Dunelm Group plc

Corporate Governance Presentation

7 January 2016

Andy Harrison,
Simon Emeny, William Reeve, Peter Ruis, Liz Doherty,
Marion Sears, Will Adderley
Agenda

- Approach to corporate governance
- Overview of current arrangements
- Committees:
  - Nominations
  - Remuneration
  - Audit & risk
- Corporate Social Responsibility
- Live Issues
- Discussion Documents
  - IA (IVIS) report
  - ISS
  - PIRC
Approach to Corporate Governance

**Approach:**
- We do things properly
- Honest and with integrity
- Intend to comply
- Pragmatic – explain if necessary
- Sparing use of advisers is healthy

**Attitude:**
- Always ask:
  - what is the business benefit?
  - how does it help the customer?
- Think of “the Dunelm way”
- Keep things simple

**Board Culture:**
- Close knit – focus on what’s right for Dunelm
- Low key – out of the spotlight
- Long term – expect to live with our decisions
- We care – do it ourselves if we can
## Shareholder Communications and Advisors

<table>
<thead>
<tr>
<th>Advisors</th>
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<tbody>
<tr>
<td>Brokers – UBS and Stifel (Oriel)</td>
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<tr>
<td>Auditors – PwC appointed from FY14 following tender process</td>
</tr>
<tr>
<td>Other financial – KPMG for tax; Deloitte for debt (neither exclusive)</td>
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<tr>
<td>Remuneration – Deloitte (ad hoc - when needed)</td>
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<table>
<thead>
<tr>
<th>Shareholder communication</th>
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<tbody>
<tr>
<td><strong>Institutions</strong></td>
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<tr>
<td>NEDs at results presentations</td>
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<td>Analysts’ visits</td>
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<td>NED attendance on road shows</td>
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<td>NEDs lead consultation</td>
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<tr>
<td><strong>Family</strong></td>
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<tr>
<td>Social Christmas dinner</td>
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<td>Ad hoc “formal” contact by NEDs</td>
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<td>Informal family contact</td>
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<td>Meeting with any new board member</td>
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## Current Board

### Board:
After much work we have refreshed the board and we have a “Chair + 4 + 4” structure

<table>
<thead>
<tr>
<th>Andy Harrison Chair</th>
<th>Will Adderley <em>Deputy Chair</em></th>
<th>Simon Emeny <em>SID</em></th>
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<tbody>
<tr>
<td>John Browett <em>CEO</em></td>
<td></td>
<td>Liz Doherty <em>NED</em></td>
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<tr>
<td>Keith Down <em>CFO</em></td>
<td></td>
<td>William Reeve <em>NED</em></td>
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<tr>
<td>Marion Sears <em>Non-independent NED</em></td>
<td></td>
<td>Peter Ruis <em>NED</em></td>
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### Committees:
All NEDs (if allowed)

<table>
<thead>
<tr>
<th>Audit &amp; Risk</th>
<th>Remuneration</th>
<th>Nominations</th>
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<tbody>
<tr>
<td>Chair</td>
<td>Liz Doherty</td>
<td>Simon Emeny</td>
</tr>
<tr>
<td>Members</td>
<td>Simon Emeny</td>
<td>Andy Harrison</td>
</tr>
<tr>
<td></td>
<td>William Reeve</td>
<td>Liz Doherty</td>
</tr>
<tr>
<td></td>
<td>Peter Ruis</td>
<td>William Reeve</td>
</tr>
<tr>
<td></td>
<td>(Andy Harrison and Marion Sears by invitation)</td>
<td>Peter Ruis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Will Adderley and Marion Sears by invitation)</td>
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Succession planning has been continuous

And we have grown the company and preserved the culture

Adderleys and Board have asked Marion to stay

We now have:
- a refreshed Board
- strong diversity of thought and skills
- stronger executive capability
- composition that follows best practice

As before focus is on the long-term:
- strategy
- profitable growth
- value creation

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
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<tr>
<td>2006</td>
<td>IPO: Geoff, Marion, Bill, Will, David</td>
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<tr>
<td>2007</td>
<td>Simon appointed NED</td>
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<tr>
<td>2008</td>
<td>Bill retired</td>
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<td>2009</td>
<td>Nick appointed as NED</td>
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<tr>
<td>2010</td>
<td>Nick appointed CEO designate</td>
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<td>2011</td>
<td>Nick became CEO; Will became Deputy Chairman</td>
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<tr>
<td>2012</td>
<td>Matt appointed NED</td>
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<tr>
<td>2013</td>
<td>Liz appointed NED</td>
</tr>
<tr>
<td>2014</td>
<td>Andy appointed NED, Nick resigned, CEO search was unsatisfactory so Will reappointed CEO</td>
</tr>
<tr>
<td>2015</td>
<td>Matt left, Andy became chairman, Geoff retired, John appointed CEO, Will reverted to Deputy Chairman, William and Peter appointed NEDs, Keith appointed CFO, David retired</td>
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We introduced a new Policy for the new executive team which was approved at the 2015 AGM:

- We consulted with institutional shareholders, who were supportive
- New policy is designed to last throughout Dunelm’s “Chapter 3”:
  - Stretching LTIP performance conditions maintained
  - Fixed number of LTIP award shares (to be reviewed at each Policy vote i.e. every three years)
  - Share purchase on arrival

Principles:

- Keep things simple and transparent to all
- Strong alignment due to a specific requirement to re-invest bonus and LTIP awards in Dunelm shares
- Long-term focus
  - Base salary and benefits - median or below
    - represents a minority of total pay
    - future salary rises set in context of company-wide increase
  - Annual bonus – median
    - we have responded to shareholder feedback and changed the performance conditions
  - LTIP – upper quartile
    - EPS continues to be performance measure – it is appropriate for Dunelm
    - stretching performance conditions
## Remuneration Committee

### New policy summary:

<table>
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<th></th>
<th>CEO</th>
<th>CFO</th>
<th>Performance conditions</th>
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<tbody>
<tr>
<td><strong>Base salary</strong></td>
<td>£500,000</td>
<td>£350,000</td>
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<tr>
<td><strong>Pension</strong></td>
<td>20%</td>
<td>15%</td>
<td></td>
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<tr>
<td><strong>Other</strong></td>
<td>£21,000</td>
<td>£21,000</td>
<td></td>
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<tr>
<td><strong>Fixed total</strong></td>
<td>£621,000</td>
<td>£424,000</td>
<td></td>
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<tr>
<td><strong>Bonus</strong></td>
<td>125% x base</td>
<td>125% x base</td>
<td>80% budget PBT; 20% non-financial KPIs Min at 95% budget; max at 105% budget</td>
</tr>
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| **LTIP**            | 110,000 shares pa (200% of base on appointment) | 60,000 shares pa (160% of base on appointment) | 3 year performance period:  
  - EPS CAGR vs RPI+3% - RPI+15%  
  - 10% vests at RPI+3% threshold |
| **Alignment**       | Lifetime Lock-in: 2/3rds bonus & LTIP re-invested in Dunelm shares each year. To be held for duration of employment at Dunelm. 50% of these to be held for 2 years after leaving. |                     |                                                                                       |
| **Max pay year 1**  | £2.2m        | £1.4m        | Based on share price of 920p                                                          |
| **Notice period**   | 6 months     | 6 months     |                                                                                       |
Remuneration Policy alignment with Corporate Strategy

- Our strategy centres around our three growth opportunities:
  - LFL store sales growth
  - National coverage from rolling out new stores
  - Growing sales and profit in the home delivery channel

- These are all long-term objectives
  - Board leads by example with long-term thinking

- Remuneration is structured specifically:
  - To be aligned in share ownership – share purchase on arrival and Lifetime Lock-in
  - To pay for performance – fixed pay is < 1/3rd max opportunity
  - To focus on long-term value creation – fixed share LTIP award generates wealth if share price rises

- Will’s remuneration reduced to £1 + benefits – thank you
Audit & Risk Committee

• Risk remains a whole Board responsibility

• Committee focus on risk process heightens attention at senior level

• Oversight managed through:
  - Executive board line responsibilities
  - Dialogue with auditors
  - Accounting policies
  - Internal audit programme
  - Operational audit team
  - Review of internal risk management processes

• Internal audit programme conducted by internal and external specialists such as KPMG
  - Focus on specific project areas decided by the Committee

• Strict “unique advantage” rule on non audit fees

• Change of auditor in 2014 following audit tender
Corporate Social Responsibility

• Oversight by the Board as a whole
  - Approve policies
  - Monitor KPIs
  - Annual presentation on health & safety
  - Specific presentations on other matters (eg ethical trading)

• Implementation by Executive Board - line responsibility for individual topics

• Key considerations: customers, colleagues, H&S, Suppliers, Environment, Community

• 2015 highlights:
  – 8,000 colleagues completed “Customer First” 2nd phase training
  – >90% participation in engagement survey; improved score to over 80%
  – All stores had H&S audit; customer accident rate reduced
  – Improved communication with factories; 70% now green/amber in Ethical Code of Conduct audit
  – Improved levels of waste recycling, energy use and carbon emissions - further pilot trials ongoing
  – Each store has a Charity Champion; we offer an annual day’s leave for charity work

Dunelm
Our Live Issues are mostly Good Issues:

- **Business:**
  - New executive team needs to settle
  - Preserving the culture
  - Prioritising our opportunities: business improvement and business development
  - How will the Home Delivery market develop?

- **Corporate:**
  - Share buy-backs to satisfy LTIP entitlements
  - Rule 9 waiver - some shareholders vote against due to “policy”
  - Mechanism for future returns of surplus cash
  - Appropriate gearing level

- **Governance**
  - Continued succession planning, including oversight of below Board team and diversity
  - Likely to ask Simon to continue as SID and RemCo Chair beyond his 9 year anniversary, to 2017 AGM, so as to ensure board continuity and better NED phasing
  - Marion as non-independent NED has stepped down from Audit & Risk and Rem Committees
  - External Board evaluation
  - Preparation for viability statement
  - Review policy on use of auditor for non-audit services