

16th November 2018

Dear Shareholder,

DFS LTIP 2018 – EPS targets

We have consulted with many of you on the proposed target range for the EPS element of this year's LTIP award. The feedback we received was that shareholders wanted to see a stretching maximum but also recognised that, after a number of years without any LTI payout, management should consider there was a real reward opportunity if they delivered good results.

As you know we delayed announcing this as we wanted to wait until the new CEO, Tim Stacey, was in place and we reviewed the long-term business plan with him. We have now done this with Tim.

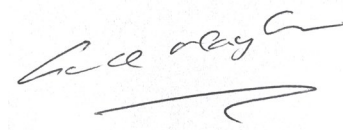
For the LTIP Awards to be granted later this month we have proposed a 3 year EPS target range of 23p to 28.5p. Vesting levels remain as currently with 20% vesting at threshold performance (23p) rising on a straight line basis to 100% vesting at 28.5p. (The other 50% of the LTIP Award will vest based on relative total shareholder return as previously disclosed).

The proposed EPS range represents a 18% to 26.7% p.a. compounded growth rate on the 17/18 EPS outcome of 14p. However, a comparison with the 16/17 EPS outcome of 18.7p may be a better reference point against which it equates to a 7.1% to 15.1% p.a. range. We felt that it was more appropriate to adopt an absolute range as it gave clearest line of sight for management and shareholders alike. We will review this approach for next year and have left open the option of reverting to a percentage growth range.

The Board considers that performance at the top end of the range would be a real achievement considering the uncertain economic circumstances and the challenges facing the retail sector. It would therefore justify a full pay-out of the LTIP Award. Threshold level of vesting has been set to provide some opportunity for a limited pay-out for "acceptable" performance in the current climate. The range between threshold and max is in line with many other retailers.

Alison Hutchinson is now formally Remuneration Committee Chair. But I in my interim role am responsible for the proposed revised remuneration policy. We would be happy to address any outstanding remuneration questions ahead of the AGM vote on our new policy and 17/18 remuneration report. Please contact us via Mike Schmidt (investor.relations@dfs.co.uk) to do so.

Yours sincerely,



Luke Mayhew
Chairman of the Remuneration Committee