Our approach to risk management

Risk governance

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

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

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

Risk management

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

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

areas (such as data protection, cyber security, product quality and ethics and food safety) and horizon scanning. A summary of the R&R Committee's activities and findings is reported on a regular basis to the Audit and Risk Committee.

Individual risks

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

Risk identification and prioritisation

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

Risk appetite

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

Principal risks and uncertainties

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

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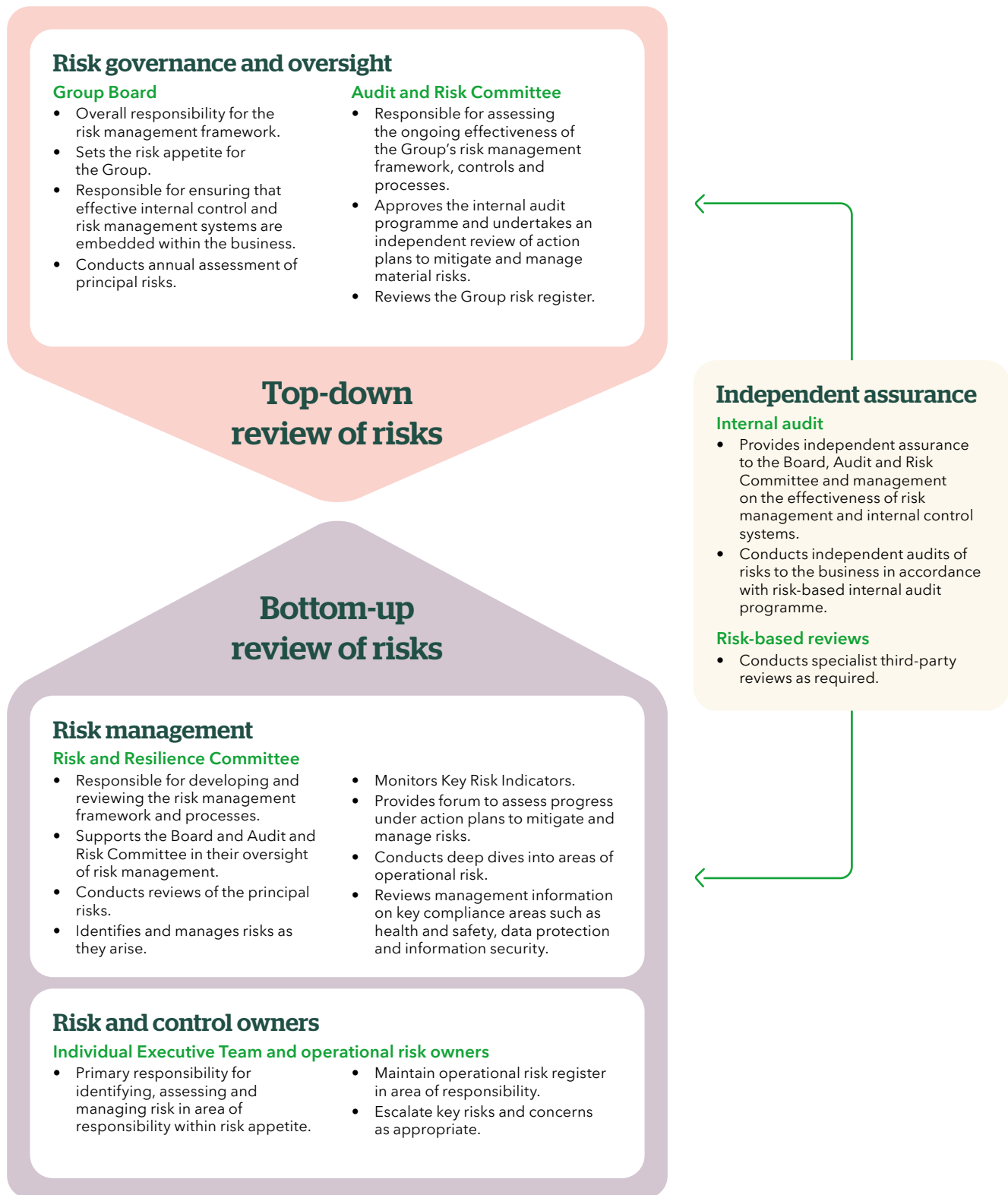
The IT systems, data, and cyber risk is considered to be increasing due to the rise in malware and phishing attacks targeting organisations of all types. These activities pose a serious challenge to the security and integrity of our digital infrastructure. Combating these threats remains a priority and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

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

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

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

Risk management framework

Risk governance and oversight

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

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

Top-down review of risks

Bottom-up review of risks

Risk management

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

Risk and control owners

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

Independent assurance

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

Risk-based reviews
- Conducts specialist third-party reviews as required.

Principal risks and uncertainties

At a glance

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

Strategic drivers

1 Product mastery

2 Total retail system

3 Culture and identity

Stakeholder groups

Customers

Colleagues

Communities

Suppliers

Planet

Shareholders

Risk trend

↔ Stable

↑ Increasing

↓ Decreasing

Customer offer

Description of risk

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

Stakeholder groups

Risk trend

↔

Link to strategy

1 **2** **3**

Risk owner

Customer Director

How we mitigate

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

Product reputation and trust

Description of risk

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

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

Stakeholder groups

Risk trend

Link to strategy

Risk owner
Director of Commercial and Supply Chain

How we mitigate

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

Business change

Description of risk

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

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

Stakeholder groups

Risk trend

Link to strategy

Risk owner
Chief Technology and Information Officer

How we mitigate

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

Principal risks and uncertainties continued

People and culture

Description of risk

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

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

Stakeholder groups

Risk trend

Link to strategy

3

Risk owner
Stores and People Director

How we mitigate

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

IT systems, data and cyber security

Description of risk

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

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

Stakeholder groups

Risk trend

Link to strategy

2

Risk owner
Chief Technology and Information Officer

How we mitigate

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

Regulatory and compliance

Description of risk

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

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

Stakeholder groups

Risk trend

Link to strategy

1 **3**

Risk owner
Group General Counsel and Company Secretary

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

Climate change and environment

Description of risk

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

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

Stakeholder groups

Risk trend

Link to strategy

1 **2** **3**

Risk owner
Chief Executive Officer

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

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

Principal risks and uncertainties continued

Supply chain resilience

Description of risk

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

Stakeholder groups

Risk trend

Link to strategy

2

Risk owner

Director of Commercial and Supply Chain

How we mitigate

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

Finance and treasury

Description of risk

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

Stakeholder groups

Risk trend

Link to strategy

1 **2** **3**

Risk owner

Chief Financial Officer

How we mitigate

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

Emerging risks and opportunities

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

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

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