

DUNELM GROUP plc

REMUNERATION COMMITTEE

Terms of reference

1. Membership

- 1.1. The Board, on the recommendation of the Nomination Committee, shall appoint members of the Committee. The Committee shall be made up of at least 2 members, all of whom are independent non-executive directors.
- 1.2. Only members of the Committee have the right to attend Committee meetings. However, other individuals may be invited to attend for all or part of any meeting, as and when appropriate.
- 1.3. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be Chairman of the Committee.

2. Secretary

The Board shall appoint an appropriate individual to act as the Secretary of the Committee.

3. Quorum

The quorum necessary for the transaction of business shall be 2. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Meetings

The Committee shall meet at least twice a year and at such other times as the Chairman of the Committee shall require.

5. Notice of Meetings

- 5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee, at the request of any of its members.
- 5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be

forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 4 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6. Minutes of Meetings

- 6.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

7. Annual General Meeting

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

8. Duties

In respect of the Executive Directors, the Committee shall:

- 8.1. determine and agree with the Board the framework or broad policy for remuneration. The remuneration of non-executive directors shall be a matter for the chief executive and the executive members of the Board. No individual shall be involved in any decisions as to their own remuneration;
- 8.2. in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- 8.3. review the ongoing appropriateness and relevance of the remuneration policy;
- 8.4. approve the design of, and determine targets for, any performance related pay schemes and approve the total annual payments made under such schemes;

- 8.5. review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and the performance targets to be used;
- 8.6. determine the policy for, and scope of, pension arrangements;
- 8.7. ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 8.8. within the terms of the agreed policy and in consultation with the Chief Executive determine the constituent parts and the total individual remuneration package of each executive director including bonuses, incentive payments and share options or other share awards;
- 8.9. in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the Combined Code and the UK Listing Authority's Listing Rules and associated guidance;
- 8.12. agree the policy for authorising claims for expenses;
- 8.13. ensure that all provisions regarding disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Combined Code are fulfilled; and

The Committee shall also:

- 8.14. be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee; and obtaining reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys, which it deems necessary to help it fulfil its obligations.
- 8.15. review and note annually the remuneration trends across the Company;
- 8.15. oversee any major changes in employee benefits structures throughout the Company

9. Reporting Responsibilities

- 9.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3. The Committee shall produce an annual report of the Company's remuneration policy and practices which will form part of the Company's Annual Report and ensure each year that it is put to shareholders for approval at the AGM. It shall report the frequency of, and attendance by members at, remuneration Committee meetings in the Annual Report.
- 9.4. The Committee shall make available its Terms of Reference to any shareholder on request.

10. Other

- 10.1. The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

11. Authority

- 11.1. The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.
- 11.2. In connection with its duties the Committee is authorised by the Board to obtain, at the Company's expense, any outside legal or other professional advice.

Adopted by the Board
February 2005