DUNELM (SOFT FURNISHINGS) LTD

Annual report and financial statements

For the period ended 2 July 2022

Registered number 02129238

Company information

Directors	Sir Will Adderley Nicholas Wilkinson Karen Witts Steve Barton
Secretary	Dawn Durrant
Company number	02129238
Registered office	Watermead Business Park Syston Leicestershire LE7 1AD
Independent auditors	PricewaterhouseCoopers LLP One Chamberlain Square Birmingham B3 3AX United Kingdom
Bankers	Barclays Bank Plc 15 Colmore Row Birmingham B3 2BH

Contents

Strategic report

The Directors present their strategic report together with the Directors' report and audited financial statements of the company for the 53 week period ended 2 July 2022.

Principal activities
The principal activity of the company continues to be that of a UK homewares retailer selling to customers through stores and online.

Growing with purpose
With stores being forced to close during both FY20 and FY21, we were delighted that we were able to keep our doors open to our customers throughout FY22. It is clear that customers are increasingly enjoying the advantages of our total retail system, which allows them to experience the friendly service of our physical stores in combination with the convenience of our digital channels; this has contributed to the delivery of record results this year.

FY22 presented new challenges, most notably the impact of higher cost of goods and inflationary pressures on both businesses and the consumer. Despite these challenges we have been busy developing our proposition and capabilities whilst continuing to drive our sustainability agenda. We remain focused on, and driven by, our shared values, and, against a complex backdrop, our 'keep listening and learning' value is proving particularly relevant. Once again, our incredible colleagues and committed suppliers stepped up, learning and adapting in order to deliver the best possible outcomes for our customers. I would like to sincerely thank each and every one of them for their continued resilience and contribution to another very successful year.

We expect the current challenges to persist at least throughout the year ahead and are conscious that many of our customers are fearful about the mounting cost of living pressures. Our primary focus at this time is to continue offering outstanding value to our customers, whilst recognising that individuals will adapt to the environment in their own ways. As ever, we continue to apply a relentless focus on basic operational discipline and attention to detail throughout the business to ensure that every pound counts. This has characterised Dunelm in recent years and is even more important in light of the current challenges we face.

FY22 Review

Another strong performance
FY22 was another strong year for the business. Total sales grew by 18.4%, and while the year-on-year growth benefitted from the lockdown related store closures last year, the growth rate of 41.1% (on a 52 week basis for comparative purposes) compared to FY19 demonstrates the pace at which the business has developed through the pandemic period. We were pleased with the performance of our stores following two years of disruption and our digital channels also traded well, making up 35% of total sales over the year, up from 20% in FY19. More people shopped with us than ever before; our active customer base grew by 8.5%. Our strong sales performance was supported by further market share gains, with our share in the homewares market growing by 140bps.

We delivered a strong gross margin of 51.2%, despite an additional sale event in Q1, as customer participation in event sales was low through most of the year. We saw a higher participation of event sales in Q4, especially during our Summer Sale. Profit before tax grew by 32.2%, benefitting from the strong sales growth, higher than expected leverage of fixed store costs in the first half, and ongoing tight operational grip.

We delivered free cash flow of £128.6m, which included the impact of temporarily building our inventory levels. This was a strategic decision we took to maintain availability for customers through ongoing supply chain instability which was seen across the market.

On the back of this strong financial performance, the Directors have proposed a final ordinary dividend of £52.9m, bringing the total ordinary dividend in respect of FY22 to £81.2m, an increase of 14.3%.

Strategic report *(continued)*

Delivering for all our stakeholders
We recognise that we have a diverse set of stakeholders in our business, and in FY22 we continued to take decisions to balance the needs and expectations of all of them.

Our colleagues are extremely important to us and we were pleased to be able to offer employment to over 800 new colleagues in the year. We understand the impact of the higher cost of living on all of our colleagues, and so we implemented a median pay increase above 7% (greater than the equivalent increase to the National Living Wage), focussing proportionately higher pay increases on our lower paid colleagues. We want Dunelm to be an inclusive workplace, and aspire to achieve a colleague base reflective of society at all levels, providing opportunity for all. During the year we provided training and set up network support groups to increase awareness in inclusion and diversity, particularly in the areas of neurodiversity and ethnicity.

We also made progress on our ambitions to support thriving, purpose-driven communities around every one of our stores. We now have more than one million followers of our store Facebook groups. We delivered 19,000 Christmas gifts to local care homes, schools and women's refuges. We raised over £600k for charities in the year from colleague fundraising activity, including over £450k for the mental health charity, Mind, during the first year of our partnership.

We continue to focus on delivering outstanding value for our customers. We sell great products at great prices and our customers feed back with consistently high reviews on our own-brand products. We believe that our "fast and friendly" store service is already a differentiator for Dunelm, and in order to improve our home delivery service for customers, we opened a new furniture distribution hub and a new fulfilment operation in the year.

Our business success also helps our committed suppliers to grow their businesses. We worked collaboratively with them to minimise the disruption to customers from the supply chain challenges and on initiatives to support the achievement of our sustainability ambitions.

We shared our ambitious long-term targets for sustainability in FY21. In FY22, we achieved our in-year targets for carbon emissions, plastic packaging reduction and take-back - where we introduced a textiles take-back scheme. 30% of our own branded cotton products met our "more responsibly sourced cotton" standard. This was below the ambitious target that we set, but we are learning and educating ourselves and our suppliers, and we are confident that we will achieve our longer term commitments. We also recently launched a new label, called Conscious Choice, which showcases our most sustainable products, allowing customers to make more informed buying decisions.

Strategic Update: Becoming our Customers' 1st Choice for Home
Dunelm already enjoys broad-based appeal and greater than 90% brand awareness[1]. We are continuing to grow that appeal, and the number of active customers who shopped with us increased by 8.5% in FY22. We saw growth across all geographic regions in the UK, with customers in London and the South contributing 40% of our total growth in customer numbers in FY22[2]. We have seen growth in customer numbers across all income levels, with a year-on-year increase of more than 10% in both the <£20k per annum and >£100k per annum income groups[2]. We have also increased the appeal across all age ranges, with customers aged between 16 and 24 growing by 8.5% and those aged 65 and over growing by 16.2%.[2]

Our plan is to become our customers' 1st Choice for Home. We want to attract more customers to shop at Dunelm for their home, and for all customers to shop more frequently, across more product categories. To achieve this we are working hard to deliver our purpose, 'to help create the joy of truly feeling at home, now and for generations to come.' In the current climate, more than ever, we are ambitious about striving to do this brilliantly, and excited by the opportunity to continue to learn and adapt.

Investing in digitising the business
Digitising the business is a broad concept which refers to the development of digital and data capabilities which allow us to grow our product offer (beyond the physical limits of a store's capacity); to reach more consumers through digital content and channels; and to give to our customers the advantages of physical stores with the ease and convenience of online sales. We now have 177 stores, all offering Click & Collect and tablet-based selling of the broader Dunelm range

---

[1] Prompted awareness three month rolling average to June 2022. Source: BrandVue
[2] Analysis of Dunelm customers FY21 to FY22, source: Barclays

Strategic report *(continued)*

via colleague hosts. During the year we expanded our digital fulfilment capacity and capabilities, with a new dedicated ecommerce facility and a new furniture warehouse.

The strength of our total retail system has been proven in recent years. Our customers were able to benefit from the convenience of our digital channels during the pandemic and more recently have returned to stores to take advantage of our full physical retail offering. Many of the customers who shopped with us for the first time online during the pandemic are now shopping in store, or across both channels, which contributed to an increase in shopping frequency of 10%.[3] We also know that our multi-channel and multi-category customers shop on average 5x more often and spend 7x[4] more than customers shopping through single channels and categories, further demonstrating the advantages of our model. In addition, the number of 'most valuable' customers, defined as those customers with higher spend across multiple visits, grew by 16%.[5]

We are continuing to invest in digitising the business in a thoughtful way, to further enhance our product offer, brand reach, and customer experience. To maximise returns, we are being agile in the way we deploy our digital teams, balancing investment in growth areas such as customer acquisition and in foundational capabilities such as master data management.

Strengthening the customer proposition

We are constantly evolving and improving our overall customer proposition by continuing to strengthen our offer across four key areas: choice and value, good and circular, friendly and expert, and easy and convenient. Against the current macro-economic backdrop and the resulting pressure on household budgets, this is as important as ever.

In terms of choice and value, we offer a broad product range of more than 50,000 SKUs across 30 sub-categories, covering a large proportion of the UK homewares markets, at price points to appeal to all customers, whatever their style or budget. We have seen growth across the breadth of our product categories, both in those where we have higher market shares, and newer areas, including furniture and decorating. In all areas we have worked hard to mitigate the impact of cost inflation, re-designing and re-sourcing products in collaboration with our suppliers. We utilise a 'good – better – best' hierarchy of price and quality tiers in our core product ranges and are totally committed to offering great value at all price points. An example of this is our range of plain dye bedding, where we offer 15 different price/quality levels between the opening price ('good') product and the highest price ('best') product. In the second half of FY22 we re-set our range of plain dye bedding, with a lower price in the 'good' tier, and a small number of limited price increases across the best and better tiers. Most prices remained unchanged, but with new colours and fabrics introduced. Across each of the 'good', 'better' and 'best' tiers we saw strong growth in volume and sales. The scope for continuous improvement and innovation around choice and value is limitless, gives us energy, and leverages the skills, expertise and experience of our colleagues and our supplier partners. The same approach is present in how we develop special buys, impulse items and seasonal ranges, which adapt to changing customer needs and preferences, and is an area of particular focus in the current environment.

For the first time, we have included our ambition to be more environmentally and socially responsible into our customer proposition, calling this good and circular. We wish to offer our customers the opportunity to make informed choices, and have therefore increased the number of products which meet our 'more responsibly sourced' standards. In addition to The Edited Life, our lifestyle brand, which incorporates a variety of more sustainable materials and encourages reduced consumption, we have also recently launched 'Conscious Choice'. To be included in this selection of sustainably-focused own-brand lines, each product must be made from at least 50% more sustainable materials (by weight) compared to conventional alternatives, and will typically also offer an extended guarantee of between five and 25 years, with the products having been designed with durability in mind. In addition to product development, we also reduced the volume of plastic packaging on our own-brand products, and, in December 2021, expanded an in-store textiles take-back scheme nationwide. We now have customer take-back options for more than half of our own-brand product range, and have seen significant customer uptake.

---

[3] Number of visits per retained customer in FY22. Retained customers defined as those who shopped with Dunelm in FY21 and FY22. Source: Barclays

[4] Internal analysis based on active customers for the 12 months to June 2022.

[5] Internal analysis of 'best' customers based on number of visits and total expenditure.

Strategic report *(continued)*

As a business with both digital channels and local stores, we have numerous ways to seamlessly offer our customers both friendly and expert services. We recently re-modelled some of our larger stores to extend the furniture department, showcasing more of our home delivery range for our customers to see and sample and to allow them to ask for advice. We will learn whether customers are willing to travel further to visit these stores, but we have also enabled the colleagues in these stores to talk to customers and showcase the product virtually through video calls. Indeed, in recent years we have worked to connect all of our stores digitally with their local areas. This has exceeded our expectations in many ways, with a total of over one million Facebook followers in the communities we are building around our stores to support local initiatives that help people and the environment. This is becoming a reinforcing model where these communities foster word-of-mouth awareness and advocacy, and underpin our local marketing, lowering the cost of reaching new customers and encouraging more visits.

Easy and convenient is another part of our customer proposition that benefits from the combination of physical and digital channels. Click & Collect is one example of this, as is the ability to research more complex products either online or instore, depending on personal preference. Our Made to Measure curtains and blinds service is benefitting from the work underway to offer the same comprehensive assortment through all channels, and to allow customers to manage their order seamlessly between their online account and an in-store consultation. As part of our commitment to offer a more comprehensive range in this category, in May 2022 we acquired Sunflex, a leading supplier of blinds, curtains and poles, for a cash consideration of £20.8m. This acquisition enhances our product capability in window treatments and brings design, quality and fulfilment capability across a complex product catalogue.

We have also invested in, and improved, our home delivery capability, with the opening of two new distribution centres. A dedicated ecommerce fulfilment facility in Stoke, in partnership with GXO, to support our digital growth ambitions through better customer service, scale and efficiency, has already enabled us to shorten delivery times and extend order cut off times for express delivery services. In March 2022, we opened a dedicated 200,000 sq. ft. furniture distribution hub in Daventry, to improve the availability and speed of delivery of bulkier items, as well as the productivity of the flows into our home delivery network.

This ongoing work to strengthen our customer proposition is benefitting from the capabilities we continue to build in areas such as product, technology, digital & data engineering and insight & analytics. None of this would be possible without the strong operational focus and desire we have to make every pound count, which enables us to offer outstanding value to our customers, and at the same time invest prudently in digitising the business.

Summary and outlook

Trading in the first ten weeks of the financial year has remained robust. The comparative period benefitted from the delayed Summer Sale, reopening of stores and associated pent up consumer demand so, as expected, sales have been below the levels seen last year.

The operating and economic environment is extremely challenging. High inflation is expected to remain a feature throughout the year to come, and potentially beyond, causing the pressures on household budgets to increase. While consumer behaviour is unpredictable, our primary focus is to offer outstanding value. We continue to listen, learn and adapt, which plays to our strengths. We have a resilient, relevant and advantaged business model which is highly cash generative, and we are confident in our ability to continue to deliver for all stakeholders.

Strategic report *(continued)*

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.

Active customers growth %[6]	
2022	**8.5%**
2021	12.2%
2020	3.8%

Total revenue growth %	
2022	**18.4%**
2021	26.3%
2020	-3.9%

Net promoter score (NPS) improvement %	
2022	**-4.2%pts**
2021	4.2%pts
2020	1.8%pts

Employee net promoter score (eNPS) improvement %	
2022	**1%pts**
2021	1%pts
2020	9%pts

Profit before tax £'m	
2022	**214.0**
2021	161.9
2020	114.0

The Group KPI metrics can be found in the Annual Report and Financial Statements for Dunelm Group plc on page 24-25

[6] Active customers growth definition has been updated in FY22 and the prior years restated on a consistent basis as we believe this is a more accurate estimate

Strategic report *(continued)*

Financial Review

Revenue

	53 weeks to 2 July 2022	52 weeks to 26 June 2021	
	FY22 £m	FY21 £m	YoY Growth %
Total sales	**1,581.4m**	**1,336.2**	**18.4%**
Digital % total revenue	*35%*	*46%*	*-11%pts*
Homewares market share	10.2%	8.8%	+1.4%pts
Furniture market share	1.9%	1.7%	+0.2%pts

For the 53 weeks to 2 July 2022, total sales increased by 18.4%. This growth rates reflect a strong year of trading, the additional Summer Sale event in Q1, and a weaker comparative period in FY21 when stores were only able to offer Click and Collect services for around one third of the year. Digital sales made up 35% of total sales, lower than FY21 (46%) due to the store closure periods in the previous year.

Compared to FY19 (the last comparable period with all stores open all year), and on a consistent 52-week basis, total sales grew by 41.1% (FY19: £1,100.4m). Digital sales have grown by 2.5x since FY19, when they made up 20% of total sales. The growth rates we have delivered reflect the significant improvements we have made to our product offer, the broadening appeal of our brand, and the strength of our total retail system, which offers customers a friendly and convenient shopping experience across all channels.

We continue to see broad-based growth across our categories. Our furniture categories have performed particularly well, benefitting from improved availability and new additions to our ranges, such as home office (where we have increased the number of options by 60%). Our seasonal ranges also performed strongly, with customers responding well to our winter warm and garden furniture lines in particular. We are also pleased with the performance of our decorating ranges, and the new products we launched in collaboration with the Natural History Museum.

Encouragingly, we have further increased our market share[7]. In homewares, our market share increased by 140bps, and we also gained share in the furniture market, from a small base. Consistent with recent years, over 85% of our total growth in the year was from market share gains. We remain confident that the improvements we are making to our customer proposition in the four key focus areas described in the CEO review will continue to deliver market share gains going forward.

Gross margin

We continued to work closely with our committed suppliers to mitigate cost price pressures and minimise retail price increases whilst maintaining our commitment to offering customers great value for money at all price points.

Gross margin of 51.2% was strong, reflecting a continued lower participation of event sales in the first half of the year. Gross margin was 40bps lower than the prior year primarily reflecting a return to historic levels of participation in event lines during our Summer sale in Q4.

Looking ahead, we expect the participation in event lines to remain higher than the last two financial years and expect FY23 gross margin to be closer to our long-term average of around 50%.

[7] GlobalData UK homewares and furniture markets. Furniture excludes kitchen and bathroom furniture. Our homewares market share for FY21 has been restated by GlobalDataUK to 8.8% (previously reported 9.1%).

Strategic report *(continued)*

Operating costs
Total operating costs were £589.6m, with an operating cost ratio of 37.3%. The operating cost ratio benefitted from the leverage effect of a full year with all stores open, with this impact being particularly strong in H1.

The growth in sales increased operating costs by £12m, including £7m from the decision to increase our stockholding to protect availability. We expect these temporary costs to continue through H1 FY23, and then to reduce as stock levels return to more typical levels in H2. The impact of the reintroduction of business rates and the repayment of the JRS monies in FY21 led to a net increase in operating costs of £10m in the year. Inflationary pressures, mainly on wages, increased operating costs by £17m. We invested £20m in building capabilities and capacity (particularly in technology, data, digital and fulfilment). Our investment in new ecommerce and furniture supply chain sites will improve customer service. The 53rd week added a further £10m of costs compared to FY21.

We will continue to invest in a thoughtful way for the long-term, ensuring that our resources are deployed to maximise returns. In recent years we have invested in capability in areas such as digital, data and customer insight, as well as supply chain capacity to support medium term growth. We will leverage the benefit from these investments as they mature and become more efficient, helping to offset inflationary pressures. Our approach to operational grip has never been more important, and we will continue to relentlessly focus on making every pound count.

Profit
Operating profit of £219.8m was higher than FY21 (FY21: £171.5m). This reflects a full year of open stores, strong gross margin, and a tight operational grip on costs. The acquisition and consolidation of the Sunflex business towards the end of FY22 did not have a material impact on profit and loss in the period.

Net finance costs of £5.8m (FY21: £9.6m) included interest on IFRS 16 lease liabilities of £4.8m (FY21: £5.3m).

Profit before tax in the period was £214.0m (FY21: £161.9m), an increase of £52.1m year on year.

Profit after tax of £173.2m (FY21: £132.6m) reflected an effective tax rate of 19.1% (FY21: 18.1%). The effective tax rate was 10bps higher than the UK headline rate, within our historic range, but higher than FY21 which benefitted from the timing of R&D claims.

Cash generation and net cash
In the period, the Company generated £128.6m of free cash flow (FY21: £110.3m).

	FY22 53 weeks £m	**FY21 52 weeks £m**
Operating profit	219.8	171.5
Depreciation and amortisation[8]	79.3	80.8
Working capital (outflow) / inflow	(39.4)	(35.4)
Share-based payments	4.1	5.5
Tax paid	(35.2)	(35.5)
Net cash generated from operating activities	**228.6**	**186.9**
Capex and business combinations	(41.7)	(15.7)
Net interest[9]	(3.3)	(1.6)
Interest on lease liabilities	(4.8)	(5.3)
Repayment of principle element of lease liabilities	(50.2)	(54.0)
Free cash flow	**128.6**	**110.3**

[8] Including impairment and loss on disposal
[9] Excluding interest on lease liabilities

Strategic report *(continued)*

There was a working capital outflow of £39.4m in the period (FY21: £35.4m) as we consciously built our inventory levels to ensure we maintained good availability for customers, given the risk of ongoing supply chain disruption. Inventories at the end of the period were £223.0m (FY21: £172.4m). Whilst we are comfortable with this level of inventory for now, we do expect stock holding to reduce during FY23.

Total capital investment was £41.7m (FY21: £15.7m). This included £9.3m relating to the set-up of our new ecommerce and furniture supply chain operations, and £11.5m spent on the three new stores opened in the period, as well as refits of 9 existing stores and decarbonisation initiatives. On 3 May 2022 we acquired the trade and assets of Sunflex, a division of Hunter Douglas (UK) Limited, for a cash consideration of £20.8m, of which £17.7m had been paid at 2 July 2022. We expect capital expenditure in FY23 to be c.£25-£30m.

Cash Tax paid of £35.2m (FY21: £35.5m) included receipts in relation to research and development claims made at the end of FY21.

Repayments of lease liabilities of £50.2m (FY21: £54.0m) were lower than the prior year as the comparative was impacted by the agreed deferral of the June 2020 rent payments into H1 FY21.

After total dividend payments in the period of £282.1m (FY21: £24.3m), including special dividends of £207.0m, the Company ended the year with a net debt position of £23.8m (FY21: net cash £128.6m).

Dividends
An interim dividend of £28.3m and a special dividend of £75.1m (FY21: nil) was paid to the parent company, Dunelm Limited, in April 2022 (FY21: £24.3m). It is proposed to pay a final dividend of £52.9m (FY21: £46.8m).

Strategic report *(continued)*

The Group's Board regularly reviews and monitors the risks and uncertainties which could have a material effect on the Group and Company's results. The principal risks and uncertainties that could lead to a material impact have not significantly changed from those listed in the Strategic report of the Parent Company, Dunelm Group plc in the FY21 Annual Report. No new principal risks were identified in the year, however there were four risks where the potential impact had increased over the year, with the remaining risks having no change in their overall impact. We have also renamed one of our principal risks. A summary of the principal risks has been provided below:

Risk	Impact
Competition, market and customers	Failure to respond to changing consumer needs e.g., the shift towards online sales, personalisation, rental versus ownership, sustainability and customer experience, and to maintain a competitive offer (range, quality, value and ease of shopping) could impact profitability and limit opportunities for growth. A downturn in the economy and consumer spending, aggressive competitor activity (especially with cost price pressures) could impact sales and profit.
Catastrophic Business events	Failure to withstand the impact of an external event or combination of events that severely disrupts markets and causes significant damage to all or a substantial part of the Company's sales or operations (e.g. pandemic).
Brand damage	Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Increasingly, customers also want to know that products have been responsibly sourced and that their environmental impact is minimised. We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment. Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand.
People and culture	The success of the business could be impacted if it fails to attract, retain and motivate high-calibre colleagues. Maintaining and evolving the culture of our business (embodied in our shared values) is essential to delivering our strategy and ensuring the long-term sustainability of our business.
IT systems, data and cyber security	Operations impacted by failure to develop technology to support the strategy, lack of systems availability due to cyber attack or other failure, and reputational damage/fines due to loss of personal data.
Regulatory and compliance	Fines, damages claims, and reputational damage could be incurred if we fail to comply with legislative or regulatory requirements, including consumer law, health and safety, employment law, GDPR and data protection, Bribery Act, or competition law.
Climate change and environment	Failure to anticipate and address the strategic, regulatory, and reputational impact of climate change and environmental matters, and governmental, consumer and media action in response to it.
Supply chain disruption	Changes in global supply chain capacity, labour shortages, ongoing disruption from Covid-19 and geo-political instability may cause interruption to the supply of stock to our stores and fulfilment of online orders which could impact sales. Inflationary pressures linked to these challenges could impact profitability.
Business efficiency	Profitability could be impacted by failure to operate the business efficiently or to manage margin volatility.
Finance and treasury	Progress against business objectives constrained by a lack of short-term funding and long term capital.

Strategic report *(continued)*

Alternative performance measures (APMs)

APM	Definition, purpose and reconciliation to statutory measure
Unique active customers growth	12-month rolling growth in unique active customers who have shopped in the 12 months, based on Barclays transactional data. Note that Barclays data represents approximately 10% of total Dunelm transactions. To measure whether we are continuing to grow our active customer base – from both new customers and retention of existing customers.
Total sales	Equivalent to revenue (from all channels). This is net of customer returns.
Digital sales	Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store.
Digital % total sales	Digital sales (as defined above) expressed as a percentage of revenue. This is not a measure that we seek to maximise in itself, but we measure it to track our adaptability to changing customer behaviours.
Gross margin %	Gross profit/revenue. Measures the profitability made on product sales prior to selling & distribution costs and administrative expenses.
Operating costs to sales ratio	Operating costs/revenue. To measure the growth of costs relative to sales growth.
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment. Excludes right of use asset depreciation. To measure compliance with bank covenants
Effective tax rate	Taxation/profit before taxation. To measure how close we are to the UK corporation tax rate and understand the reasons for any differences.
Capex (net of disposals)	Acquisition of intangible assets and acquisition of property, plant and equipment less proceeds on disposal of property, plant and equipment and intangibles.
Free cash flow	Net cash generated from operating activities less capex (net of disposals) and business combinations, net interest paid (including leases) and loan transaction costs, and repayment of lease liabilities. Measures the cash generated that is available for disbursement to shareholders.
Net cash/(debt)	Cash and cash equivalents less total borrowing (as shown in note 19). Excludes IFRS 16 lease liabilities.

Strategic report *(continued)*

S172 (1) Companies Act 2006

Dunelm Group plc is the ultimate parent company of Dunelm (Soft Furnishings) Ltd. From the perspective of the Board, as a result of the Group governance structure, the matters that it is responsible for considering under Section 172(1) of the Companies Act 2006 ("s172") have been considered to an appropriate extent by the Group Board in relation to both the Group and this entity. The Board has also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how the Group Board has considered the matters set out in s172 (for the Group) is set in the Corporate Governance report of the Parent Company, Dunelm Group plc, which does not form part of this report.

On behalf of the Board

Karen Witts
Director
14 September 2022

Watermead Business Park
Syston
Leicestershire
LE7 1AD

Directors' report

The Directors present their report together with the strategic report and audited financial statements for the period ended 2 July 2022. This report satisfies the requirements of the Companies Act 2006 to produce a business review.

General information

The Company domiciles and is incorporated as a limited company in the UK.

The Company is a subsidiary undertaking of Dunelm Limited, which in turn, is a subsidiary of Dunelm Group plc, the ultimate parent company incorporated in England and Wales.

Going concern

At the time of approving the financial statements, the Directors are required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'Going Concern' basis of accounting. To support this statement, the Directors are required to considered the Company's current financial position, its strategy, the market outlook and its principal risks. As the Company run a five year planning process, they have reviewed viability over a five year period and the base case for this review is the five year plan presented to and approved by the Directors in May 2022.

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

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

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

As a result, the Group Board and the Directors of the Company believes that the Company is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Directors considers it appropriate for the Company to adopt the going concern basis in preparing its financial statements.

Directors' report *(continued)*

Directors

The Directors of the Company who were in office during the period and up to the date of signing the financial statements, unless otherwise stated, were:

Sir Will Adderley

Nicholas Wilkinson

Laura Carr (resigned 8 June 2022)

Karen Witts (appointed 9 June 2022)

Steve Barton

Qualifying third party indemnity provisions

At the time this report is approved, a qualifying third party indemnity provision was in place for the benefit of one or more of the Directors.

Employees

The Company recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the Company's operations and the abilities of the disabled persons. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue. It is the policy of the Company that training, career development and promotion opportunities should be available to all employees and this is reflected in its Equal Opportunities Policy.

The Company places considerable value on the involvement of its employees and continues its practice of consulting with employees on matters likely to affect their interests, through its National Colleague Voice.

Information on matters of concern to employees is given through bulletins, reports and an in-house newsletter.

Corporate Governance Code 2018 (the "Code")

The Company is the single trading subsidiary of Dunelm Group plc, which is the parent company of the Group. Dunelm Group plc is required to comply with the Code, and an explanation of how the Principles set out in the Code are applied is set out in the Corporate Governance report of the ultimate Parent Company, Dunelm Group plc, which does not form part of this report. These principles are applied to the Company through the Group's governance, risk management and internal control structure.

Stakeholder statements

Employees

From the perspective of the Board, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a board in respect of the Company's employees, including engaging with them, having regard to their interests and the effect of that regard (including on the principal decisions taken by the Company during the financial year). The Board of the Company has also considered relevant matters where appropriate. An explanation of how the Group Board has considered the matters set out in s172 (for the Group) is set out in the Directors' report of the ultimate Parent Company, Dunelm Group plc, which does not form part of this report.

Directors' report *(continued)*

Other stakeholders

Similarly, from the perspective of the Group Board, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a board in respect of the Company's other stakeholders. The Board of the Company has also considered relevant matters where appropriate. An explanation of how the directors on the Group Board have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard (including on the principal decisions taken by the Company during the financial year), is set out (for the Group) in the Directors' report of the ultimate Parent Company, Dunelm Group plc, which does not form part of this report.

Greenhouse gas emissions

The greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 are set out in the Sustainability section and the directors report of the ultimate Parent Company, Dunelm Group plc as the disclosures relate solely to the Company being the Group's trading entity.

Political and charitable contributions

During the period, the Company made no political contributions and charitable contributions of £297,785 (2021: £447,852). In addition, funds raised for charity by the Company and colleagues were £334,101 (2021: £238,524). Included in the prior year charitable contributions were supplementary donations of £329,911 which were paid to ensure annual donations were maintained at pre-Covid-19 levels.

Results and dividends

The profit after tax for the period was £173.2m (2021: £132.6m).

Total dividends of £282.1m (2021: £24.3m) were declared, authorised and paid on the ordinary shares during the period.

Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign currency risk. The Company's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. This is explained in further detail within note 18.

Future developments

These have been discussed in the Strategic Report.

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the Board

Karen Witts

Director

14 September 2022

Watermead Business Park
Syston
Leicestershire
LE7 1AD

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the 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 UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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 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 company's auditors are aware of that information.

On behalf of the Board

Karen Witts
Director
14 September 2022

Watermead Business Park
Syston
Leicestershire
LE7 1AD

Independent auditors' report to the members of Dunelm (Soft Furnishings) Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Dunelm (Soft Furnishings) Ltd's financial statements:

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

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

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 company 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 other entities of public interest, 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.

We have provided no non-audit services to the company in the period under audit.

Conclusions relating to going concern

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

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

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

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

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

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

Independent auditors' report to the members of Dunelm (Soft Furnishings) Ltd *(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 and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the 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 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.

Independent auditors' report to the members of Dunelm (Soft Furnishings) Ltd *(continued)*

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
14 September 2022

Income Statement

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Revenue		**1,581.4**	1,336.2
Cost of sales		**(772.0)**	(647.3)
Gross profit		**809.4**	688.9
Operating costs	3	**(589.6)**	(517.4)
Operating profit	4	**219.8**	171.5
Financial income	6	**1.5**	4.1
Financial expenses	6	**(7.3)**	(13.7)
Profit before taxation		**214.0**	161.9
Taxation	7	**(40.8)**	(29.3)
Profit for the period		**173.2**	132.6

Statement of Comprehensive Income

For the 53 weeks ended 2 July 2022

	Note	**2022 53 weeks £'m**	2021 52 weeks £'m
Profit for the period		**173.2**	132.6
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	18	**32.4**	(17.7)
Deferred tax on hedging movements	13	**(5.3)**	2.2
Other comprehensive income for the period, net of tax		**27.1**	(15.5)
Total comprehensive income for the period		**200.3**	117.1

Statement of Financial Position

As at 2 July 2022

	Note	2 July 2022 £'m	26 June 2021 £'m
Non-current assets			
Intangible assets	9	**9.9**	14.8
Property, plant and equipment	10	**173.7**	162.6
Right-of-use assets	11	**248.5**	262.0
Investment in subsidiary undertakings	12	**0.3**	0.3
Deferred tax assets	13	**3.0**	9.7
Derivative financial instruments		**4.6**	0.3
Total Non-current assets		**440.0**	449.7
Current assets			
Inventories	14	**223.0**	172.4
Trade and other receivables	15	**22.9**	237.3
Current tax asset		**1.1**	2.4
Derivative financial instruments		**19.9**	0.4
Cash and cash equivalents	16	**30.2**	128.6
Total current assets		**297.1**	541.1
Total assets		**737.1**	990.8
Current liabilities			
Trade and other payables	17	**(245.5)**	(454.5)
Lease liabilities	11	**(52.8)**	(49.0)
Derivative financial instruments		**-**	(5.1)
Total current liabilities		**(298.3)**	(508.6)
Non-current liabilities			
Bank loans	19	**(52.8)**	-
Lease liabilities	11	**(225.3)**	(244.3)
Provisions	20	**(5.5)**	(4.5)
Derivative financial instruments		**-**	(0.8)
Total non-current liabilities		**(283.6)**	(249.6)
Total liabilities		**(581.9)**	(758.2)
Net assets		**155.2**	232.6
Equity			
Issued share capital	21	**2.0**	2.0
Retained earnings		**133.0**	234.9
Hedging reserve		**20.2**	(4.3)
Total equity		**155.2**	232.6

The financial statements on pages 20 to 58 were approved by the Board of Directors on 14 September 2022 and were signed on its behalf by:

Karen Witts
Director
Company number 02129238

Statement of Cash Flows

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Cash flows from operating activities			
Profit before taxation		**214.0**	161.9
Net financial expense	6	**5.8**	9.6
Operating profit		**219.8**	171.5
Depreciation and amortisation of property, plant and equipment and intangible assets	4	**30.5**	31.8
Depreciation of right-of-use assets	4	**48.6**	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets	4	**0.3**	2.3
(Gain)/loss on disposal and impairment of right-of-use assets	4	**(0.1)**	1.0
Share-based payments expense		**4.1**	5.5
Operating cash flows before movements in working capital		**303.2**	257.8
Increase in inventories		**(40.3)**	(54.2)
Decrease/(increase) in trade and other receivables		**218.2**	(25.2)
(Decrease)/increase in trade and other payables		**(217.3)**	44.0
Net movement in working capital		**(39.4)**	(35.4)
Tax paid		**(35.2)**	(35.5)
Net cash generated from operating activities		**228.6**	186.9
Cash flows from investing activities			
Acquisition of intangible assets		**(0.7)**	(0.6)
Acquisition of property, plant and equipment		**(23.3)**	(15.1)
Acquisition of business combination	27	**(17.7)**	-
Interest received		**0.4**	4.1
Net cash used in investing activities		**(41.3)**	(11.6)
Cash flows from financing activities			
Drawdowns on Revolving Credit Facility		**85.0**	-
Repayments of Revolving Credit Facility		**(31.0)**	(45.0)
Interest paid and loan transactions fees		**(3.7)**	(5.7)
Interest paid on lease liabilities	11	**(4.8)**	(5.3)
Repayment of principal element of lease liabilities		**(50.2)**	(54.0)
Dividends paid	8	**(282.1)**	(24.3)
Net cash flows used in financing activities		**(286.8)**	(134.3)
Net (decrease)/increase in cash and cash equivalents		**(99.5)**	41.0
Foreign exchange revaluations	6	**1.1**	(2.4)
Cash and cash equivalents at the beginning of the period		**128.6**	90.0
Cash and cash equivalents at the end of the period	16	**30.2**	128.6

Statement of Changes in Equity

For the 53 weeks ended 2 July 2022

	Note	Issued share capital £'m	Retained earnings £'m	Hedging reserve £'m	Total equity £'m
As at 28 June 2020		**2.0**	**118.4**	**5.3**	**125.7**
Profit for the period		-	132.6	-	132.6
Movement in fair value of cash flow hedges	18	-	-	(17.7)	(17.7)
Deferred tax on hedging movements	13	-	-	2.2	2.2
Total comprehensive income for the period		-	132.6	(15.5)	117.1
Share-based payments		-	5.5	-	5.5
Deferred tax on share-based payments	13	-	2.3	-	2.3
Current tax on share options exercised		-	0.4	-	0.4
Movement on cash flow hedges transferred to inventory	18	-	-	5.9	5.9
Ordinary dividends paid	8	-	(24.3)	-	(24.3)
Total transactions with owners, recorded directly in equity		-	(16.1)	5.9	(10.2)
As at 26 June 2021		**2.0**	**234.9**	**(4.3)**	**232.6**
Profit for the period		-	173.2	-	173.2
Movement in fair value of cash flow hedges	18	-	-	32.4	32.4
Deferred tax on hedging movements	13	-	-	(5.3)	(5.3)
Total comprehensive income for the period		-	173.2	27.1	200.3
Share-based payments		-	4.1	-	4.1
Deferred tax on share-based payments	13	-	1.2	-	1.2
Current tax on share options exercised		-	1.7	-	1.7
Movement on cash flow hedges transferred to inventory	18	-	-	(2.6)	(2.6)
Ordinary dividends paid	8	-	(282.1)	-	(282.1)
Total transactions with owners, recorded directly in equity		-	(275.1)	(2.6)	(277.7)
As at 2 July 2022		**2.0**	**133.0**	**20.2**	**155.2**

Notes to the financial statements

1. Accounting policies

General Information

Dunelm (Soft Furnishings) Ltd is incorporated and domiciled in the UK. Dunelm (Soft Furnishings) Ltd is a private company, limited by shares. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD.

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

Basis of preparation

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

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

The financial statements of Dunelm (Soft Furnishings) Ltd have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. These financial statements are presented on pages 20 to 58.

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

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

Going concern

At the time of approving the financial statements, the Directors are required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'Going Concern' basis of accounting. To support this statement, the Directors are required to considered the Company's current financial position, its strategy, the market outlook and its principal risks. As the Company run a five year planning process, they have reviewed viability over a five year period and the base case for this review is the five year plan presented to and approved by the Directors in May 2022.

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

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

Notes to the financial statements

1. Accounting policies *(continued)*

Going concern *(continued)*

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

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

Further information regarding the Company'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 1 to 11. In addition, note 18 includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

Use of estimates and judgements

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

Inventory Provisions

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

Consolidation

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Revenue

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

In general, these conditions for store sales are met at the point of sale. The exceptions to this are custom-made products and Click & Collect sales, where revenue is recognised at the point that the goods are collected, and gift vouchers, where revenue is recognised when the vouchers are redeemed aside from the element management do not

Notes to the financial statements

1. Accounting policies *(continued)*

Revenue *(continued)*

expect to be redeemed based on historical data which is recognised at the point of sale. Revenue on home delivery sales is recognised at the point of delivery. Revenue is settled in cash at the point of sale for all revenue channels.

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

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

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

Expenses

Financial income and expenses

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and interest and dividends received from Group companies.

Retirement benefits

The Company 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

Dunelm Group Plc operates a number of equity-settled, share-based compensation plans on behalf of employees of Dunelm (Soft Furnishings) Ltd, under which the entity receives services from employees as consideration for equity instruments (options) of Dunelm Group Plc. 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.

Notes to the financial statements

1. Accounting policies *(continued)*

Share-based payments *(continued)*

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

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

Foreign currencies

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

Taxation

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

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

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised.

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

Dividends

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

Intangible assets

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Intangible assets *(continued)*

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

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company 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 life.

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 licenses 3 to 5 years
- Rights to brands and customer lists 5 to 15 years

Property, plant and equipment

Owned assets

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

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

Depreciation

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

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Depreciation *(continued)*

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

Leases

Lease recognition

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

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the fixed lease payments. Interest charges are included in finance costs in the Income Statement.

Short-term leases and leases of low-value assets

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

Subsequent measurement

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

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

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases. The payments related to leases are presented under cash flow from financing activities in the Cash Flow Statement.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Financial instruments

Recognition and measurement

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

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

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the Income Statement and presented in other gains/(losses) together with foreign exchange gains and losses.
- FVPL: All other financial assets that do not meet the criteria for amortised cost are measured at FVPL, unless the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the Income Statement in the period in which it arises.

Derivatives

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

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

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

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

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

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Derivatives *(continued)*

the hedged item affects profit or loss (for example, through cost of sales).

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

Trade and other receivables

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

Inventories

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

Government grants

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

Cash and cash equivalents

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

Trade and other payables

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

Bank borrowings and borrowing costs

Interest-bearing bank loans are initially recorded at their fair value and subsequently held at amortised cost. Transaction costs incurred are amortised over the term of the loan. Borrowings are classed as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months from the Statement of Financial Position date.

Impairment of non-financial assets

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Impairment of non-financial assets *(continued)*

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

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

Provisions

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

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

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

Climate change

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

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

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

New standards and interpretations

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

Notes to the financial statements *(continued)*

2. Revenue

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

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

The Chief Operating Decision-maker is the Executive Board. The Executive Board reviews internal management reports on a monthly basis and performance is assessed based on a number of financial and non-financial KPIs as well as on profit before taxation.

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

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

3. Operating costs

	2022 53 weeks £'m	2021 52 weeks £'m
Selling and distribution costs	**469.4**	423.9
Administrative expenses	**120.2**	93.5
	589.6	517.4

4. Operating Profit

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

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

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

Notes to the financial statements *(continued)*

4. Operating Profit *(continued)*

The analysis of auditors' remuneration is as follows:

	2022 53 weeks £'000	2021 52 weeks £'000
Fees payable to the Company's auditors in respect of:		
Audit	**250**	220

5. Employee numbers and costs

The average monthly number of persons employed by the Company (including Directors) was:

	2022 53 weeks Number of heads	**2022 53 weeks Full time equivalents**	2021 52 weeks Number of heads	2021 52 weeks Full time equivalents
Selling	**9,544**	**5,437**	9,039	5,390
Distribution	**963**	**930**	829	812
Administration	**915**	**896**	695	686
	11,422	**7,263**	10,563	6,888

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

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries (including termination benefits)	**210.2**	189.2
Social security costs	**14.2**	12.2
Share-based payment expense	**4.1**	5.5
Pension costs - defined contribution plans	**5.3**	4.5
	233.8	211.4

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

Disclosures relating to remuneration of Directors are set out in note 25.

Notes to the financial statements *(continued)*

6. Financial income and expenses

	2022 **53 weeks** **£'m**	2021 52 weeks £'m
Financial income		
Group undertakings	**0.3**	4.0
Interest on bank deposits	**0.1**	0.1
Net foreign exchange gains	**1.1**	-
	1.5	4.1
Financial expenses		
Group undertakings	**(1.2)**	(5.0)
Interest on bank borrowings	**(0.9)**	(0.8)
Amortisation of issue costs of bank loans	**(0.4)**	(0.2)
Net foreign exchange losses	-	(2.4)
Interest on lease liabilities	**(4.8)**	(5.3)
	(7.3)	(13.7)
Net financial expense	**(5.8)**	(9.6)

7. Taxation

	2022 **53 weeks** **£'m**	2021 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**38.4**	32.6
Adjustments in respect of prior periods	**(0.2)**	(1.7)
	38.2	30.9
Deferred taxation		
Origination of temporary differences	**2.7**	(0.9)
Adjustment in respect of prior periods	**(0.1)**	-
Impact of change in tax rate	-	(0.7)
	2.6	(1.6)
Total tax expense	**40.8**	29.3

Notes to the financial statements *(continued)*

7. Taxation *(continued)*

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

	2022 53 weeks £'m	2021 52 weeks £'m
Profit before taxation	**214.0**	161.9
UK corporation tax at standard rate of 19.0% (2020: 19.0%)	**40.7**	30.8
Factors affecting the charge in the period:		
Non–deductible expenses	**1.5**	1.3
Adjustments in respect of prior periods	**(0.3)**	(1.7)
Impact of change in tax rate	-	(0.7)
Group relief	**(1.1)**	(0.4)
	40.8	29.3

The taxation charge for the period as a percentage of profit before tax is 19.1% (2021: 18.1%).

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

8. Dividends

	2022 53 weeks £'m	2021 52 weeks £'m
Dividends paid for the period ended 26 June 2021	-	24.3
Special dividend for the period ended 26 June 2021	**131.9**	-
Final dividend for the period ended 26 June 2021	**46.8**	-
Interim dividend for the period ended 2 July 2022	**28.3**	-
Special dividend for the period ended 2 July 2022	**75.1**	-
	282.1	24.3

The Directors are proposing a final dividend of £52.9m for the period ended 2 July 2022. This will be paid to the parent Company, Dunelm Limited on 5 December 2022.

Notes to the financial statements *(continued)*

9. Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	**Total £'m**
Cost			
At 28 June 2020	50.1	11.0	**61.1**
Additions	0.6	-	**0.6**
Disposals	(0.3)	-	**(0.3)**
At 26 June 2021	50.4	11.0	**61.4**
Additions	0.9	-	**0.9**
Acquisition through business combination	-	0.5	**0.5**
Disposals	(0.3)	-	**(0.3)**
At 2 July 2022	51.0	11.5	**62.5**
Accumulated amortisation			
At 28 June 2020	27.4	11.0	**38.4**
Charge for the financial period	7.3	-	**7.3**
Disposals	(0.3)	-	**(0.3)**
Impairment	1.2		**1.2**
At 26 June 2021	35.6	11.0	**46.6**
Charge for the financial period	6.2	-	**6.2**
Disposals	(0.2)	-	**(0.2)**
At 2 July 2022	41.6	11.0	**52.6**
Net book value			
At 28 June 2020	22.7	-	**22.7**
At 26 June 2021	14.8	-	**14.8**
At 2 July 2022	9.4	0.5	**9.9**

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

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

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

Notes to the financial statements *(continued)*

10. Property, plant and equipment

	Freehold Land and Buildings £'m	Leasehold Improvements £'m	Fixtures, fittings and equipment £'m	**Total £'m**
Cost				
At 28 June 2020	83.7	160.7	119.7	**364.1**
Additions	-	3.8	9.0	**12.8**
Disposals	-	(6.7)	(4.7)	**(11.4)**
At 26 June 2021	83.7	157.8	124.0	**365.5**
Transfers	-	1.2	(1.2)	**-**
Additions	0.1	13.3	12.6	**26.0**
Acquisition through business combination	9.2	0.1	0.3	**9.6**
Disposals	-	(8.3)	(3.7)	**(12.0)**
At 2 July 2022	93.0	164.1	132.0	**389.1**
Accumulated depreciation				
At 28 June 2020	2.5	84.5	101.7	**188.7**
Charge for the financial period	1.7	13.2	9.6	**24.5**
Disposals	-	(6.2)	(4.3)	**(10.5)**
Impairment	-	0.1	0.1	**0.2**
At 26 June 2021	4.2	91.6	107.1	**202.9**
Transfers	-	(0.5)	0.5	**-**
Charge for the financial period	1.8	14.4	8.1	**24.3**
Disposals	-	(8.1)	(3.7)	**(11.8)**
At 2 July 2022	6.0	97.4	112.0	**215.4**
Net book value				
At 28 June 2020	81.2	76.2	18.0	**175.4**
At 26 June 2021	79.5	66.2	16.9	**162.6**
At 2 July 2022	87.0	66.7	20.0	**173.7**

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

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

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

Notes to the financial statements *(continued)*

11. Leases

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

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

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

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

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

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

The maturity analysis of the lease liabilities is as follows:

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

Notes to the financial statements *(continued)*

11. Leases *(continued)*

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

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

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

The following amounts have been recognised in the Income Statement:

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

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

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

12. Investment in subsidiary undertakings

	2022	2021
	£'m	£'m
Investment in subsidiary undertakings	**0.3**	0.3

Notes to the financial statements *(continued)*

12. Investment in subsidiary undertakings *(continued)*

Subsidiary	Proportion of ordinary shares held	Nature of business
Fogarty Holdings Limited	100%	Non-trading company
Zoncolan Limited	100%	Dormant
Dunelm (Soft Furnishings) Londonderry Ltd	100%	Non-trading company

The registered address for Fogarty Holdings Limited and Zoncolan Limited is Dunelm Store Support Centre Watermead Business Park, Syston, Leicester, Leicestershire, England, LE7 1AD.

The registered address for Dunelm (Soft Furnishings) Londonderry Ltd is Faustina Retail Park, 35 Buncrana Road, Londonderry, Northern Ireland, BT48 8QN.

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

13. Deferred tax assets/liabilities

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

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2022	2021	**2022**	2021	**2022**	2021
	£'m	£'m	**£'m**	£'m	**£'m**	£'m
Property, plant and equipment	**0.7**	3.6	-	-	**0.7**	3.6
Share-based payments	**6.5**	4.9	-	-	**6.5**	4.9
Hedging	-	1.0	**(4.3)**	-	**(4.3)**	1.0
Other temporary differences	**0.1**	0.2	-	-	**0.1**	0.2
	7.3	9.7	(4.3)	-	**3.0**	9.7

	Assets		Liabilities		Net assets/(liabilities)	
	2022	2021	**2022**	2021	**2022**	2021
	£'m	£'m	**£'m**	£'m	**£'m**	£'m
Deferred tax recoverable/(payable) after more than 12 months	**1.1**	4.3	**(0.2)**	-	**0.9**	4.3
Deferred tax recoverable/(payable) within 12 months	**6.4**	5.4	**(4.3)**	-	**2.1**	5.4
	7.5	9.7	**(4.5)**	-	**3.0**	9.7

Notes to the financial statements *(continued)*

13. Deferred tax assets/liabilities *(continued)*

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

	Balance at 28 June 2020	Recognised in income	Recognised in equity	Balance at 26 June 2021
	£'m	£'m	£'m	£'m
Property, plant and equipment	2.5	1.1	-	3.6
Share-based payments	1.7	0.9	2.3	4.9
Hedging	(1.3)	0.1	2.2	1.0
Other temporary differences	0.7	(0.5)	-	0.2
	3.6	1.6	4.5	9.7

	Balance at 27 June 2021	Recognised in income	Recognised in equity	**Balance at 2 July 2022**
	£'m	£'m	£'m	**£'m**
Property, plant and equipment	3.6	(2.9)	-	**0.7**
Share-based payments	4.9	0.4	1.2	**6.5**
Hedging	1.0	-	(5.3)	**(4.3)**
Other temporary differences	0.2	(0.1)	-	**0.1**
	9.7	(2.6)	(4.1)	**3.0**

14. Inventories

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

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

Notes to the financial statements *(continued)*

15. Trade and other receivables

	2022	2021
	£'m	£'m
Trade receivables	**2.9**	0.9
Other receivables	**9.5**	4.8
Prepayments and accrued income	**10.5**	6.1
Amounts owed by group undertakings	-	225.5
	22.9	237.3

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

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

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

16. Cash and cash equivalents

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

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

17. Trade and other payables

	2022	2021
	£'m	£'m
Trade payables	**98.3**	69.4
Accruals and deferred income	**86.8**	69.9
Taxation and social security	**33.6**	41.4
Other payables	**4.1**	0.2
Amounts owed to group undertakings	**22.7**	273.6
	245.5	454.5

Amounts owed to group undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%. There is no security on these balances. Other payables include £3.1m payable for the acquisition of Sunflex (note 27).

Notes to the financial statements *(continued)*

18. Financial risk management

The Directors of Dunelm (Soft Furnishings) Limited has overall responsibility for the oversight of the Company's risk management framework. A formal process for reviewing and managing risk in the business is in place.

Credit risk

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

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

The Company's maximum exposure to credit risk is represented by the carrying amount of financial assets. No collateral is held (2020: nil). At the period end the maximum exposure is detailed in the table below:

	2022	2021
Current	**£'m**	£'m
Cash and cash equivalents	**30.2**	128.6
Trade and other receivables	**12.4**	5.7
Accrued income	**0.6**	0.3
Amounts owed by group undertakings	**-**	225.5
Derivative financial instruments	**19.9**	0.4
Total current financial assets	**63.1**	360.5
Non-current		
Derivative financial instruments	**4.6**	0.3
Total financial assets	**67.7**	360.8

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

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

The Company 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 Company may still choose to pursue enforcement in order to recover the amounts due.

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

Notes to the financial statements *(continued)*

18. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company manages this risk by continuously monitoring cash flow forecasts. Further details of the Company's available facilities can be found in the capital management section of this note.

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

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

Interest rate risk

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

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

Foreign currency risk

All of the 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 30% (FY21: 30%) of stock purchases in the period ended 2 July 2022.

The Company uses various means to cover its exposure to US dollars including holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of US dollars. All the 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.

There is a low level of coverage beyond the 18 month horizon. Cash flow hedges are in place to manage foreign exchange rate risk arising from forecast purchases denominated in US dollars. At the Consolidated Statement of Financial Position date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was a £24.5m asset (2021: £5.2m liability) which relates to a commitment to purchase $369.0m (2021: $242.0m) for a fixed sterling amount. A fair value gain of £32.4m (2021: £17.7m loss) was recognised in other comprehensive income and no loss (2021: nil) was recognised on cash flow hedges during the period. In the period, a gain of £2.6m (2021: £5.9m loss) was recycled from the cash flow hedge reserve to inventory to offset foreign exchange movements on purchases. The remaining hedge reserve balance will be recycled to the Consolidated Income Statement to offset future purchases occurring after the Consolidated Statement of Financial Position date, the majority of which expire in the next 12 months.

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

Notes to the financial statements *(continued)*

18. Financial risk management *(continued)*

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

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

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

Capital management
The company considers equity plus debt as capital. There are no externally imposed capital requirements on the Company.

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 regularly monitors the level of capital in the Company to ensure that this can be achieved.

The Company has a syndicated Revolving Credit Facility ('RCF') of £185m which is committed until 9 December 2025, and may be extended by a maximum of a further two years at Dunelm's request, subject to lender consent. There is also an optional accordion facility of £75m. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (Group net debt to be no greater than 2.5x Group EBITDA before exceptional items) and fixed charge cover (Group EBITDAR before exceptional items to be no less than 1.75x Group fixed charges), both of which were met comfortably as at 2 July 2022. Covenant calculations are included in note 17 to the Parent Company's financial statements, Dunelm Group Plc. In addition, the Company maintains £10m of uncommitted overdraft facilities with one syndicate partner bank.

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 Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Company 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 Company 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 Company or the derivative counterparty.

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

Notes to the financial statements *(continued)*

18. Financial risk management *(continued)*

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

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

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

Effects of hedge accounting on the financial position and performance

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

Fair values
The fair value of the Company'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 financial statements *(continued)*

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.

At 26 June 2021	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	128.6	-	-	128.6
Trade and other receivables	5.7	-	-	5.7
Amounts owed by group undertakings	225.5	-	-	225.5
Accrued income	0.3	-	-	0.3
Derivative financial instruments	-	-	0.7	0.7
Total financial assets	**360.1**	**-**	**0.7**	**360.8**
Trade and other payables	-	(69.6)	-	(69.6)
Amounts owed to group undertakings	-	(273.6)	-	(273.6)
Accruals	-	(57.9)	-	(57.9)
Lease liabilities	-	(293.3)	-	(293.3)
Bank loans	-	-	-	-
Provisions	-	(4.5)	-	(4.5)
Derivative financial instruments	-	-	(5.9)	(5.9)
Total financial liabilities	**-**	**(698.9)**	**(5.9)**	**(704.8)**
Net financial assets/(liabilities)	**360.1**	**(698.9)**	**(5.2)**	**(344.0)**

At 2 July 2022	**Financial assets at amortised cost £'m**	**Financial liabilities at amortised cost £'m**	**Derivatives used for hedging £'m**	**Total £'m**
Cash and cash equivalents	30.2	-	-	**30.2**
Trade and other receivables	12.4	-	-	**12.4**
Amounts owed by group undertakings	-	-	-	**-**
Accrued income	0.6	-	-	**0.6**
Derivative financial instruments	-	-	24.5	**24.5**
Total financial assets	**43.2**	**-**	**24.5**	**67.7**
Trade payables & other payables	-	(102.4)	-	**(102.4)**
Amounts owed to group undertakings	-	(22.7)	-	**(22.7)**
Accruals	-	(74.2)	-	**(74.2)**
Lease liabilities	-	(278.1)	-	**(278.1)**
Bank loans	-	(52.8)	-	**(52.8)**
Provisions	-	(5.5)	-	**(5.5)**
Derivative financial instruments	-	-	-	**-**
Total financial liabilities	**-**	**(535.7)**	**-**	**(535.7)**
Net financial assets/(liabilities)	**43.2**	**(535.7)**	**24.5**	**(468.0)**

Notes to the financial statements *(continued)*

18. Financial risk management *(continued)*

Amounts owed from and to group undertakings are receivable/payable on demand.

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

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

19. Bank loans

	2022	2021
	£'m	£'m
Bank borrowings	**54.0**	-
Less: unamortised debt issue costs*	**(1.2)**	(0.2)
Bank loans	**52.8**	(0.2)

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

Borrowings relate to the Company's syndicated Revolving Credit Facility ('RCF') as described in note 18. The carrying amount of bank borrowings is equal to fair value. The Company also has an accordion option with a maximum facility of £75m, as well as an overdraft facility of £10m.
The analysis below shows the reconciliation of net debt:

	2022	2021
	£'m	£'m
Net cash at 26 June 2021 and 27 June 2020	**128.8**	45.4
Net (decrease) / increase in cash and cash equivalents (excluding foreign exchange revaluations)	**(99.5)**	41.0
Effect of foreign exchange	**1.1**	(2.4)
Repayments of Revolving Credit Facility	**31.0**	45.0
Drawdowns of Revolving Credit Facility	**(85.0)**	-
Loan transaction costs	**1.4**	
Change in net (debt)/cash resulting from cash flows	**(151.0)**	83.6
Amortisation of debit issue costs (note 6)	**(0.4)**	(0.2)
Movement in net debt	**(151.4)**	83.4
Net debt represented by		
Cash and cash equivalents (note 16)	**30.2**	128.6
Non-current borrowings (note 19)	**(54.0)**	-
Net (debt)/cash including unamortised debt issue costs	**(23.8)**	128.6
Unamortised debt issue costs (note 19)	**1.2**	0.2
Net (debt)/cash at 2 July 2022 and 26 June 2021	**(22.6)**	128.8

Notes to the financial statements *(continued)*

20. Provisions

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

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

21. Issued share capital

	2022	2021
	£'m	£'m
Ordinary shares of £1 each:		
Allotted, called up and fully paid	**2.0**	2.0

22. Share-based payments

Dunelm Group Plc operates a number of share-based payment schemes on behalf of employees of Dunelm (Soft Furnishings) Ltd which are recognised as an expense in the Company, as follows:

Dunelm Group Share Option Plan (GSOP)

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

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

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

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

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

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

Notes to the financial statements *(continued)*

22. Share-based payments *(continued)*

Dunelm Group Savings Related Share Option Plan (Sharesave)

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

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

Sharesave Plans	**2022** No. of options	**2022** Weighted average exercise price (p)	2021 No. of options	2021 Weighted average exercise price (p)
Outstanding at beginning of year	**1,565,381**	**651.61**	1,766,808	549.94
Granted	**630,372**	**1,046.00**	316,251	1,167.00
Exercised	**(803,493)**	**483.08**	(310,203)	585.64
Forfeited	**(211,468)**	**953.22**	(207,475)	670.00
Outstanding at end of year	**1,180,792**	**922.83**	1,565,381	651.61
Exercisable at end of year	**31,605**	**479.00**	28,461	602.00

Dunelm Group Savings Related Share Option Plan (Sharesave) *(continued)*

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

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

Sharesave Plans	**2022** No. of options	**2022** Weighted average remaining contractual life (years)	2021 No. of options	2021 Weighted average remaining contractual life (years)
Exercise price (pence):				
479.00	**45,502**	**-**	839,225	1.0
602.00	**-**	**-**	28,461	-
654.00	**370,906**	**1.0**	415,810	2.0
1046.00	**551,568**	**3.0**	-	-
1167.00	**212,816**	**2.0**	281,885	3.0
	1,180,792	**2.1**	1,565,381	1.6

Notes to the financial statements *(continued)*

22. Share-based payments *(continued)*

Long-Term Incentive Plan (LTIP)

Dunelm Group Plc operates an equity-settled LTIP scheme for executive directors and other senior colleagues of the Company. Performance conditions for the LTIP awards are related to the diluted earnings per share ratio of the Group. LTIP options are also accounted for as equity-settled awards under IFRS 2.

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

LTIP Awards	**2022** No. of options	2021 No. of options
Outstanding at beginning of year	**1,025,039**	1,138,337
Granted	**297,541**	271,418
Dividend equivalent awarded in the year	**19,053**	79,877
Exercised	**(184,352)**	(71,427)
Forfeited	**(106,372)**	(393,166)
Outstanding at end of year	**1,050,909**	1,025,039
Exercisable at end of year	**17,082**	5,795

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

The weighted average remaining contractual life of these options is 7.8 years (2021: 8.3 years).

Restricted Stock Award (RSA)

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

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

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

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

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

Notes to the financial statements *(continued)*

22. Share-based payments *(continued)*

Bonus Deferred Shares Award

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

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

Bonus Deferred Shares Award	**2022** **No. of options**	2021 No. of options
Outstanding at beginning of year	**372,888**	-
Granted	**-**	391,238
Dividend equivalent awarded in the year	**8,020**	7,046
Exercised	**(202,631)**	-
Forfeited	**(52,145)**	(25,396)
Outstanding at end of year	**126,132**	372,888
Exercisable at end of year	**-**	-

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

Fair value calculations

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

Notes to the financial statements *(continued)*

22. Share-based payments *(continued)*

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

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

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

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

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

Notes to the financial statements *(continued)*

23. Commitments

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

24. Contingent liabilities

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

25. Related parties

Identity of related parties

The Company has related party relationships with its Parent and Company subsidiaries and with its Directors.

Key management personnel

The remuneration of the key management personnel is as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries	**2.0**	1.5
Short term employee benefits	**2.4**	0.4
Post-employment benefits	**0.1**	0.1
Share-based payments	**1.9**	1.4
	6.4	3.4
Highest paid director	**0.7**	0.5

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

The key management personnel comprise the members of the Executive committee.

The following Company Directors were paid by the Ultimate Parent Company:

Sir Will Adderley
Nicholas Wilkinson
Karen Witts
Laura Carr

Disclosures relating to remuneration of the above Directors are set out in the Annual Report of Dunelm Group Plc. Their remuneration is not included in the table above.

Notes to the financial statements *(continued)*

25. Related parties *(continued)*

Other related party transactions

	Ultimate Parent Company		Other Group Companies	
	2022	2021	**2022**	2021
	53 weeks	52 weeks	**53 weeks**	52 weeks
	£'m	£'m	**£'m**	£'m
Dividends paid	**(282.1)**	(24.3)	**-**	-
Net interest received/(charged)	**0.3**	4.0	**(1.2)**	(5.0)
	(281.8)	(20.3)	**(1.2)**	(5.0)

The amounts due to and from the Company in respect of the ultimate parent company and other Group company subsidiaries were as follows:

	Ultimate Parent Company		Other Group Companies	
	2022	2021	**2022**	2021
	£'m	£'m	**£'m**	£'m
Balances receivable from	**-**	225.5	**-**	-
Balances payable to	**(21.2)**	-	**(1.5)**	(273.6)
	(21.2)	225.5	**(1.5)**	(273.6)

26. Ultimate parent company

The Company is a subsidiary undertaking of Dunelm Limited, which in turn is a subsidiary undertaking of Dunelm Group plc, the ultimate parent company incorporated in England and Wales. The Directors consider that there is no ultimate controlling party of Dunelm Group plc. The largest and smallest group of undertakings for which group financial statements are drawn up and of which the company is a member is the Dunelm Group plc financial statements.

Copies of the Dunelm Group plc financial statements are available from the Company Secretary, Dunelm Group plc, Watermead Business Park, Syston, Leicestershire, England, LE7 1AD, or the group corporate website corporate.dunelm.com.

Notes to the financial statements *(continued)*

27. Business combination

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

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

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

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

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

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

28. Subsequent events

There are no reportable subsequent events for Dunelm (Soft Furnishings) Ltd.