the Group Pension Plan

PENSIONS NEWS

This newsletter is designed for the use of Plan members working in Howden Joinery Limited, MFI Supply, MFI Retail Limited, Group People Services Limited and MFI UK Limited (the Company).

building your future

Employee pension presentations coming soon. See page eight for more details.

inside this issue

Welcome

Contents

The purpose of this newsletter is to keep you up to date on the changes the Company is making to your Plan and most importantly to start helping you understand what these changes mean to you. It has been designed to give you a straightforward easy to read overview of our plans.

This newsletter has been issued by the Company with input from the Plan Trustees – whose profiles can be found on page 10. It will help you to make the most of the support you will receive in the future, which includes presentations, a website and a helpline.

You might want to hold on to your copy, as it will be a handy reference guide to dip into as and when you need general information on the changes to your Plan.

We hope that you will find this newsletter helpful and would welcome any feedback you may have. If you think you would benefit from more information on a particular area or you have some suggestions for future communications, please let us know by sending an email to MFI.pensions@mnpa.co.uk.

Jargon Buster

Pensionable Pay

This is calculated on 6 April each year and is your pay before tax, less any elements of pay that you are advised are non pensionable. For the purposes of the Core Plan (see page three), this is capped at £108,600 for the tax year 2006/2007 and will be increased each year by a factor related to the rate of increase in the Retail Prices Index.

Pensionable Service

This is usually the length of time you have been a contributing member of the Plan.

Annuity

This is an income paid for life, normally by an insurance company. The annuity is purchased from the cash proceeds of a pension fund.

Salary Exchange

An arrangement where member contributions are paid into the Plan directly by the Company and the member's salary is adjusted accordingly to take into account the payment.

What you can expect from this newsletter

The newsletter:

- Explains what will happen to the benefits you have earned up to September 2006 and the steps the Company and the Trustees have taken to improve the security of your benefits earned to date.
- Explains about the changes to the Plan from your first payroll in September 2006. It also explains some improvements to the Plan which are possible because of changes to the tax laws in 2006.
- Explains how to make the most of the Plan going forward including an update on Plan investments.
- Tells you about the Plan Trustees and what their role is.

A quick overview

From September 2006, the Plan will have two parts: the Core Plan and the Top-Up Account.

- The Core Plan provides a promise of a predetermined retirement income and is worked out as a proportion of your Pensionable Pay each year you are in the Plan from September 2006. You will make regular contributions into the Core Plan. If you choose, you can also join the Top-Up Account.

- The Top-Up Account allows you to invest your contributions and those from the Company to build up a pot of money that will be used to buy an additional pension in retirement. If you join the Top-Up Account you will have an individual fund set up by the Trustees to accept payments from you and the Company. For every £1 you pay into the account, the Company will also pay £1 up to a maximum limit of 4% of Pensionable Pay.

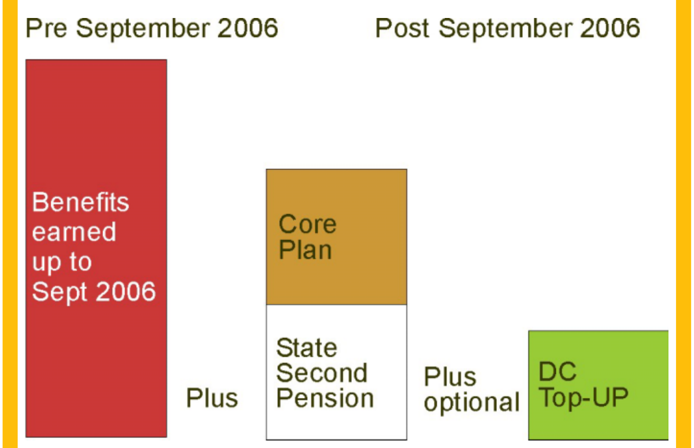
For most members, the Plan contributions will operate using what we call Salary Exchange. This has considerable advantages because it is a way of reducing your National Insurance contributions (see page five) and so it increases your take home pay. From September 2006, the Company will automatically move you into a Salary Exchange arrangement unless you complete the Salary Exchange opt-out form included in the pensions pack you will receive or your income is under certain minimum limits.

How much your pension from the Top-Up Account will be depends on a number of factors, such as how much you have saved, how well your investments have performed, and the type of retirement income – (annuity) – you choose to be paid.

Remember that any income from your Top-Up Account will add to the pension you receive through the Core Plan. The Company will also make contributions to the State Second Pension on your behalf, which will give you access to extra income on top of the Basic State Pension.

The Core Plan, Top-Up Account and State Second Pension are intended to provide you with a solid foundation of income for your retirement.

The chart below shows how your retirement income is made up. Everyone is different and the slices of income you actually have will be different sizes to the slices shown. We will be preparing individual versions of the chart for every member so that you can see exactly how your pension will be made up in retirement. This information will be made available in your pensions pack and when you log in to our new website.



Your benefits earned

to September 2006 and your new Plan benefits from September 2006 in detail

Your Plan before September 2006

Until now, the Company has provided you with a final salary pension. With this type of plan, you are promised a pension, based on a fraction of your Final Pensionable Salary, which is defined in your Plan booklet. Every year you are a member you earn another fraction of your Final Pensionable Salary, so that the longer you are a member of the Plan, the bigger pension you earn.

At the moment the Plan is contracted-out. This means that you and the Company pay lower National Insurance contributions than people who are not contracted-out, but you do not qualify for additional State benefits in the State Second Pension (previously called SERPS). You still qualify for the Basic State Pension paid from State Pension Age.

When the Plan changes in September, the pension you have earned will be protected based on your Final Pensionable Salary in September. This pension will then be increased in value each year between 2006 and the date you retire. In broad terms, the rate of increase will be at a rate linked to price inflation (capped at 5% each year). This will help your pension keep its buying power.

As part of the refinancing negotiations earlier this year, the Trustees obtained a legal charge over the shares of Howden Joinery Limited. This is for a period up to three years, after which, it will need to be renegotiated. This gives the pension you have earned a lot more security. In addition, the Company has also committed to paying increased pension contributions while the Plan remains in deficit.

You will receive a statement of your benefits in the Plan later in the year. This will show the benefits you have earned up to September.

Your Plan from September 2006

From September 2006, the Plan will change and have two parts:

1 Core Plan:

The Core Plan benefits are calculated on a Career Average Revalued Earnings (CARE) basis. In a CARE scheme the pension benefit you earn is based on a fraction of your actual Pensionable Pay each year.

It is important to us that nobody should have to pay higher contributions into the Plan because we know that not everyone can afford it. The Company also cannot afford to increase its contributions year on year, so the rate at which you earn pension in the future will meet both your and the Company's budget. From September you will be asked to contribute 5% of Pensionable Pay into the Core Plan each year and the Company will pay the balance of the cost of providing the benefit. In most years this is expected to be much higher than 5%.

From September 2006, the Plan will be contracted-in. This means that you will get a higher pension from the State because you will earn rights in the State Second Pension (as well as receiving your Plan pension and Basic State Pension). As a result, both you and the Company will also pay higher National Insurance contributions. We have made sure that you will not be worse off as a result of contracting-in by reducing the amount you have to pay to the Core Plan to 5% of Pensionable Pay. You are currently paying 6.5%.

From September, the pension fraction you earn from the Core Plan will be less than the current fraction. There are two reasons for the reduction. Firstly the Plan is contracted-in so you will now get a pension from the State Second Pension on top of your Plan pension. Secondly, the Company had to cut the fraction to help manage the Plan costs. There was an option to provide a higher pension fraction but this would have meant that the Company would have had to share this cost with you and as a result, ask you to pay higher contributions towards your pension. We have tried to make sure you are not worse off, so the Company has decided it would be better to cut the fraction and let you decide whether you would like to pay more through the Top-Up Account.

2 Top-Up Account:

The Top-Up Account is an optional part of your Plan. If you decide to put money into the Top-Up Account, the Company will match what you pay in, up to 4% of your Pensionable Pay. You choose how this money is invested and then use the money once you retire to give you a regular income on top of your Core Plan. (You should note that transfers in to the Top-Up Account will not be matched by the Company.)

As you are already a member of the Plan, you will not need to re-enrol in the Core Plan. Your membership will switch over automatically in September 2006. The Top-Up Account is optional, and you will need to fill out an application form if you want to make extra contributions and attract matching contributions from the Company. You will receive a copy of this in your pensions pack.

What is Salary Exchange?

Salary Exchange is a common feature of many pension schemes. It lets you rearrange the way you make pension contributions by routing your pension contributions through the Company into the Plan. This means you get the same amount paid into the Plan, but your payment is made in a different way. The Company makes your pension contributions for you and your pay is reduced by an amount equal to those contributions.

The advantage of Salary Exchange is that your take-home pay increases. This is because the amount of money paid into the Plan by the Company, which would normally be paid by you, is not subject to National Insurance – for you or the Company.

The National Insurance saving for you is 11% of the pension payment if you earn between £5,044 and £33,540 and 1% on any pension payment on earnings above £33, 540 (based on the rates in the tax year 2006/2007).

For example, if you earn gross pay ("gross" means your salary before tax) of £20,000.

Before Salary Exchange, ignoring tax:	
Your salary:	£20,000
Your National Insurance contributions (based on £20,000):	(£1,645)
You pay a 5% pension contribution:	(£1,000)
Your net taxable pay after NI contributions:	**£17,355**
After Salary Exchange, ignoring tax:	
Pre-exchange salary	£20,000
Salary exchanged	£1,000
Your salary:	£19,000
Employee National Insurance contributions (based on £19,000):	(£1,535)
You pay a 0% pension contribution:	(£0)
Your total pay after NI contributions:	**£17,465**

Using this example, your pay before tax is increased by £110 a year and the Company has paid £1,000 into the Plan for you.

This information is based on current legislation and is accurate as at April 2006. National Insurance contribution levels and Her Majesty's Revenue & Customs' treatment of Salary Exchange may be subject to change in the future.

Salary Exchange is attractive for most members because of the increase to take home pay. You might be concerned about the pay reduction, but we have made sure that you are not disadvantaged by it in the following ways:

- Although your pay is reduced by the amount of the pension contribution, all your benefits will be based on your pre-reduction pay (called your "notional" pay).
- Lenders are used to the idea of Salary Exchange. When you apply for a mortgage, for example, we will tell them your notional pay. They will then take this pay into account when working out if you can afford your loan.
- Pay review and other payments will be unaffected.

Salary Exchange is not the best option if you earn less than a minimum amount (£11,500 for the 2006 / 2007 tax-year). We will check to make sure you are not in this group. If you are, we will let you know and withdraw you from the arrangement.

Salary Exchange can also affect some State benefits, such as:

- Statutory Sick Pay
- Statutory Maternity Pay
- Additional State Pension
- Working Tax Credit or Child Tax Credit

If you have a concern about this, you might not want to take advantage of this arrangement. We will give you some more information about Salary Exchange when we send out your full pensions pack.

Taking advantage of the Top-Up Account

Making it work for you

The Top-Up Account has been introduced to give you an opportunity to top-up the pension savings you are building up in the Core Plan. Money you pay into the Top-Up Account will be matched by the Company up to 4% of Pensionable Pay.

The Top-Up Account is what is known as a defined contribution plan. As mentioned on page three, with this type of plan, the amount of pension you get at retirement depends on how much you pay into the Plan, the returns on your investments and the cost of buying a pension income – (an annuity) – at retirement. Unlike the Core Plan, your pension is not promised by the Company so it is important that you invest your money, and the matching contributions you receive from the Company, wisely. (See page seven for more information.)

How much can you pay into the Top-Up Account?

The Inland Revenue set the rules on how much you can pay towards your pension, which is equal to 100% of earnings. (They do set an overall limit, which is £215,000 for this tax year and is measured based on contributions paid plus the value of the increase in pension from the Core Plan). If you stay within the limit you will get full tax relief on what you pay in. See below table for some examples of how much you might save:

Your pension contribution (per month)	Tax relief*	Cost to you
£50	£11	£39
£100	£22	£78
£150	£33	£127

*The figures assume you pay tax at the standard rate. If you are a higher rate tax payer then you would get an extra 18% tax relief. The figures used are based on the tax rules for 2006 / 2007.

Your contributions to the Top-Up Account will be paid through your pay. You will be able to change the amount contributed every six months, at April and October. You will not be able to change the level of contributions made to the Plan at other times unless you have a defined “lifestyle change”. Examples of lifestyle changes are marriage, divorce, birth or death of a dependant. In any event, any changes to your contributions can only be made at the discretion of the Company.

The important thing to remember is that the earlier you start making contributions to the Top-Up Account the better, because the returns you make on your money and the money you receive from the Company are reinvested into your account, which means your pension savings should grow at a faster rate – as long as your investments are performing well. In the summer you will receive an investment guide as part of your pensions pack, which will help you with this.

Making the most of your investments

The funds you choose to invest your money in can have a big impact on the level of pension income you get at retirement. To ensure that everyone's needs are met, a range of funds have been chosen. There is an option called the Lifestyle fund for those of you who would prefer not to take an active role in managing your investments on an ongoing basis and there are also four individual funds available so that you can choose your own investment strategy if you want to. We appreciate that most people will need help with their investment decisions and will be including an investment guide with your pensions pack – described on page eight. This will help you understand the different options available to you.

The funds that will be offered as part of the Top-Up Account are provided by Legal & General who currently look after the Plan investments. This means that we have been able to negotiate a very good deal and low charges.

The Trustees have been happy with the Plan's investment performance since they switched to Legal and General on 7 April 2005. Since this date the money invested in the Plan has grown by 26.1%. This is a good result as the return broadly matches the rate of growth in the various stock markets the funds invest in.

This performance has resulted in the fund growing well over the last year.

On 7 April 2005 the fund was worth	£299,877,116
Contributions have been paid into the fund of	£41,984,771
On 3 April 2006 the fund was worth	£426,904,377
This means that investments have grown by	£85,042,490

You should note that past investment performance is not a guide to the future.

Getting advice

While you will be receiving plenty of information from us, you might want to speak to an independent financial adviser (IFA). They will be able to take a look at your situation and help you decide how much you should be paying towards your pension – to ensure you have a comfortable retirement. The IFA Promotion helpline will be able to point you in the direction of your nearest independent financial advisers. Simply go to www.unbiased.co.uk or call 0800 085 3250.

Helping you to make a decision

The great thing about the new Plan design is that it gives you a core benefit promise and the option of a top-up. In the Top-Up Account, you decide how your money is invested and you also have the flexibility to change your investment choice at any time. Some of you will take these decisions in your stride, while others may find it more difficult. We want you to be able to take full advantage of the Top-Up Account and be in a position to make any decisions about the Plan and your investments with confidence. To do this you need to fully understand how the Plan works.

Over the next few months you will receive the following communications – all designed to help you make the most of your Plan:

Presentations

Presentations will be held in June and July. At these presentations you will be given lots of detailed information about the Plan and demonstrations of the tools designed to help you make decisions. You will also have the opportunity to ask any questions.

Presentations will be held at a location convenient to the region you live. Details of the presentations will be circulated to your line manager who will speak to you shortly to agree your attendance at one of the presentations.

Pensions pack

Before the presentations take place you will receive a comprehensive pensions pack giving you all the information you need to know about the new Plan design and the Top-Up Account.

The pack will include:

A guide to the forms you may wish to complete

What-If statement - The 'What-If statement' will compare what you would have received from the Plan, at retirement, before the September changes, to what you will receive at retirement following the changes (based on certain assumptions). As mentioned earlier, the pension you get from the Plan will be smaller as a result of the changes but the statement will give an estimate of how much you might need to pay into the Top-Up Account to make up the difference. You will also be able to access an online 'What-If tool' through the pension website, which is described in more detail below.

Investment guide - Many of you will not have had experience choosing your investments. The investment guide has been designed to help you with your investment decisions should you decide to join the Top-Up Account. It explains the different types of funds available and how they work. It will also list and give a brief explanation of the funds you can choose from as well as talking you through the different investment strategies you can consider.

Plan booklet - A Plan booklet will be included in the pack. This gives you the 'need to knows' about the Plan and will be an important reference guide for the future. It's important that you read through the booklet as this will give you a greater understanding of the benefits offered to you in the Plan.

Top-up Account form - From September 2006 all members will automatically become a member of the Core Plan. The Top-Up Account form should be used to let the Trustees know whether you would also like to join the Top-Up Account.

Salary Exchange opt-out form - As part of the changes, all members who earn at least a minimum amount (£11,500 for the current tax year) will automatically have pension contributions structured under a Salary Exchange arrangement. If you work part-time the minimum amount will be pro-rated. This is explained on page five. If you do not want to pay contributions in this way, you should complete the Salary Exchange opt-out form to let us know.

Expression of Wish form When you joined the Plan you would have been asked to complete an Expression of Wish form indicating who you would like any pension benefits from the Plan to go to in the event of your death. If your circumstances have changed – or you are concerned you never completed one of these forms on joining the Plan – you may want to complete a new form.

Website

A website will be made available to support the communications described above. This will provide plenty of information about how the Plan works, hold copies of the booklets and leaflets you will have received and include an individual interactive version of the 'What-If statement', which will hold your own pension information. It will also provide useful links and details of who you should contact if you have any queries. A username and password, needed to access the site, will be sent to your home address.

Helpline

A dedicated helpline will be made available throughout the change to help you with any queries you may have. While the representatives on this helpline will not be able to give you advice, they will be able to give you plenty of information and details of how you can obtain any further help you need.

Welcome pack

If you join the Top-Up Account you will receive a welcome pack from DC Link, who will be administering that part of the Plan for us. This will provide you with the information you need to manage your account ongoing. You will be given details about how to set up your password to access DC Link through the pension website. This can be the same as a password you are already familiar with. Your username will be set automatically and will be the same as the one you are given to access the main pension website – making it easier to remember.

Through the DC Link website, you will be able to see how much money you and the Company have contributed. You will also be able to see where your money is invested and will be able to download forms to change your investment choice if needed.

More about your pension

Who are the Trustees?

The Plan's Trustees are as follows:

Paul Whitney – Chairman
Paul has lots of experience in investments and runs his own Private Equity company. Paul has been a key contributor to the recent negotiations with the Company, the Pension Regulator and banks to put a legal charge over shares in Howden Joinery in place for the Plan.

Ross Russell – Independent Trustee
Ross is a qualified Actuary who retired as a partner at Hymans Robertson in April 2005. Ross was appointed earlier this year so that he could bring his pensions experience to the team. His input has helped considerably throughout this difficult period.

Trevor Maw – Trustee
Trevor currently works in Head Office as part of the Finance function. Before this, Trevor worked at the Howden Site.

Roy Brown – Trustee
Roy is a Regional Manager for Howden Joinery and has recently been appointed as a Trustee to replace Pat Fawson who retired at the end of April.

Doug Balfour – Member Nominated Trustee
Doug works as a Sales Representative for Howden Joinery at our East Kilbride depot. Doug has previously worked for Retail and has a wide knowledge of the business.

Keith Harrison – Member Nominated Trustee
Keith is a store manager in a clearance centre. He has been with the Company since 4 April 1977 and has seen lots of change.

Rob Fenwick – Trustee
Rob is CEO of Supply .Rob has been a Trustee for four years. He was also a Trustee for the pension scheme of his previous employer, Nissan, so has wide experience in the role.

What do the Trustees do?

The Trustees make sure that the Plan is managed in your best interests. Some of their responsibilities include ensuring that benefits are paid on time and to the right people, making sure the right amount of money is paid into the Plan and is properly invested, and making sure death benefits are paid out correctly. They also make sure that the Plan follows all the complex rules and regulations that govern pensions. To carry out their role successfully, the Trustees attend training courses, get help from the Plan's advisers and meet regularly.

What is a Member Nominated Trustee?

A Member Nominated Trustee is exactly as the name suggests, he or she is a Trustee who has been nominated for by Plan members. The Plan's Member Nominated Trustees were appointed in 2004, which is when the last elections were held. Once appointed, they remain as Trustees until they either leave the Company or we have new elections.

The Company and Trustees will be reviewing the Member Nominated Trustee opt-out procedure shortly and will write to you before the end of the year to explain what changes, if any, are proposed to the current process.

New pensions law

The latest Finance Acts have introduced new tax rules for pensions. As part of the Plan review we have decided to take advantage of some of the new rules, which we think will make the Plan better value and more attractive for you.

To provide more flexible death benefits, we are replacing some dependants' pensions with higher lump sum payments. This has the advantage of making the payment tax free within certain limits (pensions are taxed as income). We are also considering how we can make retirement more flexible and this is something that we will review again in a year or so. We will replace our existing Additional Voluntary Contributions with the new style Top-Up Account where you can take advantage of the Company's matching contributions (see page six).

Finally, you may be able to take higher lump sums from the Plan at retirement than have been allowed in the past.

Putting pensions in perspective

The constant media attention around pensions has made people much more aware of their pension and left them wondering whether saving for a pension is the right thing to do. We have already told you how the new Plan design can help you achieve your retirement goals. The following section of this newsletter helps you to understand why saving for your pension is important.

Why save towards your pension?

If you don't pay towards your pension you might not have enough money to live on. It's all too easy to put off saving for your retirement and focus on the here and now – such as buying that new car or going on holiday – but planning ahead is also important. The State Pension is unlikely to cover your living expenses, let alone pay for any luxuries you might want.

The good news is, as an employee, the Company is helping you to save. The Company does not have to provide and contribute towards your pension but chooses to do so because it thinks that your future is important. The Plan is an ideal opportunity for you to make sure you have a decent quality of life after you stop working. If you are still not convinced, here are some of the key benefits of being a member of a pension plan:

- The Company contributes significant sums to the Core Plan and also matches any new contributions you pay into the Top-Up Account up to 4% of your Pensionable Pay.
- You benefit from tax relief on any contributions you pay into the Plan.
- Your contributions are taken straight from your pay.
- The Company pays the administration costs of running the Core Plan and the Top-Up Account.
- You receive plenty of information and help to manage your pension.

Other sources of retirement income

When making a decision about how much to pay towards your pension, don't forget to consider any other sources of retirement income you may have. To get you started we have listed the main sources of income to consider:

Basic State Pension

The amount of Basic State Pension you get when you retire will depend on the amount of National Insurance contributions you have paid over your working life. You can request a forecast giving you an indication of what you can expect to receive. To give you an idea, at State Pension Age, with a full contribution history, you would currently receive £84.25 from the State each week (2006/2007 tax year).

The State Second Pension (S2P)

S2P replaced SERPS in April 2002. It is an earnings related pension, so generally the more you earn, the more you will receive at retirement. Currently the Plan is contracted-out of S2P. This means that you have been paying less National Insurance contributions but you have not been building up any S2P entitlement. After September 2006 the Plan will be contracted-in. This means that you (and the Company) will pay slightly higher National Insurance contributions and in return, you will start building up an S2P entitlement from the State. We have tried to make sure that you are not worse off as a result of contracting-in by reducing the amount you have to pay to the Core Plan to 5% of Pensionable Pay. You are currently paying 6.5%.

Money from other pension plans

You may already have money invested in plans from previous employers or your own personal pension plans. If you do, you should make sure you know how much these savings will give you and include them in your savings plan.

Other savings and investments

Finally, pensions may not be the only source of retirement income you have. You may have other savings and investments, such as deposit accounts or ISAs. You may even want to include the value of your home.

the Group Pension Plan

Getting in touch

If you have any questions about your pension with the Company you should contact MNPA on 01372 200 264. MNPA will be able to help you with most queries and will put you straight through to one of the following people where needed:

DC Link – who will be administering the Top-Up Account

Hewitt – who will be able to help you with any queries about Additional Voluntary Contributions

Final word

This newsletter provides a simplified explanation of the Group Pension Plan. A more detailed explanation can be found in the approved Plan documents. Where the information provided by this newsletter, the Company or any other source differs from the approved Plan documents, the approved Plan documents will govern.

The Company reserves the right to change, amend or terminate the Plan, and may be required to do so because of changes to legislation.