

The purpose of this report by the Board is first to inform shareholders of its policies on directors' remuneration in operation during the 52 weeks ended 27 April 2002 and secondly to provide details of the remuneration of individual directors as determined by the Remuneration Committees. In preparing this report, the provisions of Schedule B to the Combined Code have been followed.

The remuneration policy, which will be reviewed in the current financial period, was approved by shareholders at the annual general meeting on 5 September 2001.

The composition of the Remuneration Committees is shown on pages 38 and 39.

Remuneration policy Executive directors

The objectives of the policy are:

- To ensure that it fairly recognises the individual director's contribution to the attainment of the Group's results and objectives.
- To maintain a competitive package of pay and other benefits which will provide the motivation for future achievement, particularly through reward schemes based on the Group's performance.
- To facilitate the building and retention of a high calibre team which will work effectively to achieve the Group's longer term strategic objectives, especially through the alignment of their interests with those of shareholders through participation in schemes which provide opportunities to build shareholdings in the Company.

In implementing this policy, the Remuneration Committee takes account of information from internal and independent sources and the remuneration paid for comparable positions in FTSE 100 companies. It also seeks regular advice from specialist consultants on the scale and composition of the total remuneration package payable in comparable businesses to people with similar responsibilities, qualifications, skills and experience.

The executive directors' remuneration is reviewed at the start of each financial period. The main components of their remuneration are as follows:

(i) Basic salaries

These reflect the Remuneration Committee's assessment of the market rate for relevant positions and levels of responsibility and the individual director's experience and value to the business. Reviews are considered against market rates of pay and the individual's performance.

(ii) Performance related remuneration

The Remuneration Committee considers it important that executive directors' remuneration should include a significant element which is performance based, designed to develop an alignment between the interests of the Company's shareholders and its senior management and to encourage staff retention.

The Chairman is entitled by the terms of his service contract to a performance payment based on growth in the Company's adjusted diluted earnings per share, which excludes the effects of exceptional items, measured over a one year and a rolling four year period.

John Clare, Jeremy Darroch, David Gilbert and David Hamid participate in a deferred equity participation plan ("DEPP") which provides both an annual cash bonus and deferred equity participation. Performance is measured by reference to growth in adjusted diluted earnings per share. A bonus based on the level of growth may be payable part in cash and part in shares, the share element being matched by the Company on a basis determined by the Remuneration Committee. For the 52 weeks ended 27 April 2002, 60 per cent of the bonus awarded was payable in cash and 40 per cent in shares with a one for one match. The maximum bonus payable to the Group Chief Executive is 100 per cent of basic salary for earnings per share growth of 25 per cent with a maximum payable to other participating executive directors of 85 per cent of basic salary. No bonuses are payable unless annual earnings per share growth exceeds 5 per cent.

Shares awarded under the DEPP are allocated to a share bank. After three years, one third of the shares in the share bank is released each year to participants whilst they remain in the Group's employment. In this way the value of share awards reflects the performance of the Company over a number of years, the participants retain a continuing interest in the shares of the Company and are encouraged to remain with the Group.

Over 400 employees across the Group participate in incentive plans which incorporate an element of deferred equity participation.

The Remuneration Committee does not consider it appropriate for performance to be assessed against a peer group in view of the lack of a meaningful number of comparable companies.

(iii) Bonus arrangements following the disposal of Freeserve
In February 2001 following the sale of the Group's majority shareholding in Freeserve plc to Wanadoo S.A. (and in accordance with arrangements set out in the circular to shareholders dated 21 December 2000 seeking approval to the sale), the Remuneration Committee approved share bonus arrangements for all employees of the Group's UK businesses as at 23 February 2001 in recognition of their contribution to the substantial shareholder value created by the launch, development and eventual sale of Freeserve. As part of these arrangements, the executive directors and 35 other members of senior management received awards of shares in the Company, vesting in three equal annual instalments beginning in February 2002, subject to their remaining in the employment of the Group.

All other employees received awards of Wanadoo S.A. shares vesting in two equal annual instalments beginning in February 2002, subject to their remaining in the employment of the Group.

(iv) Taxable benefits

Each of the executive directors is provided with a car and related benefits (or cash payments in lieu) and is a member of the non-contributory Dixons Group medical expenses plan. These benefits are similar in scale and type to those applicable in comparable companies.

(v) Pensions and related benefits

John Clare, Jeremy Darroch, David Gilbert and David Hamid are accruing benefits under the senior executive section of the Dixons Retirement and Employee Security Scheme ("DRESS"). The scheme is a funded, Inland Revenue approved, contributory pension scheme which provides a pension at normal retirement age (60) of two thirds of pensionable salary subject to a minimum of 20 years' membership. Part of this pension may be commuted for cash at the date of retirement. Membership of the scheme also confers dependants' pensions, insured lump sums on death in service and benefits in the event of prolonged disability.

In line with the Group's policy, pensionable salary includes basic salary and the cash element of contractual performance payments. In view of the Group's philosophy of offering highly incentivised pay systems, the Remuneration Committee considers it appropriate that pension benefits should reflect basic salaries and recurring performance payments which form an integral part of total remuneration.

Jeremy Darroch is the only executive director whose pensionable salary is limited by the statutory earnings cap (currently £97,200 per annum). He receives a non-pensionable salary supplement equivalent to the contributions which otherwise would have been payable to DRESS on that part of his pensionable salary which exceeds the earnings cap.

(vi) Share options

The Remuneration Committee approves the bases on which options are granted to executive directors and employees throughout the Group under the Company's discretionary share option schemes.

Options are normally granted annually to executive directors over shares having a market value equal to their basic salary. Options are granted to other employees in the UK and overseas on the basis of management grade and to employees with more than three years' service. Over 10,000 employees currently participate in the discretionary share option schemes.

Options granted to the executive directors under the discretionary schemes may not normally be exercised unless the market price on the date of exercise is at least 20 per cent higher than the option price, assuming exercise takes place three years after the date of grant. For later exercises, the rate of share price growth is adjusted in line with the Retail Price Index ("RPI"). Exercise is also conditional upon adjusted diluted earnings per share having increased by not less than 3 per cent above the RPI over any consecutive period of three years during the life of the option.

Executive directors are also entitled to participate in the Sharesave Scheme on the same conditions as other employees.

(vii) Service agreements

Each of the executive directors has a service agreement with DSG Retail Limited. With effect from 1 May 2001 John Clare's notice period was reduced from 24 months to 12 months on a pro rata basis during the period ended 29 April 2002. He has received no compensation for the reduction in his notice entitlement. The other executive directors are entitled to 12 months' notice.

Service agreements do not contain a liquidated damages clause. It is the Company's policy to ensure that any payments made to a director in the event of the early termination of a service agreement reflect the circumstances giving rise to termination and the director's duty of mitigation.

Non-executive directors

Non-executive directors are appointed for fixed terms, normally of three years. Their current terms expire as follows: Lord Blackwell 1 September 2003, Karen Cook 2 September 2003, Sir John Collins 4 September 2004 and Count Emmanuel d'André 1 September 2005.

Sir John Collins was appointed as a deputy chairman on 4 September 2001 and will succeed Sir Stanley Kalms as Chairman upon his retirement at the conclusion of the annual general meeting on 11 September 2002. His fee is currently £150,000 per annum.

The other non-executive directors receive a fee (currently £29,000 per annum) which reflects the time which they are required to commit to their duties and amounts paid to non-executive directors in comparable companies. The fee is normally reviewed annually in September. During their terms as Chairmen of the Audit and Executive Directors' Remuneration Committees, Sir Tim Chessells and John Curry received an additional fee of £3,600 each.

Lord Blackwell is Chairman of the Audit Committee, provides additional advisory services to the Group and is Chairman of its Legislative and Public Affairs Committee. An additional fee at the rate of £40,000 per annum is paid to him in relation to these additional non-executive responsibilities.

Non-executive directors derive no other benefits from their office and are not eligible to participate in the Group's contributory pension scheme. It is Company policy not to grant share options to non-executive directors or to require part of their fees to be paid in the form of shares.

Remuneration report continued

Directors' remuneration

	Basic salary and fees £'000	Cash bonus £'000	Taxable benefits £'000	52 weeks ended 27 April 2002 Total £'000	52 weeks ended 28 April 2001 Total £'000
Executive					
Current directors					
Sir Stanley Kalms	740	43	25	808	783
Mark Souhami	195	–	7	202	193
John Clare	500	56	17	573	548
Jeremy Darroch	42	–	4	46	–
David Gilbert	275	25	19	319	297
David Hamid	273	25	17	315	299
Former director					
Ian Livingston	364	29	3	396	372
	2,389	178	92	2,659	2,492
Non-executive					
Current directors					
Sir John Collins	87	–	–	87	–
Lord Blackwell	69	–	–	69	37
Karen Cook	29	–	–	29	28
Count Emmanuel d'André	7	–	–	7	–
Former directors					
Sir Tim Chessells	25	–	–	25	31
John Curry	12	–	–	12	31
	229	–	–	229	127
	2,618	178	92	2,888	2,619

Ian Livingston's salary included £71,470 in lieu of contributions to a funded unapproved retirement benefit scheme.

Cash bonuses comprise a contractual performance payment to the Chairman and amounts payable to other executive directors under the terms of the DEPP.

	2001/02	2000/01	2001/02	2000/01
	Gross value of shares awarded £'000	Gross value of shares awarded £'000	Gains from exercise of share options £'000	Gains from exercise of share options £'000
Current directors				
Sir Stanley Kalms	473	–	14	8
Mark Souhami	68	–	28	–
John Clare	748	71	14	–
Jeremy Darroch	–	–	–	–
David Gilbert	308	37	190	–
David Hamid	301	30	130	–
Former director				
Ian Livingston	354	30	–	35
	2,252	168	376	43

The gross value of shares awarded comprises shares awarded under the DEPP and shares awarded under the bonus arrangements following the disposal of Freeserve, as described on page 42. The directors received 60 per cent of the gross number of shares awarded. The remaining 40 per cent has either been sold or retained by Dixons TSR Trust Limited in lieu of the directors' income tax liability.

Directors' pensions

	Increase in accrued annual pension during the period £'000	Total accrued annual pension at 27 April 2002 £'000	Transfer value of increase £'000
John Clare	25	226	142
Jeremy Darroch	3	6	13
David Gilbert	10	123	3
David Hamid	17	113	94

Directors' share interests

At 26 June 2002

	Unrestricted beneficial and family interests	Restricted beneficial interests	Share options	Unrestricted beneficial and family interests**	Share options
At 27 April 2002					
Sir Stanley Kalms	3,072,757	411,765	802,683	3,072,757	802,683
Mark Souhami	442,309	58,794	200,000	442,309	200,000
John Clare	1,185,953	678,979	3,003,830	1,204,101	3,003,830
Jeremy Darroch	21,176	76,962	163,385	21,176	163,385
David Gilbert	145,209	280,350	690,507	154,220	690,507
David Hamid	112,521	274,706	686,368	120,403	686,368
Sir John Collins	–	–	–	–	–
Lord Blackwell	12,000	–	–	12,000	–
Karen Cook	–	–	–	–	–
Count Emmanuel d'André	1,000	–	–	1,000	–
At 28 April 2001*					
Sir Stanley Kalms	4,908,282	617,587	808,800		
Mark Souhami	807,063	88,235	217,600		
John Clare	983,072	970,408	2,791,505		
Jeremy Darroch	21,176	76,962	163,385		
David Gilbert	139,649	398,595	738,595		
David Hamid	105,084	390,128	700,892		
Sir John Collins	–	–	–		
Lord Blackwell	12,000	–	–		
Karen Cook	–	–	–		
Count Emmanuel d'André	–	–	–		

The directors' restricted beneficial interests comprise shares awarded under the arrangements put in place following the disposal of Freeserve and shares held in their share bank under the DEPP described on page 42.

*Date of appointment, if later.

**Restricted beneficial interests were unchanged as at 26 June 2002 except for those shares released from the DEPP on 30 April 2002 and therefore shown within unrestricted beneficial and family interests.

Remuneration report

continued

Directors' share options

	At 28 April 2001*	Granted in period	Exercised in period	At 27 April 2002	Date of grant	Exercise price	Market price**
Sir Stanley Kalms							
Discretionary – performance related	800,000†	–	–	800,000	19.07.99	334.75p	
Sharesave	8,800	–	(8,800)	–	25.02.97	98p	255p
	–	2,683	–	2,683	07.03.02	177p	
	808,800	2,683	(8,800)	802,683			
Mark Souhami							
Discretionary – performance related	200,000†	–	–	200,000	19.07.99	334.75p	
Sharesave	17,600	–	(17,600)	–	25.02.97	98p	255p
	217,600	–	(17,600)	200,000			
John Clare							
Discretionary – performance related	200,000†	–	–	200,000	17.02.99	256.75p	
	2,000,000†	–	–	2,000,000	19.07.99	334.75p	
	173,993†	–	–	173,993	17.07.00	273p	
	–	216,450†	–	216,450	23.07.01	231p	
	400,000	–	–	400,000	22.02.93	54.5p	
Sharesave – other	8,800	–	(8,800)	–	25.02.97	98p	255p
	8,712	–	–	8,712	20.02.98	99p	
	–	4,675	–	4,675	07.03.02	177p	
	2,791,505	221,125	(8,800)	3,003,830			
Jeremy Darroch							
Discretionary – performance related	46,720†	–	–	46,720	31.01.00	278.25p	
	49,451†	–	–	49,451	17.07.00	273p	
	62,771†	–	–	62,771	23.07.01	231p	
Sharesave	4,443	–	–	4,443	02.06.00	218p	
	163,385	–	–	163,385			
David Gilbert							
Discretionary – performance related	167,764†	–	(167,136)	628	17.08.98	132p	245.46p
	460,000†	–	–	460,000	19.07.99	334.75p	
	93,407†	–	–	93,407	17.07.00	273p	
	–	119,048†	–	119,048	23.07.01	231p	
Sharesave	17,424	–	–	17,424	20.02.98	99p	
	738,595	119,048	(167,136)	690,507			
David Hamid							
Discretionary – performance related	136,552†	–	(133,572)	2,980	17.08.98	132p	229p
	460,000†	–	–	460,000	19.07.99	334.75p	
	93,407†	–	–	93,407	17.07.00	273p	
	–	119,048†	–	119,048	23.07.01	231p	
Sharesave	8,712	–	–	8,712	20.02.98	99p	
	2,221	–	–	2,221	01.07.00	218p	
	700,892	119,048	(133,572)	686,368			

*Date of appointment, if later.

**At the time of exercise.

†Exercise is conditional upon a defined minimum increase in the share price and the attainment of specified growth rates in earnings per share.

No share options lapsed during the period.

Discretionary options are normally exercisable between three and ten years from the date of grant. Options granted under the Sharesave Scheme are exercisable in the six month period following the date of maturity of a three year or five year savings contract. All options may be exercised earlier in certain circumstances.

The mid-market price of a share on 27 April 2002 was 224.5 pence. The highest and lowest mid-market prices during the period were 276 pence and 160 pence respectively.

Each of the executive directors is technically interested in 5,777,608 ordinary shares (28 April 2001 7,776,341 ordinary shares) held by Dixons TSR Trust Limited, the trustee of the employee share ownership trust.