Dunelm Group plc

Corporate Governance Presentation

14 January 2014

Geoff Cooper, Marion Sears, Simon Emeny, Matt Davies, Liz Doherty, Will Adderley
Agenda

• Approach to corporate governance
• Overview of current arrangements
• Committees:
  - Nominations
  - Remuneration
  - Audit & risk
• Corporate Social Responsibility
• Live Issues
• Discussion Documents
  - ABI report
  - RREV
  - 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?”
- 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

**Advisors**

<table>
<thead>
<tr>
<th>Brokers – UBS and Oriel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditors – KPMG since 2003. Tender for FY14 audit</td>
</tr>
<tr>
<td>Remuneration – Deloitte (ad hoc – mainly obtaining market data, not for scheme designs)</td>
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**Shareholder communication**

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Family</th>
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<tbody>
<tr>
<td>NEDs at results presentations</td>
<td>Occasional Board lunches</td>
</tr>
<tr>
<td>Analysts’ visits</td>
<td>Social Christmas dinner</td>
</tr>
<tr>
<td>NED attendance on road shows</td>
<td>Ad hoc “formal” contact by NEDs</td>
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<tr>
<td>NEDs lead consultation</td>
<td>Informal family contact</td>
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<tr>
<td>This Governance meeting</td>
<td>Presentation of Intentions</td>
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# Current Board

## Board

**Was Chair + 3+ 3 .... Now Chair + 3 + 4**

<table>
<thead>
<tr>
<th></th>
<th>Geoff Cooper Chair</th>
<th>Marion Sears SID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will Adderley</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deputy Chair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nick Wharton</td>
<td></td>
<td>Simon Emeny NED</td>
</tr>
<tr>
<td>CEO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>David Stead</td>
<td></td>
<td>Matt Davies NED</td>
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<tr>
<td>FD</td>
<td></td>
<td>Liz Doherty NED</td>
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## Committees:  All NEDs (if allowed)

<table>
<thead>
<tr>
<th></th>
<th>Audit &amp; Risk</th>
<th>Remuneration</th>
<th>Nominations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair</td>
<td>Matt Davies</td>
<td>Marion Sears</td>
<td>Marion Sears</td>
</tr>
<tr>
<td>Members</td>
<td>Marion Sears Simon Emeny Liz Doherty</td>
<td>Geoff Cooper Simon Emeny Matt Davies Liz Doherty</td>
<td>Geoff Cooper Simon Emeny Matt Davies Liz Doherty</td>
</tr>
<tr>
<td></td>
<td>(Geoff Cooper by invitation)</td>
<td>(Will Adderley by invitation)</td>
<td>(Will Adderley as shareholder)</td>
</tr>
</tbody>
</table>
### Nominations Committee

#### Evolution of the Dunelm Board:

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>David appointed</td>
</tr>
<tr>
<td>2004</td>
<td>Marion (July), Geoff (November) appointed</td>
</tr>
<tr>
<td>2005</td>
<td>IPO delayed</td>
</tr>
<tr>
<td>2006</td>
<td>IPO</td>
</tr>
<tr>
<td>2007</td>
<td>Simon appointed</td>
</tr>
<tr>
<td>2008</td>
<td>Bill retired</td>
</tr>
<tr>
<td>2009</td>
<td>Nick appointed as NED</td>
</tr>
<tr>
<td>2010</td>
<td>Will stepped back; Nick appointed CEO designate</td>
</tr>
<tr>
<td>2011</td>
<td>Nick becomes CEO; Will becomes Deputy Chairman</td>
</tr>
<tr>
<td>2012</td>
<td>Matt appointed</td>
</tr>
<tr>
<td>2013</td>
<td>Liz appointed (Marion &amp; Geoff complete 9 years)</td>
</tr>
<tr>
<td>2014</td>
<td>New NED</td>
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</tbody>
</table>

- Succession planning has been continuous and refreshing
- And we have grown the company and preserved the culture
- Adderleys and Board have asked Marion to stay through the near-term succession process:
  - Board has stated she is independent, however:
    - NAPF and PIRC deem her non-independent
- Another NED in 2014 will address this and give us:
  - Chair+4+4 structure
  - Succession options for chairman
  - Flexibility for composition
  - Continuity for the business and strategy
2014 Board will provide succession options

# Board

Was Chair + 3+ 3 .... Now Chair + 3 + 4

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<tr>
<td>Marion Sears NED</td>
<td>New NED</td>
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- Chair + 4 + 4 structure ensures board composition is compliant as judged by all proxy agencies
- SID and Committee Chairs will change
Principles & policy:

• Keep things simple and transparent to all
• Base salary set at median or below – represents a minority of total pay
• Base salary increases set in context of company-wide increase
• Annual bonus – max award is 100%
• LTIP – max award is 150%
• EPS continues to be the main performance measure – it is appropriate for Dunelm
• Max CEO pay is currently £1.5m pa at grant level – higher pay-outs would reflect increased share price
• Our responsibility is to pay appropriately – we have always looked at the Single Number
• Shareholding requirement of 2x base salary for main board directors

Recent changes:

• Will declined to receive further LTIP grants
• Bonus award has discretion element depending on Company’s strategic development and executive’s personal objectives
• LTIP vesting is deferred for two years after a 3-year performance period, even if executive leaves
Policy alignment with Corporate Strategy

• Strategy centres around the growth and development of our:
  - Specialist proposition
  - Store portfolio
  - Multi-channel capability
  - Infrastructure

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

• Remuneration is structured specifically:
  - To be aligned in share ownership
  - To reward performance
  - To be focused on long-term value creation

• “Single number” remuneration for individual executive directors ranged between £0.8m - £1.3m in 2013
  - In the context of PBT of £108m
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 approval
  - Operational audit team
  - Review of internal risk management processes
- Internal audit programme conducted by internal and external specialist teams
  - Focus on specific project areas decided by the Committee
- Strict “unique advantage” rule on non audit fees - high in 2012/13 but will return to normal in current year
- Audit tender for 2014
Corporate Social Responsibility

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

• Implementation by Executive Board - line responsibility for individual topics

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

• 2013 highlights:
  - Zero waste to landfill achieved Dec 2012
  - “Customer First” programme
  - Colleague engagement survey; colleague council re-launched
  - New combined technical & ethical audit standard introduced for suppliers
We aim for best-practice standard – recent changes:

- **General**
  - Formal investor engagement policy with annual Governance presentation since 2012
  - All directors now stand for annual re-election
  - External board evaluation in 2013

- **Audit**
  - Widened to encompass Risk
  - Internal audit programme introduced
  - Tender in 2014

- **Remuneration**
  - Introduced claw-back, two year deferral for LTIP and discretion over non-financial KPIs for bonus
  - Single Number disclosure since 2012
  - Will declined further LTIP grants and many pay rises and bonus awards over the years
  - Required shareholding for leadership team below board level

- **Nominations**
  - Succession planning explained
Live issues

• Share buy-backs to satisfy LTIP entitlements

• Rule 9 waiver - some shareholders vote against due to “policy”

• Return of capital: B/C scheme vs. special dividend

• Increasing dislocation of remuneration levels vs. peer group in context of company wide consistent awards and above average growth of Dunelm

• NED recruitment and chairman succession

• Preparation of remuneration policy for shareholder binding vote