Dunelm Group plc
Corporate Governance Presentation

30 January 2013
Agenda

• Overview of current arrangements
• Approach to Corporate Governance
• Risk
• Audit
• Remuneration
• Nominations
• Corporate Social Responsibility
• Changes since last year
• Live Issues

• Discussion Documents
  – ABI report
  – RREV
  – PIRC
### Overview of Current Arrangements

#### Board

<table>
<thead>
<tr>
<th>Chair</th>
<th>Sous-Chef</th>
<th>SID</th>
<th>NED</th>
<th>NED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will Adderley</td>
<td>Marion Sears</td>
<td>Nick Wharton</td>
<td>Simon Emeny</td>
<td>Matt Davies</td>
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<td>Deputy Chair</td>
<td>Marion Sears</td>
<td>CEO</td>
<td>NED</td>
<td>NED</td>
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<td>FD</td>
<td>Matt Davies</td>
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#### Committees

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<tr>
<th>Audit Com</th>
<th>Rem Co</th>
<th>Nom Com</th>
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<tr>
<td>Chair</td>
<td>Matt Davies</td>
<td>Marion Sears</td>
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<tr>
<td>Members</td>
<td>Marion Sears</td>
<td>Geoff Cooper</td>
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<td>Matt Davies</td>
<td>Will Adderley</td>
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Shareholder Communications and Advisors

• Brokers – UBS and Oriel

• Auditors – KPMG

• Remuneration – Deloitte (ad hoc)

• Shareholder communication:

  **Institutions**
  - NEDs at results presentations
  - Analysts’ visits
  - NED attendance on road shows
  - NEDs lead consultation
  - The Governance meeting

  **Family**
  - Occasional Board lunches
  - Spring and Christmas dinners
  - Ad hoc “formal” contact by NEDs
  - Informal family contact
  - Presentation of intentions
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:
- Small and consensual – focus on what’s right for Dunelm
- Low key – we like to be out of the spotlight
- Long term – we expect to live with our decisions
- We care – we do it ourselves if we can
• Board owns risk management – there is no Risk Committee
  - Twice per year risk review – formal process
  - Approach is to embed risk into day-to-day management
  - Board-set boundaries for obvious areas
  - Regular “deep dives” into risk topics

• Risk management is through a combination of:
  - Formal processes as above
  - Senior team leading by example
  - Alignment
  - Culture and ethics

• Senior team alignment
  - Execs - 1x salary after 3 years and 2x salary after 5 years
  - Operating board – 1x salary

• Major shareholder on the Board heightens awareness
• Composition is compliant following Matt Davies’ appointment

• Approach is to be prudent and low risk – main discussion is about:
  - Stock
  - Cash / systems controls

• Regular debate about gearing and use of cash (as whole Board)

• Decisions made:
  - Don’t use auditors for other services unless clearly better
  - Annual review of need for internal audit function
  - Auditor rotation – awaiting clarification of best practice
• **Principles & policy:**
  - Keep things simple and transparent
  - Base salary set at median or below – should represent a minority of total pay
  - Default position: base salary increases with company-wide increase
  - Annual bonus – max award in line at 100%
  - LTIP – max award upper quartile at 150%
  - Therefore max potential CEO pay is c.£1.5m based on 2012/13 salary incl pension & benefits

• **EPS used as key performance measure for annual bonus and LTIP**
  - 3 year LTIP with max vest at EPS CAGR of RPI+15%
  - Lack of leverage and board control over debt reduces risk of using EPS
  - More performance measures may lead to higher payouts
  - Will Adderley no longer receives LTIP grants

• **Issues for 2013:**
  - Longer term LTIPs - increase performance period or defer transfer after vesting
  - How to treat executives fairly if LTIP term is lengthened / deferral introduced
  - Will institutions support this existing policy in a binding vote?
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

• Since IPO, remuneration has been structured specifically:
  – To be aligned in share ownership
    • Required shareholding value at 2 x salary
    • Requirements below board of 1x and 0.5x
    • Active promotion of SAYE scheme
  – To reward performance
    • 70% of max earnings opportunity is performance related
  – To be focused on long term value creation
    • >40% of max earnings on LTIP;
    • CEO has 5 year options

• “Single Number” for execs ranged between £0.9m - £1.2m in 2012
<table>
<thead>
<tr>
<th>Subject</th>
<th>ABI guidance updated November 2012</th>
<th>Dunelm position</th>
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<tbody>
<tr>
<td>Buy-out on recruitment</td>
<td>Should be like-for-like</td>
<td>Noted for next exec recruitment</td>
</tr>
<tr>
<td>Pensions</td>
<td>Disclose / justify differences between execs and workforce</td>
<td>DC: 10% salary for board, 5% for management, stakeholder scheme</td>
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<tr>
<td>Variable pay</td>
<td>Should be simple: preferably just one bonus and one LTIP</td>
<td>One bonus and one LTIP</td>
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<tr>
<td></td>
<td>RemCo to keep discretion on bonus in case award is inappropriate</td>
<td>RemCo has discretion on bonus</td>
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<tr>
<td></td>
<td>Link LTIP length to strategy timing; consider additional holding period</td>
<td>Longer term under consideration</td>
</tr>
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<td></td>
<td>LTIP performance criteria - link financial measures to value creation</td>
<td>EPS is financial, a key driver of share price, under management’s control</td>
</tr>
<tr>
<td>Types of scheme</td>
<td>Matching shares may add unnecessary complexity</td>
<td>No matching scheme</td>
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<td></td>
<td>Dividends should not be paid on options prior to exercise</td>
<td>No dividends paid on unvested LTIP</td>
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<tr>
<td></td>
<td>Measuring performance pre-grant not favoured</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Exec shareholdings</td>
<td>Should only count towards holding requirement if unfettered</td>
<td>Only count if unfettered</td>
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Nominations Committee

- Constant work to review / refresh board composition
  - Matt Davies appointed in 2012
  - Likely to appoint a further NED in 2013

- Ideally no more than one new appointment per year

- Objectives:
  - Comply
  - Having some working execs as NEDs is helpful
  - Board will always be mixed gender
  - Ensure appropriate diversity of thought for long term strategic thinking
  - Ensure the organisation has suitable talent management processes to service future growth

- The overriding tasks of the Committee are to:
  - preserve the culture; and
  - ensure appropriate resource in a growing organisation – at all levels
Corporate Social Responsibility

• CSR taken seriously:
  - It matters to customers
  - It matters to colleagues
  - It affects profitability
  - It is important for our reputation

• Our approach is to embed CSR into Operating Board responsibilities
  - Environment (waste, energy, carbon, packing)
  - Social (ethical trade, suppliers, customers, H&S)
  - Employees (career development, equal ops, communication, H&S)
  - Community (charitable donations and fund-raising, Job Centre partnerships)

• Board receives monthly scorecard including CSR measures and H&S reporting
  - H&S “deep dive” annually
  - Presentations on topics for specific management focus
Changes in the Past Year

- Appointed Matt Davies as new NED – now compliant on board and committee composition
- Dawn Durrant appointed company secretary – no longer the finance director
- Review of board skills and group talent management processes
- Updated succession plan for execs and NEDs
- RemCo:
  - normalised pensions for execs at 10% of salary
  - Required shareholding introduced for senior management group
  - Published the “single number” for total exec remuneration in 2011/12
  - introduced clawback on un-vested performance pay from 2012/13
  - Will Adderley no longer receives LTIP grants from 2012/13
- Initiated regular colleague engagement survey and relaunched Colleague Council
Live Issues

- External board evaluation
- Board succession
- Auditor rotation
- RemCo:
  - How to address market request for longer-term LTIPs
  - What do executives receive in return?
  - How to reward if base pay becomes out of line with peer group
- Rule 9 waiver
- Policy of returning surplus cash
- Efficient engagement with institutional shareholders