

Dunelm Group plc



Corporate Governance Presentation

14 January 2014

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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

Brokers – UBS and Oriel

Auditors – KPMG since 2003. Tender for FY14 audit

Remuneration – Deloitte (ad hoc – mainly obtaining market data, not for scheme designs)

Shareholder communication

Institutions	Family
NEDs at results presentations	Occasional Board lunches
Analysts' visits	Social Christmas dinner
NED attendance on road shows	Ad hoc "formal" contact by NEDs
NEDs lead consultation	Informal family contact
This Governance meeting	Presentation of Intentions

Current Board

Board

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

	Geoff Cooper Chair	
Will Adderley Deputy Chair		Marion Sears SID
Nick Wharton CEO		Simon Emeny NED
David Stead FD		Matt Davies NED
		Liz Doherty NED

Committees: All NEDs (if allowed)

	Audit & Risk	Remuneration	Nominations
Chair	Matt Davies	Marion Sears	Marion Sears
Members	Marion Sears Simon Emeny Liz Doherty (Geoff Cooper by invitation)	Geoff Cooper Simon Emeny Matt Davies Liz Doherty (Will Adderley by invitation)	Geoff Cooper Simon Emeny Matt Davies Liz Doherty (Will Adderley as shareholder)

Nominations Committee

Evolution of the Dunelm Board:

2003	David appointed
2004	Marion (July), Geoff (November) appointed
2005	IPO delayed
2006	IPO
2007	Simon appointed
2008	Bill retired
2009	Nick appointed as NED
2010	Will stepped back; Nick appointed CEO designate
2011	Nick becomes CEO; Will becomes Deputy Chairman
2012	Matt appointed
2013	Liz appointed (Marion & Geoff complete 9 years)
2014	New NED

- 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

	Geoff Cooper Chair	
Will Adderley Deputy Chair		Simon Emeny NED
Nick Wharton CEO		Matt Davies NED
David Stead FD		Liz Doherty NED
Marion Sears NED		New NED

- Chair + 4 + 4 structure ensures board composition is compliant as judged by all proxy agencies
- SID and Committee Chairs will change

Remuneration Committee

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