Issued: October 2022

The Home of Homes

Task Force on Climate-related Financial Disclosures (TCFD) FY22

Extract from Annual Report and Accounts 2022

In this section we make our disclosures under the Recommendations and Recommended Disclosures of the Task Force on Climate-related Financial Disclosures (TCFD), building on the voluntary progress report shared in last year's Annual Report.

COMPLIANCE STATEMENT

In accordance with Listing Rule 9.8.6 R, we present our FY22 TCFD consistency index and confirm that we have, in this report, made climate-related financial disclosures for the year ending 2 July 2022 which are consistent with the TCFD Recommendations and Recommended Disclosures, apart from the disclosure under the Metrics and targets recommendation (b).

The reason for this inconsistency is that some of the Scope 3 data disclosed is derived from a screening exercise conducted by Carbon Trust in 2019 and has not been updated. While this exercise followed the GHG protocol guidance, it is three years old. We intend to review our Scope 3 model and update our data this year, so that we anticipate being able to disclose in a manner consistent with the relevant TCFD recommendations in FY23.

In assessing compliance with Listing Rule 9.8.6 R, we took into consideration the documents referred to in the guidance notes to this Listing Rule, as well as considering, on a voluntary basis, the updated guidance on Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures published in October 2021.

In the table opposite, we include cross-references to disclosures made elsewhere within this report and on our corporate website where the information was too lengthy to include in the report. The Board considers that our climate-related reporting is fair, balanced, and understandable.

TCFD CONSISTENCY INDEX

TCFD elements	TCFD recommended disclosures	Cross-reference (page numbers)
Governance	(a) Board oversight	62
	(b) Management's role	62
Strategy	(a) Climate-related risks and opportunities	65
	(b) Impact on the organisation's business, strategy and financial planning	36-40, 64, 66 and 94-106
	(c) Resilience of the organisation's strategy	64, 66
Risk management	(a) Risk identification and assessment processes	64
	(b) Risk management process	66
	(c) Integration into overall risk management	66, 68-70 and 76
Metrics and targets	(a) Climate-related metrics in line with strategy and risk management process	37, 67 and our methodology on the corporate website https://corporate.dunelm.com/about-us/policies-and-statements/
	(b) Scope 1, 2 and 3 GHG metrics and related risks	37, 67 and our methodology on the corporate website https://corporate.dunelm.com/about-us/policies-and-statements/
	(c) Climate-related targets and performance against targets	67

Summary overview of progress in FY22

- Climate change and sustainability topics discussed regularly by the Board, including at its Strategy Day in May 2022.
- First full year of operation of our Pathway to Zero – Strategy and Governance.
- Refined our assessment of climate-related risks and opportunities to include a methodology for assessing and quantifying potential financial impacts against three climate scenarios.
- Two in-depth reviews of climate change risk by the Risk and Resilience Committee.
- Developed a detailed ten-year roadmap for our Scope 1 emissions reductions, including a logistics decarbonisation strategy.
- Gained a better understanding of the emissions generated by our textiles supply chain (c.50% of products) and the key drivers of emissions reduction.
- Increased expert resource dedicated to delivering emissions reduction and other environmental benefits.

Agreed areas of focus in FY23

- Continue to refine our high-level risks and opportunities assessment to include more robust data, particularly on Scope 3 emissions, and use it to develop our Pathway to Zero strategy.
- Build out our detailed Scope 3 emissions reduction roadmap.
- Measure the impact of our risk mitigating actions to test our assumptions about the resilience of our business model.
- Continue to integrate climate change considerations into our 'business as usual' activities.
- Consider the feasibility of adopting an internal carbon price or budget.
- Increase stakeholder engagement, improve internal and external communications.
- Continue to invest in resource and expertise to support our Pathway to Zero strategy.
- Continue to engage more with our peers and stakeholders to improve our understanding, share ideas and progress, and advocate for change.

Governance

BOARD OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Board takes responsibility for our Pathway to Zero climate change strategy. It considers our approach, strategy, risk management and performance in the following ways:

There are at least two Board presentations per annum on Pathway to Zero, as well as regular Board agenda items on related topics – see the table on page 106. In the past three years, climate change and wider sustainability topics have featured at the annual strategy sessions. The Board also reviews our climate-related risks and opportunities through our risk management framework (see page 69) TCFD governance (see page 63) and as described below on page 66.

An assessment of the environmental impact of major strategic investments (alongside other stakeholder considerations) forms part of the Board and management approval process – see the case study on page 104 as an example.

In addition, the Board receives a monthly update from the Company Secretary and, from FY23, will receive quarterly updates on progress against our climate-related KPIs. Our Board and the Audit and Risk Committee formally review our principal risks, one of which is climate change and environment risk – this is mandated to take place twice a year. In FY22, the Audit and Risk Committee also received a presentation describing the outcome of the quantified risk assessment conducted by management with support from external TCFD consultants, together with a proposed approach to TCFD disclosure.

Through these presentations, a number of which have been given by external experts, we have educated the Board on the implications of climate change for society and our business, and on the regulatory and societal demands on us. They have also guided us in setting our wider sustainability strategy and our long-term carbon emissions reduction targets, and in monitoring progress. In FY23, we will be refining the initial financial quantification of our risks and opportunities and our Scope 3 emissions tracking, and reviewing our Scope 3 roadmap and supporting activities, to improve how we monitor progress against strategy and targets.

MANAGEMENT'S ROLE

The CEO, Nick Wilkinson, heads up the climate-related activities of the Group, and chairs the Pathway to Zero Steering Group, which meets six times a year. Its members include the three Executive Board members who are responsible for delivering the three pillars of our strategy (see page 33), the Company Secretary and the Head of Climate Change. This steering group oversees development and execution of our strategy, with steering groups and other cross functional meetings in place with respect to each of the three pillars. The Executive Board is updated each month on climate-related activities and from FY23 will receive quarterly updates on our climate-related KPIs, but as our climate-related activities become embedded throughout the business in practice all Executive Board members will be required to execute a part of our strategy. The Executive Board also participates in the Group Board Strategy presentations (see below under Strategy).

The principal risks, one of which is climate change and environment risk, are reviewed by the Executive Board prior to the Group Board review, and by the Risk and Resilience Committee. There were two in-depth reviews of climate-related topics by the Risk and Resilience Committee in the year.

Climate change considerations are increasingly integrated into day-to-day business activities: energy efficiency/carbon impact is already included in all new store and store refit proposals; our product design is focused on increasing the use of less carbon intensive materials such as recycled cotton and polyester and reducing packaging/using more sustainable packaging; our mandatory product supplier questionnaire includes climate-related matters (see Circular economy section from page 42, including Responsible sourcing (environmental) on page 43 and Plastics and packaging on page 45). We are also planning to introduce low-carbon fuels into our HGV fleet.

We have increased the number of dedicated climate-related roles in the business, including a Head of Climate Change and two environmental sourcing specialists, as well as including climate change-related accountabilities as part of the roles of numerous other colleagues. Senior management and internal experts participate in climate-related educational events conducted by professional services firms and provided by the British Retail Consortium and the Aldersgate Group, as well as sharing experience with peers in these groups and as part of our participation in Textiles 2030. Internal experts have also provided training to the wider commercial teams and to our suppliers.

MOVING FORWARD

Our governance arrangements have developed significantly over the past year and are working effectively, and we will continue to develop and evolve these as we build our knowledge and approach. As climate-related considerations become more central to our business, we expect them to become 'business as usual' in our strategy and financial planning.

TCFD Governance

OUR BOARD

Responsible for Pathway to Zero climate change strategy. Regularly considers approach, strategy, risk management and performance. Receives monthly update from Company Secretary.

BOARD COMMITTEES

REMUNERATION COMMITTEE

Reviews and approves Executive Director and Executive Board remuneration, including climate-related targets in performance pay.

AUDIT AND RISK COMMITTEE

Formally reviews principal risks (including climate change and environment risk) twice a year, TCFD and climate reporting; and process to verify climate-related KPIs.

NOMINATIONS COMMITTEE

Sets specifications for new Board roles and has oversight of Talent Committee to ensure necessary talent and skills are available to deliver the strategy.

OPERATIONAL COMMITTEES

CHIEF EXECUTIVE OFFICER (CEO)

Heads up climate-related activities of the Group and chairs Pathway to Zero Steering Group which meets six times a year.

Executive Board

Five members (including CEO, CFO and Company Secretary) on the Pathway to Zero Steering Group. Three of these members have specific accountability for delivering one of the three climate change pillars. Company Secretary updates monthly.

Risk and Resilience Committee

Oversight and review of risks, including climate change and environment risk. Chaired by CFO.

Pathway to Zero Steering Group

Chaired by CEO and three other members of Executive Board, Company Secretary and Head of Climate Change.

Talent Committee

Ensures that we have the correct capability in place; increased the number of climate change specialists in year.

Strategy

Our purpose – **To help create the joy of truly feeling at home, now and for generations to come** – is deliberately forward-looking, and designed to encapsulate our objective to make a positive impact on our communities and the environment both now and in the future. Sustainability is one of our six strategic focus areas, and at our Strategy Day in May 2022 we decided to incorporate 'good & circular' into our target customer proposition, alongside 'choice & value', 'friendly & expert' and 'easy & convenient'.

Dunelm engaged external TCFD consultants to support the identification of potential physical and transition risks and opportunities and to determine their financial materiality.

The time horizons we used for the purposes of our assessment were as follows:

- Short term: from 2022 to 2030.
- Medium term: from 2030 to 2040.
- Long term: from 2040 to 2050.

We chose these because the short term includes the period covered by our current greenhouse gas emissions targets and our current five-year plan; while the medium-term and long-term horizons provide a longer-term planning perspective relevant for our current commitments. Beyond 2050 there are significant uncertainties, both physical and transition. These three scenarios were considered to capture the range of uncertainties, including scenarios in which physical and transition risks dominate, to ensure our plan is sufficiently resilient.

Collectively, we reviewed our existing list of risks and opportunities and identified additional risks and opportunities based on a systematic review, peer comparison and sector review exercise. Each risk and opportunity was then scored on the basis of its potential impact, likelihood and velocity to determine its relative materiality, integrating stakeholder insights and secondary data. The top ranked risks and opportunities were then subject to detailed scenario analysis and financial impact quantification.

WE ASSESSED OUR MAJOR CLIMATE-RELATED RISKS AND OPPORTUNITIES AGAINST THREE CLIMATE SCENARIOS:

Net Zero 2050

Limits warming to 1.5°C by 2100, stringent and immediately introduced climate policies and emissions reductions achieve net zero emissions by 2050, broadly aligned to RCP1.9 and RCP2.6.

Delayed transition

Action taken to limit emissions growth, but Paris targets missed resulting in greater than 2°C warming by 2050, aligned to RCP4.5.

Business as Usual

World takes no/limited action, equivalent to a 3.5-4.5°C warming, aligned to RCP8.5.

These risks and opportunities were then quantified, using a number of internal and external data sources, including the IEA World Energy Model Net Zero Strategy 2050, the IEA World Energy Model Sustainable Development Scenario, and various NGFS models, and applying a number of assumptions. The quantification focused on inherent risks and did not take into account any mitigating actions that we are already taking.

The risk assessment found that, generally, the overall risk and potential financial impact of climate change on Dunelm increases with time. The short term is characterised by transition risks, particularly under a 'Net Zero 2050' scenario, with physical risks dominating beyond the 2040s. Based on this assessment, we believe that there is no immediate material financial risk or threat to our business model. Further, the areas of highest potential impact are those which we are already taking action to address through our Pathway to Zero strategy.

THE RESILIENCE OF OUR STRATEGY

We believe that our Pathway to Zero strategy will provide resilience to our significant climate change risks.

Under the 'Net Zero 2050' scenario (equivalent to 1.5°C warming), by 2030 we will have reduced our carbon emissions by 50% in absolute terms against a FY19 baseline and will be able to offer our customers a range of more sustainable products and services as we progress our circular sourcing model. This means that we will be prepared for increased legislation and taxation, as well as reducing the risk/benefiting from the opportunity to gain market share and meet the expectations of our stakeholders.

Under a 'Business as Usual' scenario (equivalent to 3.5-4.5°C warming), the most significant risk is from the increased cost or lack of availability of raw materials, particularly cotton and timber. We are working with our suppliers and peers to understand the risks and dependencies and to explore mitigation and adaptation measures. As we move away from the use of virgin raw materials and towards recycled materials and a more circular business model our dependency on virgin raw materials will reduce.

Key

✓ Net Zero 2050 ◷ Delayed transition ⚠ Business as Usual

A summary of the material risks identified in our risk assessment is set out below, together with a summary of our strategic response. Further details of our targets and activities are set out under Carbon reduction in our sustainability section on pages 36 to 41.

MATERIAL RISK

	TCFD category	Description of financial impact	Time period of maximum impact	Scenario of maximum impact	Strategic response
Impact of carbon taxes on Dunelm or suppliers	Transition risk (Policy & Legal)	Lower profits due to taxation on Dunelm, or taxation on suppliers passed on in product cost	Short/medium	✓	Focus on reducing our carbon emissions and working with our suppliers to reduce their carbon emissions will reduce the impact of potential carbon taxes.
Extension of producer responsibility: increased cost of existing regime and/or extending to additional product categories such as textiles	Transition risk (Policy & Legal)	Lower profits due to increased taxation	Short/medium	✓	We are taking action to reduce packaging, increase its recycled content and improve recyclability. We are sourcing lower impact materials, offering a textiles take-back scheme, and moving towards a more circular sourcing model. These actions should mitigate the impact of any additional taxes.
Physical risks impact the availability of raw materials such as cotton and timber, or impact manufacturing sites and logistics in countries from which we source our products	Physical risk (Acute and Chronic)	Increased costs/lower profits due to supply shortages and freight disruption	Medium/long	⚠	Our work with our suppliers and as part of the Textiles 2030 group of retailers will support action to mitigate these risks, as well as our move to a more circular sourcing model. We will also continue to develop diverse sourcing routes and work with suppliers to build resilience.
Changes to fuel prices caused by climate-related market disruption or increased taxation, and increased cost of transitioning to non-fossil fuel-based fleet	Transition risk (Market)	Increased costs/lower profits	Medium/long	✓ in medium term ⚠ long term	We are moving towards a lower-carbon fuel company car fleet by 2025 and have a logistics decarbonisation plan to move our HGVs progressively towards low-carbon fuel from 2023, subject to development of available technology and infrastructure.
Reputational damage due to failure to act on sustainability trends	Transition risk (Reputation)	Lower sales/harder to attract employees/higher cost of capital	Medium/long	✓	We have ambitious climate change reduction targets and are moving towards the use of low-impact materials in our products and a more circular sourcing model. See also our response to the material opportunity below.

MATERIAL OPPORTUNITY

	TCFD category	Description of financial impact	Time period of maximum impact	Scenario of maximum impact	Strategic response
Increase market share and lower cost of capital by demonstrating leadership in addressing climate change and sustainability	Opportunity (Market)	Higher sales and lower cost of capital	Medium/long	✓	We are increasing our communications to customers, as well as continuing to develop the communication of our strategy and achievements to all our stakeholders.

We have considered the potential for the financial statements to be impacted by climate change, with a particular focus on medium- and long-term non-current assets. Of the assets on our balance sheet which might be considered to be at risk from climate change, the majority of our plant, property and equipment are warehouses, retail stores, plant and machinery and shop fittings in the UK. These assets have a useful remaining life of less than seven years other than the freehold on our Head Office and a small number of freehold stores. These assets are not considered to be at risk of any material physical impacts or transition risks arising from climate change. There has been no material impact on the financial reporting judgements and estimates applied in the preparation of the FY22 Annual Report and Accounts. Please see further information in our accounting policies, from page 180.

MOVING FORWARD

We will:

- Continue to refine our high-level risk and opportunities assessment to include more robust data, and also measure the impact of our mitigating actions so as to test our assumptions about the resilience of our business model.
- Increase stakeholder engagement, improve internal and external communications.
- Invest in resource and expertise to support this activity.
- Continue to engage more with our suppliers and peers to improve our understanding, share ideas and progress, innovate and advocate for change.
- Progress our work on adapting the design of our products to increase longevity and use resources and packaging from more sustainable sources, and to explore and offer end of life options.

Risk management

MANAGING OUR CLIMATE-RELATED RISKS

In FY21, we completed a detailed climate change risk register with the support of Carbon Trust. We refined this with external TCFD consultants in FY22, and quantified the most significant risks by likelihood and potential impact at a high level as described above. This work included an assessment of current and anticipated legislation and regulatory requirements, governmental commitments and trends in consumer preferences. In June 2022, this assessment was reviewed by the Pathway to Zero Steering Group and by the Audit and Risk Committee.

The study confirmed that directionally we have correctly understood the most significant potential risks and that our strategy is addressing the correct mitigating actions. Our Head of Climate Change will maintain this register going forward, adapting it as the risks and our mitigations evolve and our data becomes more accurate. Our Pathway to Zero Steering Group will use the register to inform our strategy, which is then fed into the overall strategy and financial planning process. Our CEO, Head of Climate Change and other leaders throughout the Group will continue to work with expert external advisers, the British Retail Consortium, WRAP, the Aldersgate Group and others to keep up to date with regulatory and best practice developments.

Climate change and environment risk is classified as a principal risk in our risk register, and the detailed climate change risk register and quantification feeds into this. A member of the Executive Board takes responsibility for each of the principal risks, which includes ensuring that the register is kept up to date in respect of regulatory requirements and changes in risk profile (including by reference to industry briefings and participation in peer organisations such as the Aldersgate Group), and for developing and implementing risk mitigations.

The principal risks are discussed with our Executive Board, Risk and Resilience Committee, Audit and Risk Committee and Board as part of the twice-yearly formal review. This includes an assessment of the relevant likelihood and impact of all of our risks. The Risk and Resilience Committee also conducts at least one in-depth review of climate change topics each year. The principal risks are also considered by management in connection with the assessment of the viability of the business over the longer term that is made in connection with the Viability Statement in this report. More information about our climate change and environment risk can be found in the Principal Risks and Uncertainties section on page 76. An overview of our risk management responsibilities is set out on page 69 and explains in more detail how responsibility for risk management is allocated and how that responsibility is discharged by our Board, Audit and Risk Committee, Executive Board and Risk and Resilience Committee.

MOVING FORWARD

We will:

- Continue to evolve our assessment and quantification of our material climate-related risks and opportunities and adapt our Pathway to Zero strategy as required.
- Continue to conduct at least one climate-related in-depth review each year and ensure climate change is discussed in all other deep dive risk reviews where relevant, through the Risk and Resilience Committee.

Metrics and targets

MEASURING OUR CLIMATE-RELATED RISKS AND OPPORTUNITIES

We have chosen the metrics below because they directly address our material climate risks and opportunities, and because they are where we can make the biggest potential impact on climate change. In setting our metrics and targets, we have ensured that they are in line with the Paris Agreement and aligned to a 1.5°C pathway, and the UK's commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019 and other relevant legislation; as well as the British Retail Consortium's Climate Action Roadmap which we support. The carbon and cotton metrics are aligned to the Textiles 2030 voluntary agreement, which we are party to. These topics are also important to our colleagues, customers and society.

MOVING FORWARD

We will:

- Continue to improve our data quality and accuracy, particularly our Scope 3 emissions, working with our suppliers.
- Build out our detailed Scope 3 roadmap to meet our targets, gaining a better understanding of the key drivers of carbon reduction through our supply chain.

Strategic target	Deadline	Progress at June 2022	Measures	Link to material climate risk
Reduce Scope 1 absolute carbon emissions by 50% [3,4]	2030	13.4% increase (2021: 23.9% increase)	Reduce absolute Scope 1 carbon emissions by 50% against a FY19 baseline	• Carbon tax • Fuel price • Reputation
Purchase 100% renewable electricity [4]	2030	99.7% (2021: not disclosed)	Purchase 100% renewable electricity every year	• Carbon tax • Reputation
Reduce tCO_2e/£1m Group revenue (Scope 1) in line with absolute target [1,2]	2030	19.6% reduction (2021: not disclosed)	Reduce Scope 1 and 2 carbon emissions per £1m of Group sales against a FY19 baseline	• Carbon tax • Fuel price • Reputation
Reduce Scope 3 absolute carbon emissions by 50% [3,4]	2030	In progress (2021: not disclosed)	Reduce absolute Scope 3 carbon emissions by 50% against a FY19 baseline	• Carbon tax • Physical risk • Producer responsibility • Reputation
100% of own brand cotton more responsibly sourced [1,2,3]	2025	30.0% (2021: not disclosed)	Percentage of own brand cotton products which meet our 'more responsibly sourced' standard, covering carbon emissions and ethical standard	• Carbon tax • Physical risk • Producer responsibility • Reputation
30% less virgin plastic packaging of own brand products [1,2]	2025	-22.7% (2021: not disclosed)	Reduction in plastic packing (by weight per £ sales) of packaging on our own brand products against FY20 baseline	• Carbon tax • Producer responsibility • Reputation
Easy to use take-back service in place for 50% of our own brand products [1,2]	2025	61.3% (2021: not disclosed)	Percentage of our own brand products for which we offer an easy-to-use take-back service	• Carbon tax • Producer responsibility • Reputation
80% of operational waste to be recycled	2023	79.8% (2021: 80%)	Percentage of operational waste that is recycled	• Carbon tax • Reputation

Key:

1. Link to target in our management Long-Term Incentive Plan.
2. Target in our sustainability-linked Revolving Credit Facility.
3. Textiles 2030 target.
4. Dunelm Pathway to Zero target; see page 34.

Note:

Details of our Scope 1, 2 and 3 emissions are on page 37, and the methodology for our Scope 1, 2 and 3 emissions calculations can be found on our corporate website at https://corporate.dunelm.com/about-us/policies-and-statements/

INDEPENDENT ASSURANCE

We engaged Ernst & Young LLP to provide limited assurance for FY22 over the key performance metrics which are linked to our Revolving Credit Facility. These are marked with the number 2 in the table above. The full assurance statement and the Basis of Reporting documents that were applied in preparing these metrics can be found online on our corporate website: corporate.dunelm.com.