

DRESS

DIXONS RETIREMENT &
EMPLOYEE SECURITY SCHEME

TRUSTEES' Report

to members for the year ended 5 April 2005

A message from the Chairman

Dear Member,

I am delighted to have been asked by my fellow Trustees to serve as their Chairman following the retirement of Hugh Jenkins in November. During many years of working with a number of pension schemes, I have always been impressed by the high standards of governance and management of DRESS and it has been a pleasure to serve as a Trustee for the last eight years.

I would like to pay tribute to Hugh's work during his five years as a Trustee, the last four as our Chairman. He proved himself to be an excellent steward of DRESS and of members' interests and we shall greatly miss his wise leadership and advice and his great knowledge of investment matters. On behalf of all of us, I extend best wishes for his retirement years.

We are fortunate to have been able to appoint Rodney Dennis as a new Trustee. Like Hugh, Rodney has had a long involvement in investment management and I am sure he will be an excellent contributor to our work and deliberations.

I would also like to acknowledge and thank Gerry Phillips and his team in the Group Pensions Department who do so much during the year to make the increasingly demanding work of the Trustees so much easier than it might otherwise be.

And it has been another busy and complex year. In the summer we received the results of the three yearly valuation. Unsurprisingly, like many other schemes, this confirmed that the value of the Scheme's liabilities for benefits earned by members exceeded the value of the Scheme's assets - in our case by some £62m. You will recall that last year a number of changes were introduced with a view to making up this deficit, not least the decision by the participating employers to increase

both their own and members' contributions. These changes are planned to eliminate the deficit over a period of nine years although achievement of this goal will be dependent upon economic circumstances and the profile of the Scheme membership.

In May 2004 we undertook an assessment of our performance in relation to our principal objectives, facilitated by an external specialist. This highlighted:

- the need for a strong continuing dialogue with the Scheme's sponsor (Dixons Group plc) in relation to the funding of the Scheme;
- the wisdom of testing the integrity of our disaster recovery procedures;
- the necessity to develop a Trustee succession plan; and
- the question of the appropriate degree of prudence to be applied to our investment strategy.

All of these issues are being taken forward through our rolling business plan and we intend to repeat the evaluation process at regular intervals.

Towards the end of the year we conducted a detailed risk assessment of all aspects of DRESS. The resulting analysis, coupled with our statement of mitigation procedures and policies will also be subject to ongoing review. It supplements the detailed operational risk and controls manual which has always underpinned our work. Both these workshops confirmed the high standards of expertise, diligence and controls which exist to safeguard the Scheme's assets.

We have begun to consider the implications of the Finance Act 2004 and the Pensions Act 2004. Both will impact on some aspects of the Scheme and on the way in which the Trustees

carry out their work. In particular, next year we will need to restructure the Trustee Board and to hold elections for Member Nominated Trustees. We will be working closely with the participating employers to consider how this can best be achieved and you will be kept informed of our plans. Indeed, as the pensions landscape is changing so rapidly, you are likely to see a number of pensions communications over the coming year updating you on those matters which affect you.

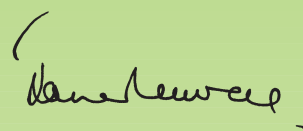
Following the closure of the final salary section to new members in 2002 and as a result of structural and organisational changes within the Dixons Group, the membership profile is undergoing some significant changes and we have therefore asked our investment consultants to reassess whether our investment strategy remains appropriate to current and expected future circumstances. We will report on the outcome next year.

Finally, I should not overlook our Pensioner Liaison Officers and Linkliners who do such valuable, but often unsung, work in the field looking after our pensioners' well being. We are grateful to them all.

A number of the things which I have mentioned are covered in more detail in the rest of this Report and I hope that you will find it informative and helpful.

I am keen to hear your views and to answer your questions on this Report or any other pensions issues. You can contact me via the Group Pensions Department, Maylands Avenue, Hemel Hempstead Herts. HP2 7TG.

Best wishes,



Jane Newell O.B.E., J.P.



The Trustees appointed Jane Newell O.B.E. to succeed Hugh Jenkins as Chairman in November 2004. Jane Newell has been an External Trustee of DRESS since March 1996. She holds a number of senior appointments in the corporate, public, voluntary and academic sectors and is also a Justice of the Peace.

She has wide experience at senior level in the pensions arena and is currently Chairman of the Royal Mail Pension Plan (one of the largest pension schemes in the country). She also served for seven years as Chairman of the United Utilities Pension Scheme and of the United Utilities Group of the Electricity Supply Pension Scheme. She received an O.B.E. in 1997 in recognition of her work on behalf of the pensioners who were victims of the Maxwell scandal. Mrs Newell is also a non-executive Director of United Utilities plc and Pro-Chancellor and Chair of the Board of Governors of London South Bank University.

This Report is a summary for members of the final salary section of DRESS of the Report of the Trustees and Financial Statements. You can obtain a copy of the full Report and Statements by asking the Group Pensions Department at the address given on the back page.

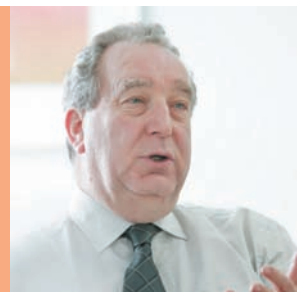
News from the Trustees

The Trustees during the year were:

Hugh Jenkins, C.B.E.
Hugh Jenkins served as an External Trustee and as Chairman until his resignation on 17 November 2004.

Jane Newell, O.B.E.
An External Trustee since March 1996, Jane Newell took on the role of Chairman following the retirement of Hugh Jenkins. See the front page for more details.

Geoffrey Budd
Geoffrey Budd joined Dixons Group in 1969 and was appointed Company Secretary in May 1970 when he also became responsible for the Group's pension affairs in addition to his duties relating to legal and statutory matters



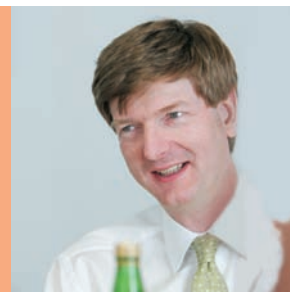
Geoffrey Budd



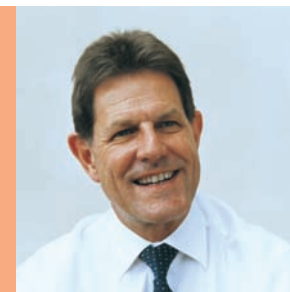
Roger Dew



Dr Ann Robinson



Martin Sidders



Rodney Dennis

affecting the Group. He has served for many years as a Trustee.

Roger Dew
Roger Dew is the Group's Non Merchandise Purchasing Director. He qualified as a Chartered Accountant and has held various senior financial positions within the Group since joining in 1982. He has been a Trustee since 1988.

Dr Ann Robinson
Dr Robinson was appointed an External Trustee in July 2000. She is a past Director General of the National Association of Pension Funds and has held a number of prominent business and public appointments. She has also written several books about fiscal matters, published numerous articles and appeared as an expert speaker in radio and television broadcasts.

Martin Sidders
Martin Sidders is an Associate of the Institute of Chartered Accountants and of the Institute of Taxation. He joined the Group in 1991 and is currently Director of Tax and Treasury and Assistant Company Secretary. He has served as a Trustee since May 2003.

Rodney Dennis
Rodney Dennis was appointed as an External

Trustee in November 2004 following the departure of Hugh Jenkins from the Trustee Board. Born in South Africa, Rodney moved to the UK in 1977 after gaining an honours degree in economics at Cape Town University. He worked as an investment professional in the City of London for the next 23 years, becoming Chief Investment Officer for Prudential Portfolio Management, the UK's largest investment

management company. In 2000 he left the City to join the Prince's Trust where he became its Deputy Chief Executive, leaving in 2003 to develop a business specialising in investment management and pensions consulting. He also holds a number of non-executive positions and trustee appointments. We expect his expertise and experience in investment matters will be of great benefit to the Trustee Board.

What have we done during the year?

Meetings

We held five formal Trustees' Meetings during the year. Meetings are normally attended by representatives of one or more of our investment managers. We usually invite the Chief Executive and Finance Director of Dixons Group plc to attend at least one meeting to discuss matters of mutual interest. The Scheme's actuary and our investment advisers are invited to meetings as required to review or discuss matters arising.

At our November meeting we undertook a detailed review of the administration of DRESS, which included reviewing the performance of the Group Pensions Department against the standards set out in the Department's service charter. The review showed that high standards were attained during the year.

Risk assessment

We participated in a risk assessment workshop facilitated by the Group's Internal Audit Department. This identified the key areas where we might be exposed to risk, and the key controls and ways to reduce risk in those areas. This supplements the comprehensive established risk/controls statement relating to the Scheme's administration and management. We will keep both risk assessments under regular review.

In broad terms it is our task to protect the interests of all DRESS members, including those who have already retired or left the Group's service, and to ensure that the Scheme operates according to the terms of the Trust Deed and Rules and complies with all relevant legislation. Among other things this means that we are responsible for ensuring that the Scheme is administered efficiently and that comprehensive membership, benefits and accounting records are maintained. We are also responsible for investing the assets of the Scheme prudently, having regard to anticipated liabilities and any legal requirements and constraints, and for taking reasonable steps to safeguard them against theft or fraud. Some of our activities during the year in carrying out these duties are outlined below. If you would like to know more about them, please get in touch with the Group Pensions Department.

Pensions fraud

We repeated last year's exercise of employing an external agency to confirm that all current pensioners paid by DRESS are still alive and entitled to benefit. No cases of inappropriate payments during the year were uncovered. One of the apparent irregularities identified last year involving pension payments of some £4000 remains subject to legal action by the Crown Prosecution Service. We will repeat these independent checks yearly.

Investment principles

We are required by the Pensions Act 1997 to prepare and maintain a written statement of the principles which govern the way we invest Scheme assets. We reviewed this at the beginning of the year and adopted a revised Statement of Investment Principles on 19 May 2004. You can request a copy from the Group Pensions Department.

Advisers

We reviewed the appointment of our principal advisers and service providers and decided that no changes were necessary at present. They are listed separately.

Who appoints us?

At present the Trust Deed and Rules give sole power for appointing new Trustees to the existing Trustees of the Scheme. This arrangement was approved by the Scheme's membership with effect from 6 April 1997 under procedures laid down in the Pensions Act 1995 as an acceptable alternative to the statutory structure introduced by that Act. We have followed a policy of appointing half of the Trustees from outside the Dixons Group. These External Trustees are completely independent of the Company and bring a wealth and breadth of additional experience to our deliberations. However following the Pensions Act 2004 the Government has announced that the existing arrangements for opting-out of the statutory structure will end in 2006 when new Regulations will require a proportion of the Trustees of all schemes - initially one third - to be elected by the scheme's members. There is more about this elsewhere in this Report.

Day to day

The day-to-day operation of DRESS is the responsibility of the Group Pensions Department comprising a team of six headed by the Group Pensions Manager Gerry Phillips, who reports to Geoffrey Budd (Company Secretary and Trustee). The Group Pensions Department is responsible for all of the Scheme's administration, maintaining the membership records, cash books and accounts, and the payment of pensioners.



Gerry Phillips
Group Pensions Manager

Regular contact is maintained with pensioners, and during the year more than 500 received a personal visit from one of the three Pensioner Liaison Officers (PLOs). The PLOs and a team of 22 voluntary Linkliners provide a wide-ranging programme of support and help, including a number of social events held throughout the country. Two editions of DRESS News, the pensioners' newspaper, were published during the year and pensioners also received copies of "Frontline", the newspaper for the employees of the Dixons Group.

To help members plan their transition from working life to retirement, three pre-retirement courses and one early planning day were held during the year.

All about our investments

Economic climate

Most of the world's financial markets were clouded by uncertainties in economic and political circumstances over the past year. These included the rising price of oil, raw materials and commodities, concerns that global economic growth was unsustainable and, on the political scene, the US presidential election and continuing international unrest and terrorism.

Despite this investment background, UK share prices rose strongly over the year, reflecting underlying optimism on economic activity and positive profits news from a number of sectors. Reducing confidence towards the end of the year saw some trailing off of the UK Share Market. Overseas share markets have remained relatively resistant to changing conditions throughout the year. The UK FTSE All Share Index rose by 15.6% while the equivalent US index rose by 3.8% and central Europe by 18.2%.

Bond markets (traditionally used by investors as a safe haven) benefited from the uncertain economic and political conditions.

More information about these matters is contained in reports from each of the investment managers attached as Appendices to the full Report of the Trustees which you can obtain from the Group Pensions Department.

Overall strategy

Our aim remains to achieve an above average return on the scheme's assets from a mixture of capital growth and income, whilst minimising investment risk and ensuring that they remain within the guidelines set out in the Pensions Act 1995. We seek to achieve this by investing in a wide variety of stocks and shares, spread across different

types of assets, geographical markets and economic sectors. Currently our broad policy is to achieve a target of having 80% of the Scheme's assets invested in equities (with a 60:40 split between the UK and overseas) and 20% in bonds. We intend to review this decision during the coming year in view of changes in the age profile of the Scheme's membership, and have requested Watson Wyatt LLP to undertake a new asset liability study. The actual profile of the Scheme's investments at the year end is shown on the chart alongside.



Distribution of assets

at 5 April 2005

○ Cash	0.3%
○ UK Fixed Interest Securities (bonds)	20.6%
○ UK equities (shares)	23.1%
○ UK Unit Trusts	32.8%
○ Overseas equities (shares) and Unit Trusts	23.2%

Investment management and performance

We delegated investment management to Merrill Lynch Investment Managers (MLIM), Schroder Investment Management (UK) Limited (Schroders), Capital International Ltd. (Capital) and Legal & General Investment Management (Legal & General). The share of the total assets of DRESS for which each manager was responsible is shown in the following chart.

Legal & General was appointed in April 2004 to manage the equity portfolio previously managed by MLIM within a range of pooled index tracking funds. You can find out what this means in their article on page 5. Legal & General's objectives are set in relation to each of the constituent funds in which the Scheme assets are invested and their remuneration is by way of a management charge. The value of assets held by Legal & General at the end of the period was £190.4m compared with £165.4m at the time of transfer from MLIM.

MLIM retained management of the bond portfolio, the market value of which at 5 April 2005 was £94.2m compared with £47.8m at the beginning of the year. MLIM was paid a fee based on the market value of the portfolio they manage. Their performance is assessed against the performance of similarly instructed managers as measured by Russell/Mellon, an independent monitoring performance company, with the objective of outperforming the composite benchmark by 0.6% (gross of fees) annualised over rolling 3 year periods.

The portfolio managed by Schroders, with a market value of £102.2m at the year end, (£81.9m a year earlier), was

invested solely in UK equities and cash. Their objective is to outperform the Financial Times All Share Index by 1.5%. They are remunerated partly by a flat fee and partly according to their performance against this objective.

Capital is instructed to invest solely in overseas equities. The market value of the portfolio at 5 April 2005 was £62.7m, compared with £61.0m a year ago. Capital's performance is measured against various international indices. Capital's target is to exceed the resultant composite index by 1.5%, before fees, over rolling three year periods. Capital's remuneration comprises a fee based on the value and distribution of the managed portfolio coupled with a performance-related element.

The performance achieved by the four investment managers during the year to 31 March 2005, as measured by the independent performance measurement service provided by Russell/Mellon, is shown in the following table together with the change in various indices for comparison. Legal & General is not included in the performance comparisons because of its passive mandate. However, Legal & General has successfully tracked the benchmark indices for their individual investment funds.

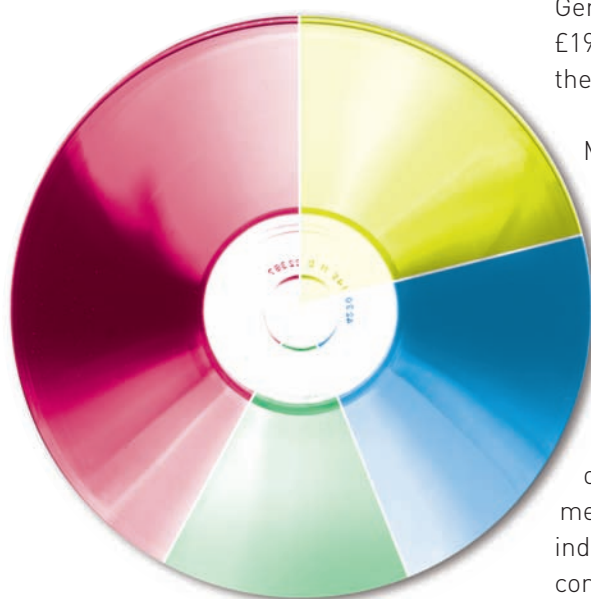
Performance over 1 year to 31/3/2005

	% return achieved	benchmark % return
MLIM	+ 6.1	+ 5.4
Schroders	+ 12.7	+ 15.6
Capital	+ 5.6	+ 9.3
DRESS overall	+ 11.3	+ 13.1
FTSE All-Share Index	+ 15.6	
Retail Prices Index	+ 3.2	
Average earnings	+ 4.00	

The overall annual rate of return achieved by DRESS over the last three years is 1.8%. This compares with a benchmark for the period of 2.0%, annual price inflation of 9.2% and an increase in national average earnings of 4.5%.

Performance over 3 years to 31/3/2005

	% return achieved	benchmark % return
DRESS overall	+ 1.8	+ 2.0
Retail Prices Index	+ 9.2	
Average earnings	+ 4.5	



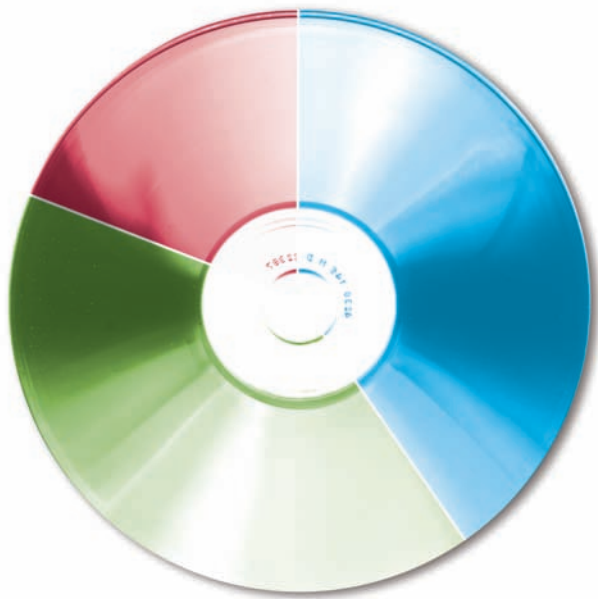
Who invests the assets?

○ MLIM	21.0%
○ Schroders	22.7%
○ Capital	13.9%
○ Legal & General	42.4%

Membership

The number of active members fell during the year by 903 to 6,237. This continuing reduction reflects the fact that the final salary section of DRESS has been closed to new entrants since 1 September 2002. 747 active members left before retirement during the year and a further 149 active members took immediate retirement. Of those who left, 675 retain a deferred pension entitlement in the scheme. The total number of members with deferred pensions increased from

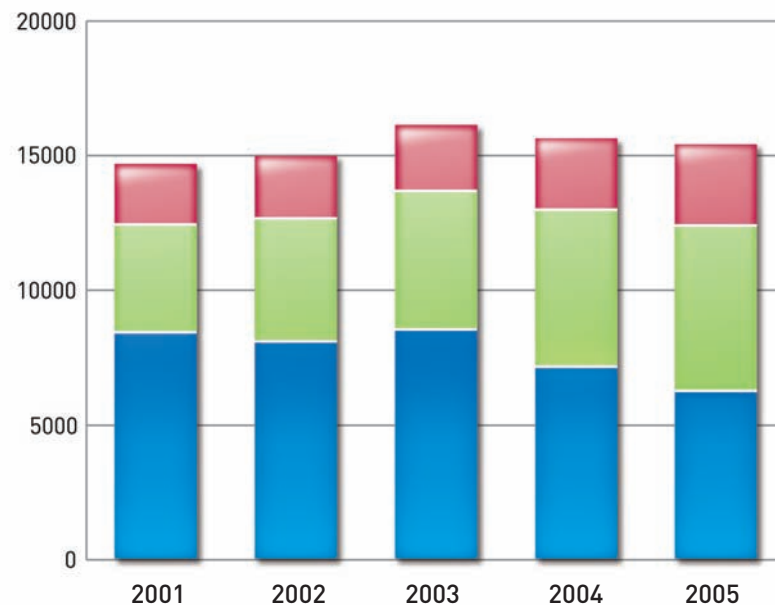
5,727 to 6,239. There was a net increase of 184 in the number of members in receipt of pension payments giving a total of 2,915 at the year end. During the year 7 active members, 12 members with deferred pensions and 93 pensioners died. Their beneficiaries received cash payments totalling £778,356 in addition to the spouse's and/or children's pensions that came into payment where applicable.



Membership profile

at 5 April 2005

Employee members	40.5%
Deferred pension members	40.5%
Pensioners	19.0%



Membership numbers

over 5 years

Employee members	
Deferred pension members	
Pensioners	

The Fund Account

	Year ended 5/4/05 £	Year ended 5/4/04 £
Contributions and benefits		
Current income	28,052,788	28,953,889
Current expenditure	(16,157,970)	(14,791,937)
	11,894,818	14,161,952
Returns on investments		
Investment income	9,292,257	11,291,424
Change in market value of investments	31,609,057	71,380,018
Investment management fees	(1,185,123)	(2,248,591)
Net increase / (decrease) in the Fund	51,611,009	94,584,803
Opening net assets of the Fund	424,236,003	329,651,200
CLOSING NET ASSETS OF THE FUND	475,847,012	£424,236,003

Current income is made-up of contributions from the members and from the Company, transfer values received and recovery of benefits paid where the risk was insured. Overall the amount was 3% lower than in the previous year.

Members' contributions of almost £8.8m (excluding AVCs) were nearly 1.3% less than the previous year's total as the effects of increases in pensionable salaries and the increased employees' contribution rate were offset by the reduction in the number of active members. However contributions by the Company remained level at £17.9m, but included additional amounts paid in respect of employees made redundant as a result, principally, of Dixons store closures.

Transfer values received amounted to only £107k. These payments have largely been attributable to the reinstatement of former members who had been mis-sold personal pensions by external advisers, and the review to uncover and assess such cases is now virtually complete.

£995k of insured benefits were recovered in the form of life assurance claims and annuities from policies effected by the Trustees.

Current expenditure comprises amounts paid out as pension and death benefit payments, and payments relating to leavers. The total was 9.2% more than last year.

Benefit payments rose by 14.2% to £15.2m due to the increase in the number of pensioners and a general increase of 3.06% in all pensions in payment as at December 2004.

Payments relating to leavers, amounting to £955k, were 37.8% lower than in the previous year. As the Final Salary section has been closed to new entrants for over 2 years, there are no longer any members entitled to a refund of contributions on leaving.

The net result of the non-investment transactions was that the surplus of income over expenditure at £11.9m was 16% less than in the previous year.

The decrease in investment income reflects the fact that income earned by funds invested with Legal & General is reflected in the capital value of the pooled units.

The increase in the market value of investments over the year of £32m reflects the further improvement in world markets over the year.

Investment management fees fell by 47% to £1.19m due to 2 main factors: performance-related fees were lower, and fees paid under index tracking funds such as Legal & General's are typically less than those paid for active fund management.

Overall the value of the Fund increased by £51.6m and stood at £475.8m at the end of the year, 12% greater than a year previously. The total net asset value includes £5.0m held in members' AVC accounts (the same as at the end of the previous year.)

This is only a summary of the information contained in the Financial Statements for the year ended 5 April 2005 which were approved without qualification by the auditors. It does not contain sufficient information to allow as full an understanding of the position as is provided by the full Annual Report and Financial Statements which are available on request.

Our advisers and service providers

The Trustees appointed the following to advise them or provide services for DRESS during the year:

Actuarial and Investment Advisers	Watson Wyatt LLP
Scheme Actuary	Alison Blay, Partner, Watson Wyatt LLP
Auditors	Nexia Audit Limited. (Nexia Audit Limited undertake no other work for the Trustees or for any of the participating employers.)
Bankers	Lloyds TSB Bank plc
AVC Providers	Nationwide Building Society Clerical Medical Investment Group The Equitable Life Assurance Society Winterthur Life
Investment Performance Measurement	Russell/Mellon
Legal Advisers	Sacker & Partners
Pension Consultants	Watson Wyatt LLP
Administrators	Dixons Group Pensions Department
Investment Managers	Legal & General Investment Managers * Merrill Lynch Investment Management Ltd * Schroder Investment Management (UK) Ltd Capital International Limited.

* On 30th April 2004 the equities portfolio managed by MLIM was transferred to Legal & General Management. MILM retained responsibility for the Trustees' specialist bond portfolio.

In a nutshell...

The package of benefits for members of the Final Salary Section of DRESS comprises:

- A retirement pension based on final salary and years of membership
- A retirement lump sum option
- Life assurance equal to four years' salary in the event of death in active service
- A pension for life to a surviving husband or wife plus a pension for any children under 18 (or 25 if in full time education)
- Guaranteed increases to pension and income benefits in payment.

Members who joined DRESS before 1 May 2000 may also be entitled to an income during prolonged sickness, injury or disability under the terms of the separate Permanent Health Insurance Scheme, the cost of which is met by their employer.

Introducing Legal & General Investment Management *

By Chris Lyons, Legal & General

Last year the Trustees of your pension scheme undertook a review of the scheme's investments. As a result they decided to appoint Legal & General Investment Management (LGIM) to manage the equity portfolio previously managed by Merrill Lynch Investment Managers. This proportion of the equity portfolio is now invested in a range of LGIM's pooled index-tracking funds.

With more than £100 billion assets under management on behalf of over 2,500 pension schemes, LGIM is the largest manager of UK pension fund assets. The phenomenal growth in the popularity of their funds is a sign of the confidence placed in LGIM's abilities and is testimony to the innovative nature of their products, their excellent returns and their award winning service.

What is a pooled fund?

A pooled fund is an efficient way of investing in a stock market. LGIM takes all the contributions from their vast client base and adds these assets together. The result is large 'pools' of assets that can jointly be invested into specific stock markets. This pooling of assets reduces management and administration costs for the fund manager and these savings are passed on to the investor through lower fees, thus making pooled funds an extremely efficient investment vehicle.

What is index-tracking?

There are two main approaches or strategies to investment, Index and Active. A comparison between them is provided below:

	Index	Active
Return	This approach aims to capture market returns. An index manager consistently mirrors the returns of an index by investing in almost all the companies whose shares are measured by the index. The returns of the index will be mirrored in both a rising and a falling market.	This approach aims to outperform the market. An active manager analyses the different companies within the market with the aim of identifying the companies that look most likely to perform well.
Risk	Index funds offer greater peace of mind. By mirroring the index, the index manager takes the risk out of underperforming a market.	Active funds are for investors who are willing to risk underperformance. The index return of a market will be the average return of all investors. So in total, before taking into account costs of investing, half the active investors will outperform the index and half will underperform. Therefore by being selective about the companies in which to invest, there is a risk of an active fund outperforming the market one year but underperforming the next year.
Cost	Index fund costs are significantly lower than those of active funds. Index funds operate a 'buy and hold' strategy. The lower dealing costs are reflected in the fund's investment returns.	Active fund costs are higher than index fund costs. To achieve outperformance the active manager continually monitors and revises the fund portfolio. The turnover of shares within an active fund is therefore higher and this is reflected in the costs within the fund and hence investment returns.



Investment Management

In short, the index-tracking approach aims to capture the returns of a market. The term 'index' is used because the returns of a market are measured by its index. If a stock market goes up as a result of the value of company shares rising then its 'index' is said to have gone up. By tracking the index, the performance of LGIM's pooled funds mirrors the movement of the index in both a rising and a falling market. This results in a more consistent return and, because LGIM is not selecting specific stocks, the risk of underperforming the market is negligible. In fact a comparison of historic returns indicates that the performance of index funds compares favourably with that of the average active fund and LGIM's proven investment processes have historically delivered excellent results for their clients.

* Legal & General Investment Management is authorised and regulated by the Financial Services Authority



By the Scheme Actuary, Alison Blay
(Partner, Watson Wyatt LLP)

As Scheme Actuary one of my key duties is to advise the Trustees of the funding position of DRESS and, in particular, to assess the Scheme's financial position by carrying out an actuarial valuation every three years. The most recent valuation was conducted as at 5 April 2004 and addresses the following questions; in each case, my conclusions are shown below:

Q¹ What level of contributions should be paid to meet the pensions that will be earned over the next three years?

A¹ The recommended total contribution rate to the Scheme for this purpose is around 14.5% of members' pensionable salaries.

Q² How big should the accumulated fund be to meet the pensions already earned up to the valuation date, assuming that the Scheme continues as normal?

A² The accumulated fund required was £484 million, compared with the actual fund value of £422 million. In common with many other pension schemes this means that the Scheme is underfunded - in the case of DRESS by some £62 million.

Q³ As the accumulated funds actually held are less than required, what additional contributions should be paid, and for how long, to bring the fund up to the required amount?

A³ Prior to the valuation date, an increasing pattern of contributions had already been agreed with a view to covering both the normal contributions in Question 1 above and the additional contributions needed to meet the shortfall in Question 2 above. These were announced to members last year, and when fully implemented in August 2006 will result in a total contribution rate of 19.9% of pensionable salaries - of which members will contribute 7%. In my view this pattern of contributions

is reasonable and is expected to eliminate the deficit over a period of nine years.

Q⁴ Are the funds above the minimum required by law?

A⁴ Yes, the Scheme's assets were some £66 million greater than the minimum amount required by law at the valuation date.

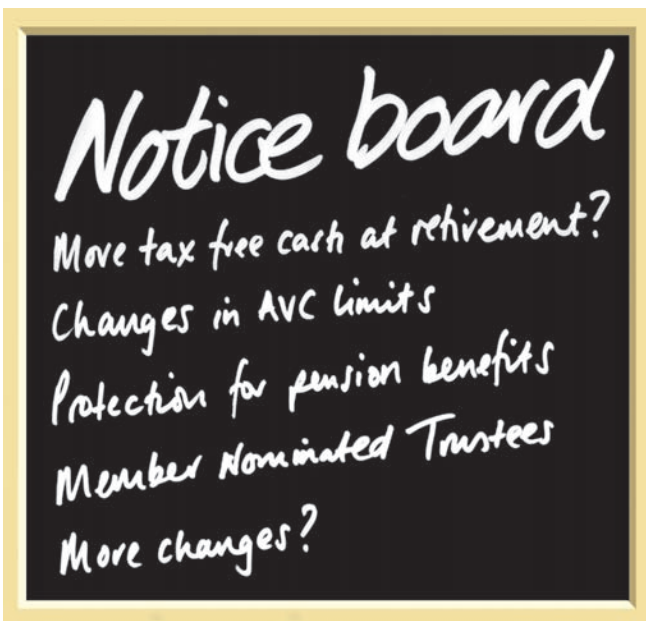
Q⁵ How secure are the benefits if the Scheme were to be discontinued?

A⁵ Without the continuing financial support of the employers, the Trustees would be expected to adopt a low-risk investment policy which in turn would be expected to reduce the average future investment returns. On this basis, significantly more funds would be required to meet the pensions earned to date than would be the case if the Scheme continued as normal - I estimate broadly double the amount of assets actually held at the valuation date. Note however that the Pensions Act 2004 has introduced various additional safeguards to cover such situations. These new measures are described below.

Q⁶ What are my answers based on?

A⁶ To help answer these questions I need to make a number of assumptions about future events; for example, in relation to members' salary growth, how long members will live and the returns that it would be reasonable to expect from the assets in the fund. There is no single "right" set of assumptions, so I choose assumptions that are more cautious (or prudent) than my best estimates of what will happen in the future.

The three years since the previous actuarial valuation in 2002 have been challenging times for all pension schemes in the UK. Investment returns have generally been low, and are expected to remain so for the foreseeable future. In addition research has been published which shows that, on average, people are living longer, and this trend is expected to continue. It is therefore perhaps not surprising that, in common with many other pension schemes, the funding level of DRESS is lower, and the contributions required are higher, than in 2001. The position will be reviewed again no later than as at 5 April 2007.



Paul Burbidge

A number of far reaching changes are being implemented to the law governing UK pensions. They are intended to protect employees' pensions, simplify the complicated rules for qualifying as a tax approved pension arrangement and to bring into effect compliance by the UK with the European Union Pensions Directive. Paul Burbidge, a Partner of our Pension Consultants Watson Wyatt LLP, explains what's happening.

bring into effect compliance by the UK with the European Union Pensions Directive. Paul Burbidge, a Partner of our Pension Consultants Watson Wyatt LLP, explains what's happening.

The Finance Act 2004 will, with effect from April 2006, sweep away most of the Inland Revenue restrictions which were a constraint on pension scheme design.

Most people in future will be able to save what they want, when they want and how they want through a mixture of workplace and marketplace pension arrangements. The new regime limits the total amount of tax effective pension that any person can build-up in pension schemes during their working lifetime. These limits will generally only impact on the higher paid, and Dixons will be providing further information to those potentially affected. The most significant change for many members will be the opportunity to take a larger tax free sum from DRESS at retirement. Members will still be able to boost their retirement income by paying AVCs. In the past AVCs plus a member's normal contributions were restricted to 15% of pay but in the future in most cases there will be virtually no limit.

The other main piece of legislation is the Pensions Act 2004. This introduces four major themes intended to improve members' security:

The Pensions Regulator, who took up office in April 2005.

The Regulator has three statutory duties: to protect members' benefits, to improve all aspects of scheme administration and to minimise the necessity for claims being made on the Pension Protection Fund.

The Pension Protection Fund (PPF)

The PPF was established from 6 April 2005. Its purpose is to ensure that members of occupational pension

schemes will receive at least a minimum proportion of the pension they have earned should their employer's business fail. The PPF will be funded by a levy on all UK pension schemes (with certain specified exceptions, for example public sector schemes).

Statutory Minimum Funding

The "one size fits all" approach of the existing Minimum Funding Requirement for final salary pension schemes is being replaced with a scheme-specific approach. A scheme's funding position will have to be monitored annually and the trustees will report to members accordingly, including the likely position if the scheme were to be wound up and the steps being taken to make up any funding deficit.

Trusteeship

The Pensions Act increases an employer's obligation to honour any pension promise whilst at the same time increasing the potential authority for Trustees in the delivery of that promise. The Act will change the basis for the selection and appointment of Trustees. With effect from April 2006, it will be necessary for a minimum of one third of the trustee body to be Member Nominated Trustees and this may be extended to one half of the trustee body at a later stage. Under DRESS currently one half of the Trustee Board comprises external trustees who are completely independent of the Company. Under the Act this arrangement would appear to be unsustainable and the Trustees and the Company will be considering how to change the way in which DRESS is managed. Further details will be provided to members as soon as the regulations implementing the change have been published.