Directors' Remuneration Policy 2023

Introduction to Directors' Remuneration Policy

Our current binding Remuneration Policy was approved by shareholders at the Annual General Meeting on 17 November 2020 with over 99% of votes in favour (see FY22 Annual Report and Accounts for a copy of the current policy). It expires this year. Therefore, during FY23, the Committee reviewed the Group's overall remuneration philosophy and structure to ensure that the framework remains effective in supporting the Group's strategic objectives and long-term, sustainable growth. It considered the ongoing need to maintain alignment of the Remuneration Policy with our strategic goals, investor sentiment and market practice, as well as our shared values, which include 'long-term thinking' and to 'act like owners', in keeping with the family origin of the business.

The Chair wrote to the Company's largest shareholders in respect of proposed changes and took shareholders' feedback into account when finalising the new Policy (more details of which are set out in the Chair's Annual Statement on page 88). The Committee concluded that whilst the overall structure of the Policy should be maintained, some changes were desirable, and a summary of the key changes is set out on page 91. Shareholders are being asked to approve the new Policy, which is intended to apply for three years from the date of approval, at our FY23 AGM on 16 November 2023.

The Committee has ensured that the new Policy and practices are consistent with the factors set out in Provision 40 of the UK Corporate Governance Code:

Clarity and simplicity	• We operate a simple, sustainable and transparent remuneration structure. • Performance targets for variable pay are linked to our strategy. • Performance requirements are clearly disclosed and transparent and we provide detailed disclosures of the relevant performance assessments and outcomes for our stakeholders to consider. • Engagement is welcomed from stakeholders throughout the year. • A National Colleague Voice meeting (see pages 32 and 118) is dedicated to providing clarity to colleagues, and inviting discussion on our approach to executive pay.
Risk	• The Committee is comfortable that the Company's incentive arrangements do not encourage inappropriate risk-taking. • Our Policy includes (i) balanced use of short- and long-term incentives, (ii) the ability for the Committee to apply discretion and judgement to outcomes, (iii) malus and clawback provisions, and (iv) the majority of the variable remuneration of the Executive Directors is paid in shares which are subject to in-employment and post-employment shareholding requirements. • Our variable pay arrangements include the ability on the part of the Committee to adjust formulaic vesting outturns so that vesting levels can be aligned with overall performance. • Shareholding requirements apply both during and after employment to promote alignment with the longer-term interests of shareholders and longer-term performance. • Variable pay arrangements include malus and clawback provisions.
Predictability	• The remuneration scenarios for Executive Directors on page 98 and 99 indicate the potential values that may be earned through the remuneration structure. • Where discretion may be exercised, this is clearly stated in the Policy.
Proportionality	• Our Policy is drafted with clear consideration of the need to ensure that total remuneration fairly reflects performance and enables meaningful and appropriate targets to be set with a significant proportion linked to long-term shareholder value. • A significant proportion of the Executive Directors' remuneration is subject to performance conditions and awarded in shares to ensure alignment with shareholders' interests.
Alignment to culture	• The Committee ensures that our incentive structure drives the right behaviours and reinforces the Group's purpose and shared values. • Alignment is reflected in the approach to performance measures used in our incentive schemes, for example (i) financial targets under the annual bonus and targets for the LTIP are the same for all management, regardless of seniority, linking everyone's contribution to a shared Group financial outcome, (ii) strategic targets require our Executive Directors and senior leadership to work together to deliver growth and value to the benefit of our stakeholders, and (iii) non-financial performance measures continue to focus on ensuring that participants 'do the right thing', including delivery of our sustainability strategy.

The policy report

Future policy table

The following table sets out the structure of remuneration for Directors of the Company under the proposed new Policy which will be presented to shareholders at the forthcoming AGM for approval by way of a binding vote. The Policy has been determined by the Company's Remuneration Committee in consultation with shareholders. Sir Will Adderley has requested that he not be considered for participation in the annual bonus or LTIP.

The key differences between the policy approved at the AGM in 2020 and the proposed new Policy are summarised on page 91.

Executive Directors

Base salary

Purpose and link to strategic objectives	• Fixed remuneration for the role. • To attract and retain the high calibre talent necessary to develop and deliver the business strategy. • Reflects the size and scope of the Executive Director's responsibilities.
Operation	• Normally paid monthly. • Base level set in the context of: – Pay for similar roles in companies of similar size and complexity in the relevant market. – Scale and complexity of the role. • Should comprise a minority of potential remuneration.
Maximum opportunity	• Reviewed annually, with percentage increases usually in line with or below the Group-wide review unless other circumstances apply, such as: – A significant change in the size, scale or complexity of the role or of the Group's business. – Development and performance in role (for example, on a new appointment, base salary might be initially set at a lower level with the intention of increasing over time). • The Committee does not consider it to be appropriate to set a monetary limit on the maximum base salary that may be paid to an Executive Director within the terms of this Policy.
Performance metrics	• None, although performance of the individual is considered at the annual salary review.

Retirement benefits

Purpose and link to strategic objectives	• To provide a competitive post-retirement benefit. • To attract and retain the high calibre talent necessary to develop and deliver the business strategy.
Operation	• Contribution to a defined contribution plan or a cash allowance in respect of some or all of the contribution that would otherwise be made to a pension plan. • No element other than base salary is pensionable.
Maximum opportunity	• An amount as a percentage of base salary not exceeding the maximum rate available to the majority of the wider workforce (currently 3%).
Performance metrics	• None.

Remuneration Committee report continued

Executive Directors continued

Benefits

Purpose and link to strategic objectives	• To provide a competitive benefits package. • To attract and retain the high calibre talent necessary to develop and deliver the business strategy.
Operation	• A range of benefits are provided, which may include car or car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; use of a car and driver in connection with the role or an appropriate travel allowance; and colleague discount. • Additional benefits, such as relocation expenses, housing allowance and school fees may also be provided in certain circumstances if considered reasonable and appropriate by the Committee. • For non-UK Executives (none at present) the Committee may consider additional allowances in accordance with standard practice.
Maximum opportunity	• The Committee reserves the right to provide such benefits as it considers necessary to support the strategy of the Group. • The Committee does not consider it to be appropriate to set a maximum cost to the Group of benefits to be paid.
Performance metrics	• None.

Annual bonus

Purpose and link to strategic objectives	• Rewards and incentivises delivery of annual financial, strategic and personal targets.
Operation	• The amount of the bonus earned is determined after the results for the financial year have been audited, subject to performance targets having been met. The Committee has discretion to adjust the bonus payout upwards or downwards if it considers that the formulaic outturn does not reflect its assessment of the overall financial or non-financial performance of the participant or the Group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at the start of the relevant year, or is inappropriate for any other reason. • At least two-thirds of any bonus earned will be either subject to a requirement that the after-tax amount is invested in Dunelm shares or will be granted in the form of a share bonus award on a pre-tax basis. Any shares acquired pursuant to such a requirement are subject to retention provisions as set out in the 'Shareholding requirements' section below.
Maximum opportunity	• Maximum opportunity: 150% of base salary per annum. • The combined annual bonus and LTIP opportunities for any year may not exceed: (a) 375% of salary in the case of the Company's CEO; and (b) 325% of salary in the case of any other Executive Director. • Where bonus awards are granted as share awards, dividend accruals may be made in respect of dividends paid during the vesting period applicable to an award. Any such dividend equivalents will ordinarily be paid in shares.
Performance metrics	• Stretching performance targets are set each year. Performance targets for the Executive Directors may be based on financial objectives and/or strategic objectives and/or personal goals set by the Committee annually. • Financial objectives may include, but are not limited to, budgeted PBT for the financial year. • The strategic objectives will vary depending on the specific business priorities in a particular year. • The Committee will determine the weighting of performance measures for any year based on specific business priorities for the year. Ordinarily, at least 50% of the annual bonus for Executive Directors will be subject to financial objectives. • Subject to the Committee's discretion to override formulaic outturns, for financial measures typically up to 10% of the maximum opportunity will be earned for threshold performance, and for on-target performance up to 50% of the maximum opportunity will be earned, and for exceeding on-target performance up to 100% of the maximum opportunity will be earned. Bonuses will typically be earned between threshold and on-target and between on-target and maximum on a straight-line basis. • For strategic measures and personal goals, vesting of the bonus will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant metrics or objectives have been met. • Awards are subject to recovery provisions (malus and clawback) as set out below.

Executive Directors continued

Long-Term Incentive Plan

Purpose and link to strategic objectives	• Supports delivery of strategy by requiring the achievement of appropriate targets and objectives which will normally include a measure based on EPS. • Rewards strong financial performance and sustained increase in shareholder value over the long term. • Aligns with shareholder interests through the delivery of shares, with share retention requirements as set out below.
Operation	• Awards (which can take the form of a conditional award, nil-cost option or nominal value option) are made annually, with vesting subject to performance, usually assessed following the end of a performance period of three years, followed by a 'Holding Period' of two years. The Holding Period may operate on the basis of: (i) the award vesting following assessment of performance but that, other than as regards sales of shares to cover tax liabilities, shares acquired must be retained until the end of the Holding Period; or (ii) vesting being deferred until the end of the Holding Period. • Shares acquired are then subject to retention provisions as set out in the 'Shareholding requirements' section below. • The Committee has discretion to adjust the LTIP vesting outturn upwards or downwards if it considers that the formulaic output does not reflect its assessment of the overall financial or non-financial performance of the participant or the Group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at grant, or is inappropriate for any other reason.
Maximum opportunity	• The maximum award for an Executive Director in respect of any financial year is an award over shares with a value (as determined by the Committee) of 250% of salary. • The combined annual bonus and LTIP opportunities for any year may not exceed: (i) 375% of salary in the case of the Company's CEO; and (ii) 325% of salary in the case of any other Executive Director. • Dividend accruals may be made in respect of dividends paid during the performance period applicable to an award and up to the vesting date. Payment would only be made in respect of shares vesting after applying performance criteria. Any such dividend equivalents will ordinarily be paid in shares.
Performance metrics	• The Committee will determine the weighting of performance measures for any year. For at least 75% of an award, vesting will be subject to the satisfaction of one or more financial measures, which will normally include a measure based on EPS. The balance of the award vesting will be subject to one or more other financial, strategic, environmental, social or governance measures. • The Committee considers the targets annually taking into account a range of factors which will include the Group's plans, external forecasts and the overall business environment. • Subject to the Committee's discretion to override formulaic outturns, for financial measures typically up to 10% of an award will vest for threshold performance (the lowest level of performance at which awards will vest), rising to up to 50% for achieving a stretching level of 'on-target' performance and to 100% for achieving or exceeding a stretch level of performance. Vesting between threshold and on-target and between on-target and maximum will typically be on a straight-line basis. • For strategic, environmental, social or governance measures, vesting will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant measures have been met. • Awards are subject to recovery provisions (malus and clawback) as set out below.

Remuneration Committee report continued

Executive Directors continued

All employee share plan (Sharesave)

Purpose and link to strategic objectives	• Promotes share ownership by all eligible colleagues (including Executive Directors).
Operation	• All UK employees with a minimum service requirement are eligible to join the UK tax qualifying Dunelm Group Savings Related Share Option Plan (the Sharesave). Employees outside the UK are eligible to join an equivalent plan which is not tax qualifying. • Monthly savings are made over a period of three years (or such other period as may be permitted by the applicable UK tax legislation) linked to the grant of an option over Dunelm shares at a discount of up to 20% to the market price (or such other amount as permitted by the applicable UK tax legislation) at the date of invitation to join the plan. • Invitations are normally issued annually at the discretion of the Committee, which also has discretion to set the minimum service requirement, maximum discount, maximum monthly savings and any other limits within the terms of the plan rules.
Maximum opportunity	• Maximum participation limits reflect the limits prescribed by the applicable UK tax legislation from time to time. Currently the maximum limit is savings of £500 per month.
Performance metrics	• None.

Shareholding requirements

To align the interests of Executive Directors with those of shareholders and to promote long-term thinking, the Committee has adopted shareholding requirements which apply both during employment and for a period following employment, as set out below. The Committee retains the right to waive or relax the retention requirements in respect of shares acquired pursuant to annual bonus deferral arrangements or following the end of the Holding Period applying to any LTIP award granted after 1 July 2020 if the Executive Director meets the required level of shareholding during employment. The Committee also retains the right to waive or relax any element of the shareholding requirements in exceptional circumstances, such as death, divorce, ill health or severe financial hardship.

Shareholding requirements during employment

- Executive Directors are expected to make a personal investment in Dunelm shares on appointment as an Executive Director (subject to closed periods).
- Each Executive Director is required to build a beneficial holding of shares with a value (as a percentage of salary) equal to the higher of: (i) their normal annual LTIP grant; and (ii) 200% of salary. Executive Directors are ordinarily expected to achieve this holding within five years from appointment. Shares subject to: (i) LTIP awards which are exercisable but which have not been exercised; (ii) LTIP awards for which the performance assessment has been carried out but for which vesting is deferred until the end of the Holding Period; and (iii) share bonus awards, count towards this requirement on a net of assumed tax basis.
- Any shares acquired pursuant to required annual bonus deferral arrangements must be retained during employment, other than any shares sold to cover associated tax liabilities.
- Following the end of the Holding Period applying to any LTIP award granted after 1 July 2020, an Executive Director must retain at least two-thirds of the shares acquired, other than any shares sold to cover associated tax liabilities.

Shareholding requirements following termination of employment

Following termination of their employment for any reason, an Executive Director must retain for two years shares equal to the lower of the shareholding requirement applicable to them during employment, and their actual shareholding on departure. This is a contractual requirement set out in each Director's service contract. The Company also reserves the right to require share certificates to be lodged in its custody.

Payment of fixed remuneration in shares

The Company may deliver any element of fixed remuneration for an Executive Director in shares rather than in cash or any other form in which it is usually provided. The number of shares would be such number as have a value at the relevant time equal to the value of the fixed remuneration being delivered in shares.

Recovery provisions (malus and clawback)

The annual bonus (including any granted as a share award) and LTIP are subject to recovery provisions as set out below.

Malus provisions apply which enable the Committee to determine before the payment of an annual bonus or the vesting of an LTIP award, that the bonus opportunity or LTIP award may be cancelled or reduced.

Clawback provisions apply which enable the Committee to determine for up to three years following the payment of a cash bonus or the assessment of the performance outturn for an LTIP award, that the amount of the bonus paid may be recovered and the LTIP or share bonus award may be cancelled or reduced (if it has not been exercised) or recovery may be applied to it (if it has been exercised).

The malus and clawback provisions may be applied in the event of:

- A material misstatement of any Group company's financial results;
- A material error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or vests;
- A material failure of risk management in any Group company or a relevant business unit;
- Serious reputational damage to any Group company or a relevant business unit;
- Serious misconduct or material error on the part of the participant;
- A material corporate failure as determined by the Board;
- Fraud; or
- Any other circumstances which the Committee in its discretion considers to be similar in their nature or effect to those set out above.

Salary, pension, benefits and Sharesave options are not subject to recovery.

Non-Executive Directors

Fees and appropriate benefits

Purpose and link to strategic objectives	To attract and retain a high calibre Chair and Non-Executive Directors by offering competitive fee levels and, where relevant, appropriate benefits.
Operation	• Fees for the Chair are set by the Committee. Fees for Non-Executive Directors are set by the Board. No Director participates in any decision relating to their own remuneration. • The Chair is paid an all-inclusive fee for all Board responsibilities. The Non-Executive Directors receive a basic fee, with supplemental fees for additional Board responsibilities. • The level of fee reflects the size and complexity of the role and the time commitment. • Fees are normally reviewed annually, having regard to a range of factors, including increases in remuneration across the Group. In addition, a periodic review is undertaken against market rates and taking into account time commitment and any change in size, scale or complexity of the business. • The Group's colleague discount is available to the Chair and Non-Executive Directors. In addition, they may receive benefits such as travel, accommodation and other reasonable expenses incurred in the fulfilment of their duties, which may be 'grossed up' to reflect any tax liabilities associated with the benefits. Additional benefits may be provided where considered appropriate. The Chair and Non-Executive Directors do not participate in any incentive scheme.
Maximum opportunity	• The maximum to be paid by way of fees to the Non-Executive Directors is set out in the Company's Articles of Association as amended from time to time.
Performance metrics	• None.

The Committee may make minor changes to this Policy which do not have a material advantage to Directors, to aid its operation or implementation without seeking shareholder approval, but taking into account the interests of shareholders.

Remuneration Committee report continued

Performance measures and how targets are set

The Committee selects performance measures that it believes are:

- Aligned with the Group's strategic goals and set, where relevant, taking into account market consensus and individual broker expectations. For the LTIP, financial measures will normally include EPS which the Committee considers to be the most appropriate measure for medium-term performance, aligned with our growth ambitions and continuing to win market share.
- Unambiguous and easy to calculate.
- Transparent to Directors and shareholders.

For both the annual bonus and the LTIP, the Committee reserves the right to vary or substitute any performance measure if justified by the circumstances, for example if there was a significant transaction.

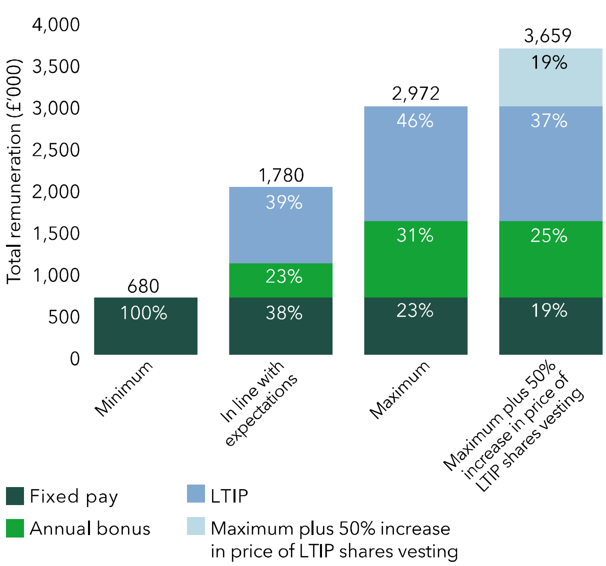
Performance measures for the annual bonus for FY24 are set out on page 115. Performance measures for the LTIP awards proposed to be granted in respect of FY24 are set out on pages 115 and 116.

Illustrative performance scenarios

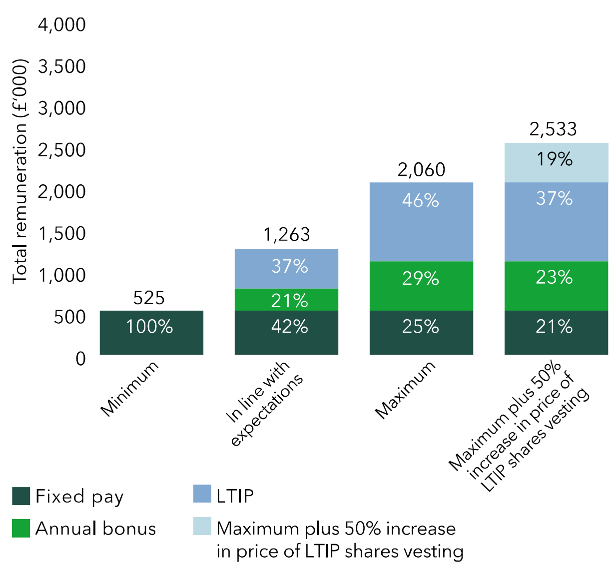
At his request, Sir Will Adderley does not receive any remuneration apart from an annual salary, car allowance and healthcare benefits. Therefore his remuneration has not been included in the scenarios below.

The following graphs set out what Nick Wilkinson and Karen Witts, the other Executive Directors in office at the date of this report, could earn in FY24 under the following scenarios:

Nick Wilkinson



Karen Witts



The following assumptions have been made in respect of the scenarios on the previous page:

Fixed pay (base salary, benefits and pension only)	Base salary £'000	Benefits £'000	Pension £'000
Nick Wilkinson	611	51	18
Karen Witts	473	38	14

Performance level	Fixed pay	Annual bonus	LTIP
Minimum (performance below threshold)	As above	Nil	Nil
In line with expectations	As above	45% of bonus opportunity earned (67.5% of salary for Nick Wilkinson, 56.25% of salary for Karen Witts).	50% of the LTIP award vests (112.5% of salary for Nick Wilkinson and 100% of salary for Karen Witts), based on face value of the award at the date of grant.
Maximum performance	As above	100% of bonus opportunity earned (150% of salary for Nick Wilkinson, 125% of salary for Karen Witts).	100% of the LTIP award vests (225% of salary for Nick Wilkinson and 200% of salary for Karen Witts), based on face value of the award at the date of grant.
Maximum performance, plus share price increase	As above	100% of bonus opportunity earned (150% of salary for Nick Wilkinson, 125% of salary for Karen Witts).	100% of the LTIP award vests (225% of salary for Nick Wilkinson and 200% of salary for Karen Witts), plus an increase in the value of the LTIP of 50% across the relevant performance period to reflect possible share price appreciation.

Service contracts and loss of office payments

All of the Executive Directors have service contracts. The notice period for termination for Sir Will Adderley is 12 months from either party, and for Nick Wilkinson and Karen Witts is six months from either party. In connection with her joining Dunelm and as disclosed in the Directors' Remuneration Report for the year ended 2 July 2022, Karen Witts is entitled to: (i) A contribution of up to £50,000 towards the cost of purchasing and furnishing a home close to Dunelm's offices in Leicester on the understanding that the purchase completes within two years of the commencement of her employment. The majority of any furnishings should be purchased from Dunelm. Approvable expenses will include stamp duty and any agents' fees plus furnishings, fixtures and fittings; (ii) An allowance of £1,500 per month to cover the cost of rent on a property close to Dunelm's offices in Leicester and/or other expenses and travel costs. This will apply until Karen purchases a home close to Leicester, or for the duration of employment should Karen choose not to do so (in which case the £50,000 contribution to relocation expenses referred to in (i) will not be paid).

If the Company terminates the employment of the Executive Director it would honour its contractual commitments. If termination was with immediate effect, a payment in lieu of notice may be made. The Committee may apply mitigation in respect of any termination payment.

Details in relation to the service contracts for Executive Directors are set out in Table 8 on page 110 of the Annual Report on Remuneration.

Bonus

The Committee has discretion to make a payment to a 'good leaver' (as determined by the Committee) in respect of any annual bonus. Any such bonus would normally be pro-rated to the period of active service during the relevant financial year. Ordinarily, any bonus would be subject to deferral into shares in the usual way; however, the Committee retains discretion not to apply deferral in appropriate circumstances.

Share bonus awards will lapse on termination of employment before vesting other than in the event of death, serious ill health and any other reason at the discretion of the Committee. If an award does not lapse, the Committee will determine whether it vests on termination or at the ordinary vesting date.

Remuneration Committee report continued

LTIP

If a participant leaves the employment of the Group, the following provisions apply to awards granted under the LTIP:

- Awards in the form of options that have vested but have not yet been exercised may be exercised within six months of cessation of employment (12 months in the case of death).
- Except in the case of dismissal for gross misconduct, awards which have not yet vested, but where the performance period has elapsed, may vest at the relevant vesting date. The Committee has discretion to vest the award earlier but would only use this in exceptional circumstances (such as ill-health). In the event of death, unless the Board determines otherwise, vesting will be as soon as practicable. In the case of an option, the option must be exercised within six months of vesting (or 12 months in the case of death), to the extent that the performance conditions have been met.
- If the participant leaves the Group before an award has vested and before the performance period has elapsed, the award will usually lapse. However, if the participant ceases employment due to ill-health, injury or disability or if the Committee exercises its discretion to treat the participant as a 'good leaver', the award will be retained and vest at the normal vesting date. The Committee has discretion to vest the award earlier, but would only use this in exceptional circumstances (such as ill-health). In the event of death, unless the Board determines otherwise, vesting will be as soon as practicable. In the case of an option, the option may be exercised within six months of the relevant vesting date (or 12 months in the case of death). Any vesting would be subject to assessment of the performance conditions (and the exercise of any discretion to vary formulaic outturns in line with the Policy) and, unless the Committee determined otherwise, a reduction to reflect the proportion of the performance period that had elapsed at cessation.

In all cases, LTIP awards would be subject to the applicable malus and clawback provisions.

Sharesave

If a participant leaves the Group, options granted under the Sharesave will normally lapse, but may be exercised within six months from the cessation of employment due to injury, disability, retirement, or redundancy (or 12 months in the case of death), or the employing company leaving the Group or, provided that the option has been held for at least three years, cessation for any other reason (apart from dismissal by the Company).

Non-Executive Directors' letters of appointment

Non-Executive Directors have letters of appointment. The term is for an initial period of three years with a provision for termination on one month's notice from either party, or three months' notice from either party in the case of the Chair. Letters are renewed for up to two additional three-year terms, and then renewed annually. The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM.

Details in relation to the letters of appointment are set out in Table 8 on page 110 of the Annual Report on Implementation.

Other payments

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment or for any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with their cessation of office or employment. In appropriate circumstances, the Committee may continue the provision of certain benefits (for example health insurance) for a period following cessation.

Change of control and other corporate events

Share bonus awards

Share bonus awards will vest on a change of control or winding up of the Company before the originally anticipated vesting date.

LTIP

The following provisions apply to awards made under the Long-Term Incentive Plan in accordance with the plan rules if there is a change of control or winding up of the Company:

- Any vested but unexercised options may be exercised.
- Any unvested awards in respect of which the performance period has ended and to which the performance condition has been applied will vest and, in the case of options, may be exercised.
- Any unvested awards in respect of which the performance period has not ended may vest and, in the case of options, be exercised at the discretion of the Committee, subject to any adjustment to take into account the amount of time that has elapsed through the performance period (unless the Committee decides not to apply a time-based reduction) and the extent to which any performance criteria have been met (and the exercise of any discretion to vary formulaic outturns in line with the Policy table).
- The Executive Director may agree that their awards are 'rolled over' into shares of the acquiring company as an alternative.

If the Company has been or will be affected by any demerger, dividend in specie, special dividend or other transaction which will adversely affect the current or future value of any awards under the LTIP or any share bonus awards, the plan rules allow the Committee, acting fairly and reasonably, to determine the extent to which any awards should vest and the period within which options may be exercised.

Sharesave

Sharesave options may be exercised within six months following a change of control or winding up of the Company, using savings in the participant's account at the date of exercise. The participant may agree that their awards are 'rolled over' into shares of the acquiring company as an alternative.

Operation of share plans

All discretions available under the Company's share plan rules will be available under this Policy, except where explicitly limited under this Policy. This includes that:

- The Committee may amend the terms of awards and options under the Company's share plans in accordance with the plan rules in the event of a variation of Dunelm's share capital or a demerger, special dividend or other similar event or otherwise in accordance with the rules of those plans.
- Awards may be settled, in whole or in part, in cash, although the Committee would only settle an Executive Director's award in cash in exceptional circumstances, such as where there is a regulatory restriction on the delivery of shares, or in connection with the settlement of tax liabilities arising in respect of the award.

Executive pay and the pay of other colleagues

The remuneration principles set out on page 87 are applied consistently to pay throughout the Group.

Pay for all colleagues is set at a level that is fair for the role and responsibilities of the individual, and is designed to attract and retain high calibre talent that is needed to deliver the Group's strategy, without paying too much.

The remuneration of Executive Directors is more heavily weighted towards variable pay than for other colleagues, so that a greater part of their pay is linked to successful delivery of strategy and aligned with shareholders. They are also required to build and maintain a shareholding in the Company as set out above.

The remuneration of colleagues below the Board (including participation in the LTIP) reflects the seniority of the role, market practice and the ability of the individual to influence Group performance.

All colleagues with a minimum service requirement (usually three months or less) are encouraged to participate in the Sharesave plan, which enables them to become shareholders at a discounted rate. Participation is usually offered annually at the maximum price discount permitted (currently 20%), at the discretion of the Committee.

In setting the policy for the Executive Directors' remuneration, the Committee takes note of the overall approach to remuneration in the Group. Although the Committee does not formally consult with employees when setting the Policy, details of how it engages with colleagues on pay are set out on page 118.

Shareholder views

The Board is committed to ongoing engagement with shareholders in respect of all governance matters, including executive remuneration.

We consulted with shareholders in relation to the new Policy including, in particular, our approach to variable pay and shareholding requirements for Executive Directors. We were pleased with the level of engagement from shareholders and for the support shown for our proposals, which we have finalised having regard to feedback received.

Approach to recruitment remuneration

The Committee will apply the principles set out below when agreeing a remuneration package for a new Executive Director (whether an external candidate or an internal promotion). The package must be sufficient to attract and retain the high calibre talent necessary to develop and deliver the Group's strategy:

- No more should be paid than is necessary.
- Pension provision will be in line with the Policy table.
- The Committee reserves the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual needs of the recruitment provided the Committee believes the relevant decisions are in the best interests of the Group.

Circumstances in which the Committee might apply this discretion include:

- Where an interim appointment is made on a short-term basis, including where the Chair or another Non-Executive Director has to assume an executive position.
- Where employment commences at a time in the year when it is inappropriate to provide a bonus or share incentive award as there is insufficient time to assess performance, the quantum for the subsequent year might be increased proportionately instead.
- An executive is recruited from a business or location that offered benefits that the Committee considers it appropriate to 'buy out', or which the Committee considers it appropriate to offer.

Remuneration Committee report continued

Examples of remuneration decisions that the Committee may make are set out below:

- It may be appropriate to offer a lower salary initially, with a series of increases to reach the desired salary over a period of time, subject to performance.
- The Committee may also alter the performance criteria applicable to the initial annual bonus or LTIP award so that they are more applicable to the circumstances of the recruitment.
- An internal candidate would be able to retain any outstanding variable pay awarded in respect of their previous role that pays out in accordance with its terms of grant.
- Appropriate costs and support will be provided if the recruitment requires the relocation of the individual.

The maximum level of variable pay that could be awarded to a new Executive Director in the first year of employment, excluding any buyout arrangements, would be 375% of salary as set out in the Policy table. The Committee would explain the rationale for the remuneration package in the next Annual Report of the Company.

In addition, on hiring an external candidate the Committee may make arrangements to buy out remuneration that the individual has forfeited on leaving a previous employer. The Committee will generally seek to structure buyout awards and payments on a comparable basis to remuneration arrangements forfeited. These awards or payments are excluded from the maximum level of variable pay referred to in the Policy; however, the Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements.

In order to implement the arrangements described, the Committee may rely on the exemption in Listing Rule 9.4.2, which allows for the grant of share or share option awards to facilitate, in unusual circumstances, the recruitment of a Director.

The Committee does not intend to use any discretion in this section to make a non-performance-related incentive payment (for example a 'golden hello').

On the appointment of a new Chair the fee will be set taking into account the experience and calibre of the individual and pay for similar roles in companies of similar size and complexity in the market. The fees for any newly appointed Non-Executive Director would be set in accordance with the Policy table on page 97. No share incentives or performance-related incentives would be offered.

Legacy remuneration arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with any such payment) notwithstanding that they are not in line with the Policy set out above where the terms of payments were agreed:

- Before the Policy came into effect (provided that, in the case of any payments agreed on or after 11 November 2014 they are in line with any applicable shareholder approved Directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders); or
- At a time when the relevant individual was not a Director of the Company (or other person to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or other such person).

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.