	<b>15.0</b>

## 19 Bank loans

	2019 £'m	2018 £'m
Total borrowings	45.0	140.0
Less: unamortised debt issue costs	(0.7)	(1.0)
	44.3	139.0

Borrowings relate to the Group's syndicated Revolving Credit Facility (RCF), as described in note 18. The carrying amount of bank borrowings is equal to fair value. The Group also has an accordion option with a maximum facility of £75m, as well as an overdraft facility of £20m.

The below analysis shows the reconciliation of net debt:

	2019 £'m	2018 £'m
<b>Net debt at 30 June 2018 and 1 July 2017</b>	(124.0)	(122.1)
Net increase/(decrease) in cash and cash equivalents (excluding foreign exchange revaluations)	3.4	(1.9)
Effect of foreign exchange	0.6	(0.5)
Repayments of Revolving Credit Facility	120.0	10.0
Drawdowns on Revolving Credit Facility	(25.0)	(10.0)
Loan transaction costs	-	0.8
<b>Change in net debt resulting from cash flows</b>	99.0	(1.6)
Amortisation of debt issue costs	(0.3)	(0.3)
<b>Movement in net debt</b>	98.7	(1.9)
<b>Net debt represented by:</b>		
Cash and cash equivalents (note 16)	19.0	15.0
Non-current borrowings (note 19)	(45.0)	(140.0)
Net debt including unamortised debt issue costs	(26.0)	(125.0)
Unamortised debt issue costs	0.7	1.0
<b>Net debt at 29 June 2019 and 30 June 2018</b>	(25.3)	(124.0)

# Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 29 June 2019

## 20 Provisions

	Balance at 30 June 2018 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	Balance at 29 June 2019 £'m
Property-related	(1.7)	0.6	(1.1)	0.5	(1.7)

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

## 21 Issued share capital

	2019 Number of Ordinary Shares of 1p each	2018 Number of Ordinary Shares of 1p each
In issue at the start of the period	202,833,931	202,833,931
In issue at the end of the period	202,833,931	202,833,931

	2019 Number of shares	2019 £'m	2018 Number of shares	2018 £'m
Ordinary Shares of 1p each:				
Authorised	500,000,000	5.0	500,000,000	5.0
Allotted, called up and fully paid	202,833,931	2.0	202,833,931	2.0

Proceeds received in relation to shares issued during the period were £nil (2018: £nil).

## 22 Treasury shares

	2019 Number of shares	2019 £'m	2018 Number of shares	2018 £'m
Outstanding at the beginning of the period	914,635	8.2	1,150,642	10.3
Reissued during the period in respect of share option schemes	(46,993)	(0.4)	(236,007)	(2.1)
Outstanding at the end of the period	867,642	7.8	914,635	8.2

The Group acquired no shares through purchases on the London Stock Exchange during the period (2018: nil).

The Group reissued 46,993 (2018: 236,007) treasury shares during the period for a total value of £0.4m (2018: £2.1m).

Proceeds from the issue of treasury shares included in the Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity of £0.2m (2018: £1.3m) is the amount employees contributed.

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

## 23 Share based payments

The total expense recognised in the Consolidated Income Statement and Consolidated Statement of Changes in Equity arising from share based payments is as follows:

	2019 52 weeks £'m	2018 52 weeks £'m
Sharesave	0.3	0.1
LTIP	1.1	0.2
	1.4	0.3

The charge for the Dunelm Group Share Option Plan (GSOP) and Restricted Stock Award schemes are below the rounding ceiling.

As at 29 June 2019, the Group operated four share award plans:

### a. Dunelm Group Share Option Plan (GSOP)

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

### b. Dunelm Group Savings Related Share Option Plan (Sharesave)

These options are open to all staff with eligible length of service. Grants are made under the scheme annually. Options may be exercised under the scheme within six months of the completion of each three-year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

### c. Long Term Incentive Plan (LTIP)

These options are granted to particular individuals and are dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment.

### d. Restricted Stock Award

These options are granted to particular individuals and are dependent on continuing employment and fulfilment of a performance condition.

As the numbers of share options granted or outstanding and the related charge to the Group income statement are not significant, no further disclosures are included in these financial statements.

## 24 Commitments

As at 29 June 2019, the Group had entered into capital contracts for new stores and refits amounting to £5.5m (2018: £5.7m) and £2.3m (2018: £1.9m) for intangible assets.

The future minimum lease payments under non-cancellable operating leases were as follows:

	2019 Motor vehicles £'m	2019 Land and buildings £'m	2019 Plant and machinery £'m	2019 Total £'m	2018 Motor vehicles £'m	2018 Land and buildings £'m	2018 Plant and machinery £'m	2018 Total £'m
Within one year	1.1	52.0	2.4	55.5	0.9	52.9	2.4	56.2
In the second to fifth year inclusive	1.7	173.9	2.7	178.3	1.1	178.3	4.9	184.3
After five years	-	134.4	1.0	135.4	-	159.1	0.4	159.5
	2.8	360.3	6.1	369.2	2.0	390.3	7.7	400.0

As at 29 June 2019 the Group has 167 (2018: 167) operating leases in respect of properties. These leases run for periods of up to 20 years, with an option to renew leases on expiry. Lease payments are typically reviewed every five years.

The Group also leases a number of vehicles and items of computer hardware under operating leases. These vary in length.

# Notes to the Consolidated Financial Statements continued

For the 52 weeks ended 29 June 2019

## 25 Contingent liabilities

The Group had no contingent liabilities at the period end date (2018: none).

## 26 Related parties

### Identity of related parties

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

### Key management personnel

The key management personnel of the Group comprise members of the Board of Directors, the Executive Board and David Stead, the Group's interim Chief Financial Officer until 28 November 2018.

Directors of the Company and their close relatives control 51.5% (2018: 51.5%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 70 to 92. The remuneration of the key management personnel, excluding David Stead, is set out below:

	2019 52 weeks £'m	2018 52 weeks £'m
Short term employee benefits	2.5	5.7
Post-employment benefits	0.2	0.3
Share based payments	0.9	0.1
	3.6	6.1

David Stead's remuneration is set out below:

	2019 52 weeks £'000	2018 52 weeks £'000
Short term employee benefits	49.5	48.9
Post-employment benefits	5.8	3.1
	55.3	52.0

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

## 27 Ultimate controlling party

The Directors consider that the Adderley family is the ultimate controlling party of Dunelm Group plc by virtue of their combined shareholding.

## 28 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.



# Parent Company Statement of Financial Position

As at 29 June 2019

	Note	29 June 2019 £'m	30 June 2018 £'m
<b>Non-current assets</b>			
Investment in subsidiaries	4	53.6	52.5
Deferred tax assets	5	0.2	0.1
<b>Total non-current assets</b>		<b>53.8</b>	52.6
<b>Current assets</b>			
Trade and other receivables	6	317.9	181.6
<b>Total current assets</b>		<b>317.9</b>	181.6
<b>Total assets</b>		<b>371.7</b>	234.2
<b>Current liabilities</b>			
Trade and other payables	7	(87.9)	-
<b>Total current liabilities</b>		<b>(87.9)</b>	-
<b>Total liabilities</b>		<b>(87.9)</b>	-
<b>Net assets</b>		<b>283.8</b>	234.2
<b>Equity</b>			
Issued share capital	11	2.0	2.0
Share premium account		1.6	1.6
Non-distributable reserves		8.4	7.3
Capital redemption reserve		43.2	43.2
Retained earnings		228.6	180.1
<b>Total equity attributable to equity holders of the Parent</b>		<b>283.8</b>	234.2

The Company made a profit after tax of £102.6m (2018: £43.1m).

The financial statements on pages 137 to 144 were approved by the Board of Directors on 4 September 2019 and were signed on its behalf by:

**Laura Carr**

Director

Company number 04708277

## Parent Company Statement of Cash Flows

For the 52 weeks ended 29 June 2019

There were no cash movements during the period for the Company as any cash transactions were executed by other members of the Dunelm Group plc Group on behalf of the Company. As a result, no statement of cash flows has been presented in these financial statements.

# Parent Company Statement of Changes in Equity

For the 52 weeks ended 29 June 2019

	Note	Issued share capital £'m	Share premium account £'m	Non-distributable reserves £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
<b>As at 1 June 2017</b>		<b>2.0</b>	<b>1.6</b>	<b>7.0</b>	<b>43.2</b>	<b>189.1</b>	<b>242.9</b>
Profit for the period		-	-	-	-	43.1	43.1
Total comprehensive income for the period		-	-	-	-	43.1	43.1
Issue of treasury shares	12	-	-	-	-	1.3	1.3
Share based payments		-	-	0.3	-	-	0.3
Dividends	3	-	-	-	-	(53.4)	(53.4)
Total transactions with owners, recorded directly in equity		-	-	0.3	-	(52.1)	(51.8)
<b>As at 30 June 2018</b>		<b>2.0</b>	<b>1.6</b>	<b>7.3</b>	<b>43.2</b>	<b>180.1</b>	<b>234.2</b>
Profit for the period		-	-	-	-	102.6	102.6
Total comprehensive income for the period		-	-	-	-	102.6	102.6
Proceeds from issue of treasury shares		-	-	-	-	0.2	0.2
Share based payments	13	-	-	1.1	-	0.3	1.4
Dividends	3	-	-	-	-	(54.6)	(54.6)
Total transactions with owners, recorded directly in equity		-	-	1.1	-	(54.1)	(53.0)
<b>As at 29 June 2019</b>		<b>2.0</b>	<b>1.6</b>	<b>8.4</b>	<b>43.2</b>	<b>228.6</b>	<b>283.8</b>

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

# Parent Company Accounting Policies

For the 52 weeks ended 29 June 2019

## General information

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

## Basis of preparation

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and as applied in accordance with the provisions of the Companies Act 2006.

The financial statements of the Company are prepared under the historical cost convention, in accordance with the Companies Act 2006, applicable accounting standards and specifically in accordance with the accounting policies set out below.

## Going concern

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

## Share based payments

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

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

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

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

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

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

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

## Taxation

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

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

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

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

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

## Dividends

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

# Parent Company Accounting Policies

For the 52 weeks ended 29 June 2019

## Financial assets

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period where they are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables (note 6).

### Trade and other receivables

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

## Share capital

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

## Investments

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

## IFRS 15 'Revenue from contracts with customers'

The Company has adopted IFRS 15 'Revenue from contracts with customers' for the first time in the current financial year. This standard does not have a material impact on the financial statements of the Company.

## IFRS 9 'Financial instruments'

The Company has adopted IFRS 9 'Financial instruments' for the first time in the current financial year. This standard does not have a material impact on the financial statements of the Company.

## New standards and interpretations

IFRS 16 'Leases', will be effective from the period beginning 30 June 2019 onwards. This is not expected to have a material impact on the Company Statement of Financial Position and Income Statement.

# Notes to the Parent Company Financial Statements

For the 52 weeks ended 29 June 2019

## 1 Income statement

The Company made a profit after tax of £102.6m (2018: £43.1m). The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and have not presented an income statement for the Company alone.

The Company is not required to give details of the fees paid to its auditor in accordance with the Companies (Disclosure of Auditors' Remuneration) Regulations 2005.

## 2 Employee costs

The Company has no employees other than the three Executive Directors and the Non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 70 to 92. Share based payments details are given in note 13 on page 144.

The Parent Company does not receive any recharge in respect of Directors' remuneration.

## 3 Dividends and special distributions to shareholders

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

		2019 52 weeks £'m	2018 52 weeks £'m
Final for the period ended 1 July 2017	- paid 19.5 pence	-	39.3
Interim for the period ended 30 June 2018	- paid 7.0 pence	-	14.1
Final for the period ended 30 June 2018	- paid 19.5 pence	39.4	-
Interim for the period ended 29 June 2019	- paid 7.5 pence	15.2	-
		54.6	53.4

The Directors are proposing a final dividend of 20.5 pence per Ordinary Share for the period ended 29 June 2019 which equates to £41.4m. The dividend will be paid, subject to shareholder approval, on 22 November 2019 to shareholders on the register at the close of business on 1 November 2019. The Directors have declared a special dividend of 32.0 pence per Ordinary Share for the period ended 29 June 2019 which equates to £64.6m. The dividend will be paid on 11 October 2019 to shareholders on the register at close of business on 20 September 2019.

## 4 Investments

Shares in subsidiary undertakings:

	£'m
As at 1 July 2017	52.2
Share based payments	0.3
As at 30 June 2018	52.5
Share based payments	1.1
As at 29 June 2019	53.6

The following were subsidiaries as at 29 June 2019 and 30 June 2018:

Subsidiary	Proportion of Ordinary Shares held	Nature of business
Dunelm Limited	100%	Holding company
Dunelm (Soft Furnishings) Limited*	100%	Retailer of soft furnishings
Dunelm Estates Limited*	100%	Non-trading company
Zoncolan Limited*	100%	Non-trading company
Fogarty Holdings Limited*	100%	Non-trading company
Globe Online Limited*	100%	Dormant
Achica Brand Management Limited (Registered in Cyprus)*	100%	Intellectual property holding company

\* Share capital held by subsidiary undertaking.



# Notes to the Parent Company

## Financial Statements continued

For the 52 weeks ended 30 June 2019

### 4 Investments continued

Dunelm Group plc, the Parent Company and its subsidiaries (excluding Achica Brand Management Limited) are incorporated and domiciled in the UK. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD.

Achica Brand Management Limited was incorporated in Cyprus on 27 June 2011 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at 28 Oktovriou, 261, View Point Tower, 3035, Limassol, Cyprus.

### 5 Deferred tax assets

	Assets	
	2019 £'m	2018 £'m
Employee benefits	0.2	0.1

The movement in deferred tax assets is as follows:

	Balance at 1 July 2017 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 30 June 2018 £'m
Employee benefits	0.1	-	-	0.1

	Balance at 30 June 2018 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 29 June 2019 £'m
Employee benefits	0.1	0.1	-	0.2

### 6 Trade and other receivables

	2019 £'m	2018 £'m
Amounts owed by Group undertakings	317.9	181.6

Amounts owed by subsidiary undertakings are immediately repayable. Interest is charged monthly on all intercompany balances at an annual rate of 2%.

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

The following table shows the gross balances offset in the table above:

	2019 £'m	2018 £'m
Gross balance with Group undertakings	317.9	209.4
Gross balance offset with Group undertakings	-	(27.8)
	317.9	181.6

### 7 Trade and other payables

	2019 £'m	2018 £'m
Amounts owed to Group undertakings	(87.7)	-
Other taxation and social security	(0.2)	-
	(87.9)	-

Amounts owed to subsidiary undertakings are immediately repayable. Interest is charged monthly on all intercompany balances at an annual rate of 2%.

## 8 Taxation

	2019 52 weeks £'m	2018 52 weeks £'m
<b>Current taxation</b>		
UK corporation tax charge for the period	-	-
	-	-
<b>Deferred taxation</b>		
Origination of temporary differences	(0.1)	-
<b>Total tax expense</b>	<b>(0.1)</b>	-

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

	2019 52 weeks £'m	2018 52 weeks £'m
Profit before taxation	102.6	43.1
UK corporation tax at standard rate of 19% (2018: 19%)	19.5	8.2
Factors affecting the charge in the period:		
Income not subject to tax	(19.5)	(8.0)
Group relief	(0.1)	(0.2)
<b>Tax charge</b>	<b>(0.1)</b>	-

The UK Government substantively enacted reductions in future tax rates by 2% to 17% from 1 April 2020.

## 9 Interest bearing loans and borrowings

The Company has no committed borrowing facilities as any cash transactions are executed by other members of the Dunelm Group on behalf of the Company.

## 10 Financial risk management

### Capital management

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

## 11 Issued share capital

	Number of Ordinary Shares of 1p each 2019	Number of Ordinary Shares of 1p each 2018	Number of B Shares of 0.001p each 2019	Number of B Shares of 0.001p each 2018
In issue at the start of the period	202,833,931	202,833,931	-	-
In issue at the end of the period	202,833,931	202,833,931	-	-

Proceeds received in relation to shares issued during the period were £nil (2018: £nil).

	2019 Number of shares	2019 £'m	2018 Number of shares	2018 £'m
Ordinary shares of 1p each:				
Authorised	500,000,000	5.0	500,000,000	5.0
Allotted, called up and fully paid	202,833,931	2.0	202,833,931	2.0

The holders of the Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share.

# Notes to the Parent Company

## Financial Statements continued

For the 52 weeks ended 30 June 2019

### 12 Treasury shares

	2019 Number of shares	2019 £'m	2018 Number of shares	2018 £'m
Outstanding at the beginning of the period	914,635	8.2	1,150,642	10.3
Purchased during the period	-	-	-	-
Reissued during the period in respect of share option schemes	(46,993)	(0.4)	(236,007)	(2.1)
Outstanding at the end of the period	867,642	7.8	914,635	8.2

The Group acquired no shares through purchases on the London Stock Exchange during the period (2018: nil).

The Group reissued 46,993 (2018: 236,007) treasury shares during the period for a total value of £0.4m (2018: £2.1m).

Proceeds from the issue of treasury shares included in the Statement of Cash Flows and Statement of Changes in Equity of £0.2m (2018: £1.3m) is the amount employees contributed.

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

### 13 Share based payments

The total expense recognised in the income statement arising from share based payments is as follows:

	2019 £'m	2018 £'m
LTIP	0.3	-

As at 29 June 2019, the Company operated one share award plan:

Long Term Incentive Plan (LTIP) - These options are granted to particular individuals and are dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment.

As the numbers of share options granted or outstanding and the related charge to the Company income statement are not significant, no further disclosures are included in these financial statements.

### 14 Contingent liability

The Company had no contingent liabilities at the period end date (2018: none).

### 15 Related party disclosure

The amount due to the Company from subsidiary undertakings is set out in note 6. Transactions between the Company and its subsidiaries were as follows:

	2019 £'m	2018 £'m
Dividends received	102.5	42.0
Amounts due to Group undertakings	(87.7)	-
Net interest receivable	4.1	3.9

### Key management personnel

All employees of the Company are key management personnel including David Stead, the Group's interim Chief Financial Officer until 28 November 2018.

Directors of the Company and their close relatives control 51.5% (2018: 51.5%) of the voting shares of the Company.

Disclosures relating to the remuneration of Directors are set out in the Remuneration Report on pages 70 to 92. Disclosures relating to the remuneration of David Stead are set out in note 26 in the Group's financial statements.

### 16 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

# Advisers and Contacts

## Corporate Brokers and Financial Advisers

### UBS Investment Bank

1 Finsbury Avenue  
London EC2M 2PP  
Tel: 020 7567 8000

### Stifel Nicolaus Europe Limited

150 Cheapside  
London EC2V 6ET  
Tel: 020 7710 7600

## Legal Advisers

### Allen & Overy LLP

One Bishops Square  
London E1 6AO  
Tel: 020 3088 0000

## Independent Auditor

### PricewaterhouseCoopers LLP

Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT  
Tel: 0121 265 5000

## Principal Bankers

### Barclays Bank plc

Midlands Corporate Banking  
PO Box 333  
15 Colmore Row  
Birmingham B3 2WN  
Tel: 0345 755 5555

## Registrars

### Equiniti

Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Tel: 0371 384 2030<sup>1</sup>

## Financial Public Relations

### MHP Communications

60 Great Portland Street  
London W1W 7RT  
Tel: 020 3128 8100

## Registered Office

### Store Support Centre

Watermead Business Park  
Syston  
Leicestershire LE7 1AD  
Company Registration No: 4708277

## Investor Relations

### corporate.dunelm.com

Tel: 0116 264 4439  
Email: investorrelations@dunelm.com

<sup>1</sup> If dialling internationally, call +44 121 415 7047. The helpline is open Monday to Friday 8.30 am to 5.30 pm, excluding bank holidays.

# Shareholder Notes



# Store Listing

## Superstores

### London

Barnet  
Beckton  
Catford  
Colliers Wood  
Croydon  
Dartford  
Enfield  
Greenford  
Harrow  
Romford  
Staples Corner

### Superstores

Aberdeen  
Altrincham  
Ashford  
Aylesbury  
Ballymena  
Banbury  
Bangor  
Barnsley  
Barnstaple  
Barrow-in-Furness  
Basingstoke  
Bedford  
Belfast  
Birmingham  
Birmingham  
Highgate Middleway  
Birmingham Erdington  
Blackburn  
Blackpool  
Bolton  
Bournemouth  
Bradford  
Bridgend  
Bristol Brislington  
Broadstairs  
Bromborough  
Burton  
Bury St Edmunds  
Cambridge  
Cannock  
Canterbury  
Cardiff  
Carlisle  
Carmarthen  
Chelmsford  
Cheltenham  
Chester  
Chesterfield  
Chichester  
Colchester  
Coleraine  
Coventry  
Cramlington  
Crewe  
Darlington  
Derby  
Doncaster  
Dumfries  
Dundee  
Dunstable  
Eastbourne  
Edinburgh Straiton  
Exeter  
Falkirk  
Fareham  
Farnborough  
Glasgow Clydebank  
Glasgow Paisley  
Glasgow Uddingston  
Gloucester  
Grantham  
Grimsby  
Halifax  
Harlow  
Hartlepool  
Hastings  
Hemel Hempstead  
Hereford  
High Wycombe  
Horsham  
Huddersfield  
Hull  
Huntingdon  
Ilkeston  
Inverness  
Ipswich  
Jersey  
Keighley  
Kettering  
Kidderminster  
Kilmarnock  
Kirkcaldy  
Lancaster  
Leeds  
Leicester Thurmaston  
Lincoln  
Liverpool Garston  
Liverpool Sefton  
Livingstone  
Llanelli  
Londonderry  
Loughborough  
Lowestoft  
Maidstone  
Manchester  
Ashton-under-Lyne  
Manchester Radcliffe  
Manchester Trafford  
Mansfield  
Milton Keynes  
Newbury  
Newport  
Newport Isle of Wight  
Newtownabbey  
North Shields  
Northampton  
Norwich  
Nottingham  
Nuneaton  
Oldbury  
Oxford  
Perth  
Peterborough  
Plymouth  
Pontypridd  
Preston  
Reading  
Redditch  
Rochdale  
Rotherham  
Rugby  
Rustington  
Salisbury  
Scarborough  
Scunthorpe  
Sheffield Kilner Way  
Sheffield Woodseats  
Shoreham  
Shrewsbury Sundorne  
Sittingbourne  
Slough  
Solihull  
Southampton  
Southport  
St Albans  
St Helens  
Stafford  
Stevenage  
Stockport  
Stockton-on-Tees  
Stoke-on-Trent Fenton  
Sunderland  
Swansea  
Swindon  
Taunton  
Telford  
Thurrock  
Torquay  
Truro  
Wakefield  
Walsall  
Warrington  
Wellingborough  
West London Greenford  
West London Harrow  
Weston-super-Mare  
Wisbech  
Wolverhampton  
Worcester  
Workington  
Wrexham  
Yeovil  
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Boston (2 stores)

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