Board of Directors

Committee membership key

- (A) Audit Committee Member
- (N) Nomination Committee Member
- (R) Remuneration Committee Member
- Denotes Chair
- (-) None

1

Ian Durant

Non-Executive Chair

Date of joining DFS: May 2017

Ian has held senior executive and non-executive positions in the retail, property, hotels and transport sectors in the UK and internationally, including twelve years based in Hong Kong when he was active in the fast growing markets of Asia. He brings to the Board 40 years of experience of managing consumer businesses, with particular experience of financial and people management, strategy development and planning, reorganisation, M&A, investor relations, and board management and listed company governance.

During his executive career he had leadership roles as a Finance Director with Liberty International, SeaContainers and Thistle Hotels, Dairy Farm International, Hong Kong Land and Hanson.

As a non-executive director he has served on the boards of UK listed companies including Westbury, Home Retail Group and Greene King. He was chairman of Capital and Counties Properties until 2018.

Qualifications: BA (Hons) in Development Studies, Economic and Social History from Kent University, Fellow of the Institute of Chartered Accountants in England and Wales and Fellow of the Association of Corporate Treasurers.

External appointments:

- Chair of Greggs plc
- Trustee and Chair of Finance and Investment Committee of RPLC (until 30 June 2020)

2

Tim Stacey

Chief Executive Officer

Date of joining DFS: July 2011

Experience: Prior to his appointment as Group CEO, Tim held a number of key leadership roles across the business. He joined as Director of Online and Business Development and led the multi-channel transformation of DFS, together with the growth and acquisition strategy.

He then took on the role of Chief Operating Officer assuming responsibility for stores, supply chain and customer service in addition to the Online operations and International development.

Tim has led the Group as CEO since November 2018, through the acquisition and development of Sofology and continued development of the Group as the clear market leader in the UK and Ireland.

Tim has a wealth of leadership and retail experience, including 12 years at Alliance Boots in roles such as Multi-Channel Director for Boots.Com and Director for Online and Business Development.

Qualifications: BA (Hons) in Accounting and Finance from Nottingham Trent University and member of the Institute of Chartered Accountants in England and Wales.

External appointments: None

3

Mike Schmidt

Chief Financial Officer

Date of joining DFS: March 2014

Experience: Prior to his appointment as CFO, Mike served as DFS's Chief Development Officer with responsibility for property, strategic development and investor relations activities. He led the acquisition of Sofology in 2017 and more recently has also served as Chair of Sofa Workshop and Dwell.

Prior to joining DFS Mike previously spent 13 years working for a number of leading investment banks including UBS and Citi, where he gained experience advising a wide range of customer-facing companies.

Qualifications: MA (Hons) in Economics and Management from Cambridge University.

External appointments: None

4

Alison Hutchinson C.B.E.

Senior Independent Non-Executive Director

Date of joining DFS: May 2018

Experience: Alison has a background in both IT and retail financial services and was previously Group CEO of Kensington Group PLC.

She has also held senior management positions, including Marketing Director, at Barclaycard having started her career at IBM where she became Global Director of Online Financial Services.

Alison has worked with the retail industry over the last 12 years to establish the fastest growing fintech charity the Pennies Foundation.

In 2016, Alison received a CBE for her services to the Economy and Charity.

Qualifications: BSc (Hons) in Technology and Business Studies from Strathclyde University.

External appointments:

- Chief Executive of The Pennies Foundation charity
- Independent Non-Executive Director of Liverpool Victoria Friendly Society Ltd
- Independent Non-Executive Director of Yorkshire Building Society

5

Jo Boydell

Independent Non-Executive Director

Date of joining DFS: December 2018

Experience: Jo Boydell has been the Chief Financial Officer of Travelodge since March 2013, and has broad based finance experience in hospitality, leisure and retail. Jo has held senior finance roles across a number of consumer-facing companies including Mothercare, Jessops, Ladbrokes plc, Hilton Group plc and EMI Group.

Qualifications: Honours Degree in Physics from Oxford University.

Associate of the Institute of Chartered Accountants in England and Wales and ICAEW Business and Finance Professional.

External appointments:

- Chief Financial Officer of Travelodge Hotels Limited

6

Steve Johnson

Independent Non-Executive Director

Date of joining DFS: December 2018

Experience: Steve has over 25 years' experience in the retail sector, in both public and private equity businesses. He served as CEO at Focus Wickes DIY Group and Woolworths, as well as chairing several other businesses. Prior to this Steve spent eight years at Asda having started his career with Bain & Co.

Qualifications: Qualifications BA (Engineering), MEng from Cambridge University.

External appointments:

- Chair of Matalan
- Senior Independent Director of Lenta Limited

7

Jane Bednall

Independent Non-Executive Director[1]

Date of joining DFS: January 2020

Experience: Jane has a strong marketing and commercial background in customer facing FTSE 50 companies. Most recently, Jane served as Chief Marketing Officer for Scottish and Southern Energy (SSE) plc and prior to that in global senior leadership positions with InterContinental Hotels Group, British Airways and Centrica.

Elected by the Retail Energy Industry, Jane also served for two years as Non-Executive Director of Smart Energy GB.

Qualifications: BA Hons Modern Languages (French, German, Spanish), from Sheffield University.

External appointments:

- Non-Executive Director EI Group

1. Appointed as Designated Non-Executive Director 8 July 2020.

Corporate governance report

> This year our governance has evolved, proportionate to the needs of the business and responsive to the fast changing circumstances of the pandemic which have proved immensely challenging".

Ian Durant
Chair of the Board
24 September 2020

2020 highlights

The main governance issues addressed by the Board, and its Committees, during the year included:

- assessing the operating and financial performance and strategy of the Group, in the context of the trading environment and market expectations
- overseeing the extension to the Group's financing and the share issuance
- developing our corporate purpose, building on the Group's values
- the appointment of a new Non-Executive Director, Jane Bednall
- the appointments of Alison Hutchinson as the Senior Independent Non-Executive Director and Steve Johnson as Chair of the Remuneration Committee
- enhancing our employee engagement arrangements, with the nomination of Jane Bednall as the Designated Non-Executive Director

Dear Shareholder

The Board recognises the importance of the role that good governance plays in the long-term success of the Group and in promoting stakeholder trust. The effective application of governance is essential to support resilience and innovation and to enable our people to flourish and deliver success through good times and bad.

This is our first Annual Report since the introduction of new disclosure requirements following the publication in 2018 of the revised UK Corporate Governance Code, and in this report you can read about how we have applied the updated principles. There are also new disclosures this year with regard to stakeholder engagement. Details of this and our full response to s.172 of the Companies Act 2006 can be found on pages 60 to 63.

Against the background of the global pandemic the Group faces an unprecedented challenge. The pandemic has had a drastic impact on the lives of our colleagues and our customers, and created an uncertain economic outlook for the UK and ongoing concerns about future UK trading arrangements with the EU. I am grateful for the response of our colleagues many of whom were furloughed for several weeks but have remained positive and supportive of our business.

I would also like to thank those colleagues who worked throughout the lockdown to maintain our online offering for customers, and who acted with pace and agility to ensure we re-opened our showrooms, restarted manufacturing and delivered to customers as quickly and safely as possible once the lockdown was relaxed. Their approach gives the Board confidence that we will emerge a stronger and more focussed business better able to face the challenges and opportunities ahead.

Through the pandemic lockdown when most of the Group's activities closed down, the Board met frequently by phone and online video to oversee the steps being taken to protect the Group's liquidity. These steps included cancelling the dividend, obtaining additional banking facilities and issuing new shares. The Board also debated plans to refocus the Group on to its core brands after the business was able to reopen and thus kept one eye on strategy whilst making the tactical decisions required to address the unprecedented short term disruption to the economy and our business.

The Board fosters a culture of openness, challenge and engagement with the Group Leadership Team and the wider senior management team. Board meeting agendas include regular "deep dives" into key operational areas. We also continue to fulfil our other core duties to oversee culture, governance, financial controls, risk and change management. This is supplemented by informal occasions for Board members to meet and discuss the plans and broader strategic issues with members of the wider management team.

Environmental, social and governance (ESG) considerations are an increasing focus for stakeholders, and the Group recognises the impact of its operations on the environment and the communities in which it operates. This year's annual report contains more detail on our ESG initiatives which we believe are both socially responsible and value creating.

During the year we have complied with all the principles and provisions of the UK Corporate Governance Code 2018 ("the Code") other than Provision 38 in respect of Executive Director pensions, as discussed further on page 71. This report details the Board's activities during the year, including how it has discharged its governance duties and applied the principles of good corporate governance.

We will be holding our Annual General Meeting in Doncaster at 2.30pm on the 13 November 2020: we will be holding the meeting virtually in order to comply with prevailing health and social distancing requirements.

Ian Durant
Chair of the Board
24 September 2020

Governance framework

DFS Furniture plc Board

Members:
Independent Non-Executive Chair
4 Independent Non-Executive Directors
2 Executive Directors

Audit Committee

Members:
4 Independent
Non-Executive Directors

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, internal controls, risk management, compliance and audit.

See committee report page 76-81

Remuneration Committee

Members:
4 Independent
Non-Executive Directors

The Remuneration Committee recommends the Group's policy on executive remuneration and determines the levels of remuneration for Executive Directors, the Chair of the Board and senior management.

See committee report page 84-105

Nomination Committee

Members:
Independent
Non-Executive Chair
4 Independent
Non-Executive Directors

The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board and succession planning for senior management.

See committee report page 82-83

This section looks at the roles and responsibilities of our Board.

The composition and role of the Board

The Board currently consists of four Independent Non-Executive Directors, an Independent Non-Executive Chair and two Executive Directors. Biographies of all members of the Board appear on page 65.

The Board is collectively responsible for the long-term success of the Company and for leading and controlling the Group and has overall authority for the management and conduct of the Group's business, strategy and development.

The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Group.

The CEO and CFO are members of the Board and are a bridge to the Group Leadership Team. The Board delegates to the Group Leadership Team the day-to-day operation of the business within defined parameters and Board meetings are scheduled to coincide with key events in the corporate and trading calendar.

The Board has adopted a formal schedule of matters reserved for its approval. This is reviewed annually to ensure it complies with the requirements of the Code and the current needs of the business. The Chair and the Non-Executive Directors meet several times each year without the Executives present, and additionally the Non-Executive Directors hold regular meetings with the CEO. The Board has implemented a Group Policy framework which is considered by the Board on annually. Individual policies and associated practices are considered by the Board throughout the year.

Whilst the Board does not manage the day to day operations of the Group, key decisions and matters which are reserved for approval of the Board are fully documented and regularly reviewed. These include the setting of, and changes to, the Group budget and strategic four-year plan, major acquisitions and disposals, the determination of interim dividends and the recommendation of final dividends, approval of the financial results, trading statements, annual report and accounts and an annual review of the effectiveness of risk management and internal control systems.

All the Directors have the right to have their concerns over or opposition to, any Board decision noted in the minutes. During the year, no such opposition or concerns were noted. The Board has adopted guidelines by which Directors may take independent professional advice at the Company's expense in the performance of their duties.

Board committees

Subject to those matters reserved for its decision, the Board has delegated to its Audit, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees which are available on the Group's corporate website, www.dfscorporate.co.uk. Separate reports for each Committee are included in this Annual Report from pages 76 to 105.

Role of the Chair and Chief Executive Officer

As the Chair, Ian Durant is responsible for leading the Board and ensuring its effectiveness in all aspects of its role. The CEO, Tim Stacey, is responsible for managing the operation of the Group to create value over the long-term. The roles are distinct and separate and clear divisions of accountability and responsibility have been agreed and documented by the Board.

Role of the Chair

- leading the Board and ensuring its effectiveness in all aspects of its role;
- promoting high standards of ethics and corporate governance;
- ensuring the submission to the Board by the Chief Executive Officer of objectives, policies and strategies for the Group, including the Group business plan and annual budget;
- maintaining the Board's review of the Group's general progress and long-term development and ensuring that effective strategic planning for the Group is undertaken;
- facilitating effective contributions of Non-Executive Directors to the leadership of the Group;
- ensuring effective communication between the Board and the Company's shareholders; and
- acting on the results of the Board's annual review of its and its Committees' and individual Directors' performances.

Role of the Chief Executive Officer

- leading the management and performance of the Group;
- planning the Group's strategies effectively;
- ensuring the effective implementation of the Board's decisions;
- maintaining an effective framework of internal controls and risk management;
- leading, motivating and monitoring performance of the Group's executive management team, focusing on succession planning and making appropriate recommendations as to the team's remuneration to the Remuneration Committee; and
- managing the Group's relations with shareholders, customers, suppliers, regulators, other public organisations, other companies and the media.

Role of the Senior Independent Director (SID)

The Senior Independent Director is an Independent Non-Executive Director who is responsible for:

- acting as a sounding board for the Chair; and
- meeting with the Company's shareholders to consider matters where it may be inappropriate to have those discussions with the Chair and Executive Directors.

Role of the Company Secretary

The Company Secretary is responsible for:

- advising the Board and its Committees on corporate governance and compliance within the Group and appropriate procedures for the management of Board and Committee meetings;
- managing the provision of timely, accurate and considered information to the Board; and
- recommending corporate governance policies and practices to the Chairman and CEO.

Board balance and independence

The Board reviews independence as part of its annual Board Review and monitors independence throughout the year.

The Board has determined that the Non-Executive Directors are independent and have a complementary set of skills and experience as shown in the table below. Further information on the diversity of the Board can be found within the Directors' biographies on pages 65.

Principal skills and experience	Retail	Customer services/ marketing	People	Operations	International	Regulatory	Finance
Ian Durant Chair	✓			✓	✓	✓	✓
Tim Stacey Chief Executive Officer	✓	✓	✓	✓			✓
Mike Schmidt Chief Financial Officer	✓				✓	✓	✓
Alison Hutchinson Senior Independent Non-Executive Director	✓	✓	✓			✓	✓
Jo Boydell Independent Non-Executive Director	✓			✓		✓	✓
Steve Johnson Independent Non-Executive Director	✓	✓	✓	✓	✓		
Jane Bednall Independent Non-Executive Director	✓	✓	✓	✓			
Luke Mayhew Senior Independent Non-Executive Director	✓	✓	✓	✓	✓		

Length of appointments

Non-Executive Directors' appointments are for an initial period of three years and are subject to annual re-election by shareholders at the Company's AGM, taking into account the requirements of the Listing Rules and continued satisfactory performance.

Neither the Chairman nor any Non-Executive Director have been in their position for more than nine years, in accordance with the recommendations made in the Code.

Board meetings

The following section provides an overview of the content and structure of the Board's meetings and illustrates that the Group's key stakeholders are central to Board discussions. Meeting agendas are agreed in advance by the Chairman, CEO and Company Secretary and are tailored to strike an appropriate balance between regular standing items, such as reports on current trading, financial performance, regulatory and health and safety, with one or two detailed "deep dives".

These enable the Board to gain a deeper understanding of the strategic direction of the business, exchange views and robustly debate elements of the Company's performance, specific projects or areas of strategic significance. Board packs are distributed in the week prior to each meeting to provide sufficient time for Directors to review their papers in advance. If Directors are unable to attend a Board meeting for any reason, they are consulted prior to the meeting and their views are made known to the other Directors.

At each Board meeting, the Board receives and discusses reports from each of the Executive Directors. In addition, and as part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team, members of the Group Leadership Team are invited to attend Board meetings to present papers to the Board. This process also affords senior managers the opportunity to bring matters to the attention of the Board.

The Board held eight scheduled meetings during the year, with one of these meetings being a strategy day with members of the Group Leadership Team.

Twelve ad hoc meetings were held in response to the Covid-19 pandemic as and when necessary, bringing the total number of Board meetings to twenty.

Board attendance and overview of responsibilities

Name	Meetings attended	Maximum meetings***	Independent	Responsibility and role during 2019/20	Date of appointment
CHAIRMAN					
Ian Durant Non-Executive Chair	8	8	–	Leading the Board and ensuring its effectiveness in relation to board governance, performance, and shareholder engagement.	2 May 2017
EXECUTIVE DIRECTORS – At each Board meeting, the Board receives and discusses reports from each of the Executive Directors.					
Tim Stacey Chief Executive Officer	8	8	–	Leading and managing Group performance and strategy to ensure the long-term profitable operation of the Group.	1 November 2018
Mike Schmidt Chief Financial Officer	8	8	–	Leading, managing and maximising Group financial performance, investor relations, legal and property functions.	11 July 2019
NON-EXECUTIVE DIRECTORS					
Alison Hutchinson	8	8	✓	Overseeing the implementation of the strategy and development of the Group whilst maintaining a system of internal control and risk management.	1 May 2018
Luke Mayhew*	2	2	✓		3 February 2015
Steve Johnson	8	8	✓	Board Committee members also have further specific responsibilities in relation to reviewing the integrity of financial information, dealing with succession planning and Board diversity, and setting remuneration.	6 December 2018
Jo Boydell	8	8	✓		6 December 2018
Jane Bednall**	5	5	✓		1 January 2020
STANDING ATTENDEES					
Liz McDonald General Counsel and Company Secretary				Advising the Board on all corporate governance and legal issues.	
ATTENDED BY INVITATION – members of the Group Leadership Team may be invited to attend Board meetings to present papers and discuss matters of importance					
Nick Smith	5			The Group Leadership Team sits below Board level. They promote and facilitate the implementation of the strategy and Group values and oversee the day-to-day operations of each of the Group companies. Their attendance at Board meetings is part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team. This process also affords senior managers the opportunity to bring matters to the attention of the Board.	
Scott Fishburn	6				
Sally Hopson	3				
Alex Salden	1				
Russ Harte	3				
Peter Jenkins	1				
Gill Stewart	1				
Jo Shawcroft	1				

* Luke Mayhew retired from the Board on 14 November 2019, so was eligible to attend 2 scheduled Board meetings.
** Jane Bednall was appointed on 1 January 2020, so was eligible to attend 5 scheduled Board meetings.

Usually the Board splits its meetings between its Group Support Centre in Doncaster and London, as well as using a number of operational locations away from these sites in order to help to promote colleague engagement and to provide the Board with greater insight and direct feedback. During the year the meetings which took place between March and June were held via video conference due to the Covid-19 pandemic. Prior to the pandemic and subsequent lockdown, our colleagues had a number of opportunities to interact with Board members at different events, such as the DFS Conference and Employee Voice Forums.

Additionally, all of the Non-Executive Directors have visited a number of the Group's retail, warehousing and manufacturing sites throughout the UK so that they are well-versed in the operations of the business and had a chance to meet with the front-line team members as well as centrally based executives. These visits provide the Non-Executive Directors with the in-depth knowledge necessary to facilitate strong debate and supportive challenge.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet eight times, with additional telephone or online meetings to review important trading periods or strategic issues, as appropriate.

Committee meetings

All Directors are invited and did attend Audit Committee meetings, and the Chair of the Board is invited to and did attend Remuneration Committee meetings. The Chief Executive Officer is invited to attend both the Remuneration and Nomination Committee meetings, and the Chief Financial Officer is invited to attend the Remuneration Committee meetings.

Although specific information on the role and key activities of each Committee can be found in their separate Committee reports, a summary of Committee members attendance of meetings is as follows:

Name	Date of appointment	Audit Committee	Remuneration Committee	Nomination Committee
Ian Durant	2 May 2017	–	–	1/1
Alison Hutchinson	1 May 2018	3/3	4/4	1/1
Steve Johnson	6 December 2018	3/3	4/4	1/1
Jo Boydell	6 December 2018	3/3	4/4	1/1
Jane Bednall*	1 January 2020	1/1	2/2	–
Luke Mayhew**	3 February 2015	1/1	1/2	–

* Jane Bednall was appointed 1 January 2020, so was eligible for 1 Audit Committee meeting and 2 Remuneration Committee meetings.
** Luke Mayhew retired 14 November 2019, so was eligible for 1 Audit Committee meeting and 2 Remuneration Committee meetings.

Compliance with the UK Corporate Governance Code 2018:

Introduction

The Board is wholly committed to upholding high standards of corporate governance and follows a rigorous structure for the supervision, control, and management of the Group.

The UK Corporate Governance Code 2018 ("the Code") was published by the Financial Reporting Council in July 2018 and applies to this Annual Report. A copy of the Code can be found at www.frc.co.uk.

Compliance statement

This Corporate Governance Report, which incorporates reports from the Audit and Nomination Committees on pages 76 to 83 together with the Strategic Report on pages 1 to 63, the Directors' Remuneration Report on pages 84 to 105 and the Directors' Report on pages 106 to 109, describes and explains how the Company has applied the relevant provisions and principles of the Code, and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules throughout the year.

The current Code applies to accounting periods beginning on or after 1 January 2019. We are pleased to report that, in the first year in which we applied the new Code, the Company was compliant with all Provisions except for Provision 38. Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our incumbent Executive Directors' pension contribution rates, while in line with Remuneration Policy for existing Executive Directors, do not yet match the wider workforce. We will review how to address this Provision during the coming year as any reduction of fixed, contractual remuneration must be done so carefully and proportionally over time. We have reported in summary below how we have complied with the Provisions. Further details regarding the Executive Directors' pension contributions are set out on page 93 in the Directors' Remuneration Report.

Conflicts of interest

The duties to avoid potential conflicts and to disclose such situations for authorisation by the Board are the personal responsibility of each Director. All Directors are required to ensure that they keep these duties under review and to inform the Group Company Secretary on an ongoing basis of any change in their respective positions.

The Company's conflict of interest procedures are reflected in its Articles of Association ("Articles"). In line with the Companies Act 2006, the Articles allow the Directors to authorise conflicts and potential conflicts of interest, where appropriate. The decision to authorise a conflict can only be made by non-conflicted Directors. The Board considers conflicts or potential conflicts at each Board meeting. The Company maintains a related party register to record any conflicts which is updated annually.

The Articles require the Company to indemnify its officers, including officers of wholly owned subsidiaries, against liabilities arising from the conduct of the Group's business, to the extent permitted by law. For a number of years, the Group has purchased Directors' and Officers' liability insurance, and this is anticipated to continue.

Board evaluation

In line with the Code and the supporting Guidance on Board Effectiveness, the Board carried out its fourth evaluation of its own effectiveness, and that of its various Committees, during the year. The Company appoints an external organisation to carry out the Board evaluation every third year as required under the Code. The evaluation this year was carried out by the Group Company Secretary; the evaluation in 2021 will be an externally facilitated review. The diversity and independence of the Board is also considered as part of this evaluation.

The process involved each Director, the Company Secretary and each Group Leadership Team member completing a formal questionnaire on the performance of the Board and each of the Board committees and attending a one to one session with the Senior Independent Director (SID). The questionnaire considered the balance of skills, diversity, independence and knowledge of the Company on the Board, how the Board works together, and other factors relevant to its effectiveness.

Board members have the opportunity to provide further written feedback on an anonymous basis in order to encourage them to provide honest feedback on Board dynamics and the performance of the Board and the Committees. The results of the evaluation identify areas for development which are then used as focus points for agreeing an action plan moving forward.

Stages of the Board evaluation

Stage 1

One to one session with the SID

Formal online questionnaire

Stage 2

Results collated, reported and evaluated

Stage 3

Board discussion and action plan for FY21 agreed

Results overview

The consensus was that the Board, and its Committees, had performed effectively and had addressed those areas previously identified as requiring further attention. Insights arising from this year's review are highlighted in the table below in respect of the Board, the Committees, and the Chairman.

Board	Committees	Chair
The review found that Board dynamics remain strong, with members of the Board and management team working well together. Board members confirmed that they were confident that over the previous year a great emphasis had been placed on understanding key business risks and this had led to more informed debate.	Overall, each of the Board Committees were considered to operate well. It was concluded that in terms of planning during the upcoming months additional time would be required for the Audit Committee to consider risk in greater depth in light of Covid-19.	Results show the Board is well led and the environment is managed effectively by the Chair so that Board members can contribute freely and play an active role in Board meetings.

Board action plan for FY21

- Continued exploration and application of values, culture, and strategy in alignment with the Company Purpose.
- Close monitoring of the risks arising from the ongoing impact of Covid-19 on the Group and the wider economy and of the impact of Brexit, and the mitigation of those risks.
- Further consideration and discussion surrounding all the principal current and emerging risks.
- Overseeing the structural changes and the continued progression and development of each of the Group brands.
- Monitoring the development of the Group's ESG strategy against the phase 1 ESG targets.

Election of Directors

The Board can appoint any person to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following AGM and shall then be eligible for election by shareholders. In accordance with the Articles, Jane Bednall will be offering herself for election at the forthcoming AGM, along with all the other Directors for re-election. All of the Directors stand for annual re-election in compliance with the Code.

The AGM is to be held at DFS Furniture plc's Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA, at 2.30pm on 13 November 2020, full details of which are set out in the notice of meeting accompanying this Annual Report.

As noted above, following the formal internal evaluation process of the effectiveness of the Board, the Board is satisfied that each Director remains competent to discharge their responsibilities as a member of the Board and considers that each Director's contribution is, and continues to be, important to the long term sustainable success of the Company and the specific reasons for such are set out in the directors' biographies on page 65.

Independence

At least half of the Board was made up of Independent Non-Executive Directors (not including the Chairman) throughout the reporting period. The Non-Executive Directors whom the Board considered to be independent are shown as such on page 70. The Board confirms that all the Non-Executive Directors (excluding the Chairman) were independent during the reporting period and that the Chairman was independent on appointment. The Remuneration Committee membership is made up of only independent Non-Executive Directors. Details of how the Remuneration Committee exercised its discretion during the year may be found on page 86 of the Remuneration Committee Report.

Culture and Company purpose

In compliance with the Code, the Group has established its Corporate Purpose, which is set out on page 1, along with details of the Company's Values, strategy, and culture. An explanation of our Corporate Purpose, values and strategy are set out in the Strategic Report which starts on page 1. The Board regularly discusses the importance of the Company culture and is mindful that it remains aligned with its purpose, values and strategy. Integrity and sympathy to the DFS group culture and its 50 year history are paramount when the Board recruits new members to the Board.

Diversity & experience

The diversity of the Board is considered on page 83 of this annual report. The Board specifically reflects on the issue of diversity in its succession planning and Board development and considers that the Directors have a broad range of relevant experience in order for them to continue to fulfil their roles effectively and in accordance with the Code. For example, the Audit Committee Chair held a number of senior finance roles not only prior to but concurrent with joining the Company and therefore has the required financial experience to enable her to be Committee Chair. The Remuneration Committee Chair had served on our Remuneration Committee since December 2018, prior to his appointment as Chair.

Development

Following appointment, new Directors undergo a detailed, tailored induction programme. In the case of Non-Executive Directors, this includes meeting with the Group Leadership Team and key members of the wider senior management team. New Directors also visit operational locations, including showrooms, factories, support offices, Customer Distribution Centre and delivery and service functions, as well as meeting with the Group's professional advisors including brokers, lawyers, and auditors. As such, new Directors spend considerably more than the minimum commitment.

In addition, each Director receives key information and policies that are relevant to their position. For new Executive Directors, and Non-Executive Directors for whom the appointment is their first to a UK-listed company, the induction includes details of the legal duties and obligations of being a Director of the Company.

Where any individual development needs have been identified, which may arise as a result of part of the annual Board evaluation process, then training will be provided as appropriate.

External appointments

The Executive Directors may accept appointments outside of the Group provided that such appointments do not prejudice their ability to perform their duties as Executive Directors of the Company. Tim Stacey and Mike Schmidt do not currently hold any external appointments.

The Non-Executive Directors' appointment letters anticipate a minimum time commitment of two days per month, recognising that there is always the possibility of an additional time commitment and ad hoc matters arising from time to time, particularly when the Company is undergoing a period of increased activity. The average time commitment inevitably increases where a Non-Executive Director assumes additional responsibilities such as being appointed to a Board Committee. The Board considers that each of the Non-Executive Directors' continue to have sufficient time to meet their responsibilities, in accordance with the Code. Due to the impact of the pandemic on the Group all the Directors spent considerably more time during the year than the minimum commitment required.

As part of the assessment of the time commitment required under the terms of reference for the Board should a Director wish to take on an additional external appointment, they are required to obtain the approval of the Board to ensure the Director has sufficient time to fulfil their duties.

Shareholder engagement

The Board actively seeks and encourages engagement with major institutional shareholders and other stakeholders. The CEO and CFO regularly meet with analysts and institutional shareholders to keep them informed of significant developments and to develop an understanding of their views which are discussed with the Board.

In addition, all Directors receive reports and briefings during the year about the Company's investor relations programme and receive feedback obtained by the Company's brokers after meetings, in order to maintain an understanding of market perceptions. External analysts' reports on the Group are also circulated to the Directors.

In addition to the extensive engagement carried out by the CEO and CFO, the Chairman, and Chairs of the Remuneration and Audit Committees met or spoke to a number of shareholders during the year.

The Chairman makes himself available to shareholders so that any major issues and concerns are communicated to the Board through the Chairman. All major shareholders are given the opportunity to meet with the Senior Independent Non-Executive Director and she welcomes the opportunity to meet with major shareholders when requested to do so. No requests were received during the year for the Senior Independent Non-Executive Director to meet with shareholders.

In particular, the Company communicates with both the institutional and private shareholders through the following means:

Interaction with all shareholders

- presentations of full year and interim results to analysts and shareholders, which are also available on the Company's corporate website.
- market announcements, through which we ensured that all investors were informed of the impact the virus was having on our business.
- the Annual Report, which sets out details of the Company's strategy, business model and performance over the past financial year and plans for future growth.
- the Annual General Meeting, where all shareholders have the opportunity to vote on the resolutions proposed and to put questions to the Board and executive team.
- the Company's corporate website (www.dfscorporate.co.uk), where investor information and news is regularly updated.

Interaction with institutional shareholders

- the CEO and CFO hold physical and online meetings with institutional investors following the full year and interim results.
- the Chairman meets with institutional shareholders where appropriate.

Interaction with private shareholders

- dial-in facility to live presentations of the full year and interim results.
- dedicated email point of contact to answer shareholder questions and queries.

Investor relations activity, analysis of the share register, comments by analysts, views of major shareholders and advice from the Company's brokers are all ongoing items of review by the Board in order to maintain a clear understanding of market perceptions.

In particular, the potential effects of MiFID II on market awareness of our investment proposition are closely monitored by the CFO so that any adverse trends can be identified and reported to the Board in a timely manner. Although no material effect has been experienced to date, this issue remains under review to enable the approach to investor relations to be tailored as appropriate.

Relationships with other stakeholders

The Group considers our customers, colleagues, suppliers, regulators, and the communities in which we operate, as our principal stakeholders in addition to our shareholders. We also believe that our wider obligations to the environment make it a principle stakeholder in our business. Our section 172 statement on pages 60 to 63 and our Sustainability and Responsibility report on pages 48 to 59 sets out more detail on how we manage our relationships with all our stakeholders.

The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise. The Chairman and Non-Executive Directors are also available to attend investor relations meetings or to request meetings with investors or analysts independently of the Executive Directors, if required.

External auditor

Our external auditor is Frances Simpson at KPMG LLP. The Audit Committee oversees the Group's relationship with its external auditor including assessing the independence and effectiveness of the audit firm. Further details are set out in the Audit Committee report on pages 76 to 81.

Internal audit

Further details relating to the internal audit function are contained within the Audit Committee report on pages 80 to 81.

Non-audit services policy

Our non-audit services policy can be found on our website and is summarised on page 79 of this annual report.

Remuneration

The remuneration policies are designed to support strategy and promote the long-term success of the Company. Details of the procedures used to determine remuneration, including separate performance-related elements, in relation to the Board and wider workforce are contained in the Remuneration Committee report on pages 98 to 99.

DTR Disclosure

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit committee and Nomination committee Reports, except for information required under DTR 7.2.6 which is contained in the Directors' Report on pages 106 to 109.

Signed on behalf of the Board of Directors.

Elizabeth McDonald
Group Company Secretary
24 September 2020

Audit Committee report

Jo Boydell
Chair of the Audit Committee
24 September 2020

"The primary responsibilities of the Committee remain the oversight of the Group's external financial reporting, internal controls and risk management, and the effectiveness of both the internal audit function and the external audit."

The role of the Audit Committee

The primary responsibilities of the Committee remain the oversight of the Group's external financial reporting, internal controls and risk management, and the effectiveness of both the internal audit function and the external audit.

Key activities during FY20

- review and response to risk impacts from Covid-19
- development of new Group internal audit methodology and risk management tool
- decision taken to defer planned external audit tender process
- oversight of implementation of new lease accounting standard IFRS 16

On behalf of the Board, I am pleased to present this year's Audit Committee report following my first full year as Chair. During FY20, Luke Mayhew stepped down from the Committee following his retirement from the Board and we were pleased to welcome Jane Bednall as a new member from January 2020.

The Covid-19 pandemic has had a significant and wide-ranging impact on the risk profile of the Group, as discussed in more detail in the Risks and Uncertainties section on pages 32 to 33, and has by extension also had a significant impact on those activities for which the Committee is responsible.

Internal audit activity was temporarily suspended during the final quarter of FY20 as a consequence of the pandemic, however the progress in the period before this was very pleasing. Building on the restructure of the function last year, FY20 has seen development of a Group-wide consistent internal audit methodology, bespoke risk management tool and a significant investment in training and development for the internal audit and risk teams.

In addition, the planned external audit tender process has now been deferred until FY21, although this will still be conducted earlier than required by the relevant regulations.

The direct and wider economic impacts of the pandemic have been a key consideration for the assessment and reporting on going concern and viability. The Committee has continued to take an active role in reviewing and challenging the assumptions applied in making these assessments in the context of the Group's external financial reporting. The Committee has also received regular updates on the Group's implementation of IFRS 16 Leases which has been adopted for the first time in the current financial year and which represents a significant change to the measurement and presentation of financial results.

The effectiveness of the Committee was considered as part of the annual Board evaluation and I am pleased to report that no significant areas of concern were identified and the Committee was viewed as operating effectively.

I thank my fellow Committee members for their valuable contribution and support during a year that has seen some unprecedented challenges for the Group, and I welcome any comments or questions from shareholders.

Composition

The Audit Committee continues to be chaired by Jo Boydell, who was appointed to the role in April 2019. Other current Committee members are Alison Hutchinson, Steve Johnson and Jane Bednall (appointed in January 2020). Luke Mayhew ceased to be a Committee member on his retirement from the Board in November 2019.

The UK Corporate Governance Code ("the Code") recommends that all members of the Audit Committee are Non Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience. The Board considers that, by virtue of her current executive role, details of which are set out on page 65, Jo Boydell has recent and relevant financial experience and the Company complies with the requirements of the Code in this respect. All Committee members are Independent Non-Executive Directors and have extensive relevant commercial and operational experience in large retail/customer-facing organisations which both benefit the Committee and collectively illustrate its competence relevant to the sector in which the Group operates.

Biographies of the Independent Non-Executive Directors are included on page 65 and a summary of their principal skills and experience is shown on page 69.

The Chief Executive Officer, Chief Financial Officer and Chair of the Board attend meetings of the Audit Committee by invitation, as do KPMG LLP's Audit Partner and members of the Executive Board and senior management as appropriate. The Director of Risk and Internal Audit provides an update at each meeting. The Company Secretary also attends by invitation in order to maintain a record of the meetings.

Roles and responsibilities

The Audit Committee assists the Board in discharging its responsibilities with regard to the oversight of:

Financial reporting:
- Monitoring the integrity of the financial statements of the Group, including its annual and half yearly reports, and considering the clarity and completeness of disclosures therein;
- Reviewing and challenging any changes to accounting policies, accounting for significant or unusual transactions and the application of appropriate judgements and estimates;
- Advising the Board on whether the Group's financial statements are fair, balanced and understandable; and
- Assessing the assumptions and sensitivities underlying the Group's Viability Statement.

Internal controls and risk management:
- Reviewing the Group's processes and procedures for ensuring that material business risks, both existing and emerging, are properly identified and managed;
- Reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems; and
- Reviewing the Group's arrangements with regard to employee/contractor whistleblowing, fraud detection, prevention of bribery and money-laundering.

Internal and external audit:
- Monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- Overseeing the Group's relationship with its external auditor, including their appointment, remuneration, independence and the effectiveness of the audit process; and
- Developing and implementing a policy on the supply of non-audit services by the external auditor.

The ultimate responsibility for reviewing and approving the Annual report and accounts and the half-yearly reports remains with the Board. The Audit Committee will give due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Rules.

The Audit Committee reviews the content of the Annual report and accounts and advises the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Activities of the Audit Committee

The Audit Committee of the Group met three times during the year and attendance at those meetings is shown on page 71. At each meeting, standing agenda items relating to risk, internal audit results, whistleblowing and litigation issues were reviewed.

In addition, the other matters covered at each meeting are summarised below:

2019

August 2019
- Specific update on IFRS 16 transition and reporting
- FY19 full year results, including reviews of going concern and viability reporting
- External audit findings for FY19, including KPMG LLP's performance and subsequent re-appointment
- FY19 preliminary statement and Annual report
- Group risk report, including business continuity planning and results of an independent cyber risk review
- Group internal audit report
- Proposal for external audit tender process

September 2019
- FY19 full year results, including reviews of going concern and viability reporting
- External audit findings for FY19, including KPMG LLP's performance and subsequent re-appointment
- FY19 preliminary statement and Annual report
- Group risk report, including business continuity planning and results of an independent cyber risk review
- Group internal audit report
- Proposal for external audit tender process

2020

March 2020
- Interim results for FY20, including the first-time application of IFRS 16
- External audit interim review findings
- FY20 interim results announcement and presentation
- Group risk report, including impacts of emerging Covid-19 risk
- Group internal audit report
- Update on external audit tender process
- Approval of updated policy on non-audit services

A subsequent meeting in early July 2020 considered the following matters:
- Group internal audit and interim risk update
- External audit plan and strategy for FY20
- Initial review of FY20 viability analysis, including modelling of Covid-19 and Brexit risks
- Confirmation of decision to defer external audit tender

Following the FY20 year end close, at the September 2020 meeting, the Committee reviewed and approved, for consideration by the Board, the financial results for the 52 weeks ended 28 June 2020 including a review of the full year external audit. As part of that review process, the members of the Committee reviewed the Annual Report, including the adequacy of the disclosure with respect to going concern and viability reporting in order to conclude whether the Annual Report taken as a whole was fair, balanced and understandable.

This additional review by the Audit Committee, supplemented by advice received from external advisors during the drafting process, assisted the Board in determining that the report was fair, balanced and understandable at the time that it was approved.

The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans and supporting assumptions as well as sensitivity analysis and concluded that the Company's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

Performance evaluation

The evaluation of the performance of the Audit Committee was carried out as part of the wider review of Board effectiveness, further details of which can be found in the Corporate Governance report on page 72. There were no significant concerns raised from this review and the Committee was deemed to be operating effectively.

Significant issues considered in relation to the financial statements

The Committee, together with management and the Group's external auditor, considered the following significant matters in relation to the financial statements and how these were addressed.

Impairment of intangible assets	Note 10
As a result of business acquisitions, the Group has recognised significant balances for goodwill and brand names. Goodwill must be tested annually for impairment; other intangible assets are tested when there are indicators that they may be impaired. The assessment of potential impairment requires a number of judgements and estimates to be applied in determining the relevant future cash flows and the discount rate to be applied.	The Committee reviewed and challenged the approach taken by management to impairment testing, and assessed the reasonableness of the underlying assumptions and financial forecasts used. The Committee considered the appropriateness of the conclusions reached, including the recognition of impairment charges on goodwill and intangible assets relating to Sofa Workshop. The Committee also reviewed KPMG's report and discussed their observations and findings in this area.

Provisions	Note 20
In accordance with IFRS, the Group maintains a number of provisions, primarily relating to: the cost of satisfying guarantees offered to customers; dilapidations and other property-related liabilities; and the valuation of finished goods inventory. The determination of these provisions is inherently uncertain as they rely on using historical data to estimate future liabilities.	The Committee considered management's documented rationale and basis for these provisions to challenge and assess their reasonableness and adequacy. This included consideration of alternative valuation methodologies to provide additional supporting evidence. The Committee also reviewed KPMG's audit report and discussed their observations and findings in this area.

Going concern and viability reporting	Page 39
In addition to the statement on going concern, the Group is required to make an assessment on its longer term viability. This requires the application of a number of judgements and estimates, particularly given the current uncertainty in the UK consumer market surrounding the UK's departure from the European Union.	The Committee, along with the Group's external auditor, has reviewed management's assessment of the prospects of the Group for the three years from 28 June 2020, being a reasonable period for the assessment of key risks for a retail business given continuing political and economic uncertainties. This review included the challenging of assumptions and stress-testing of the scenario modelling, including the potential impacts of Covid-19 and Brexit, and concluded that the going concern assumption remains appropriate and the Board is able to make the viability statement on page 39 of the Strategic Report.

IFRS 16 transition	Note 1.18
The Group has adopted IFRS 16 Leases for the first time in the current financial year. This standard represents a fundamental change in the accounting and presentation of lease arrangements and depends on significant and complex underling calculations.	The Committee has received regular updates throughout the implementation process, including details of methodology and the basis of key assumptions such as applicable discount rates. The Committee has also reviewed the external presentation and disclosure of the impact of IFRS 16 on the Group's financial statements.

Assessment of effectiveness of the external audit process

The Audit Committee oversees the relationship with the external auditor and considers the re-appointment of the Company's auditor, KPMG LLP, before making a recommendation to the Board to be put to shareholders. As part of this responsibility, the Committee approved the audit plan for the 52 weeks ended 28 June 2020 and reviewed the auditor's findings and management representation letters. Prior to recommending the appointment of KPMG LLP at the forthcoming AGM to the Board, the Audit Committee reviewed the audit process, the performance of the auditor and its ongoing independence, taking into consideration input from management, responses to questions from the Committee and the audit findings reported to the Committee. Based on this review, the Committee concluded that the external audit process had been run efficiently and that KPMG LLP has been effective in its role as external auditor.

In FY19, the FRC's Audit Quality Review team commenced a review of selected areas of KPMG's audit of the Group's FY18 Annual report. The results of this review were communicated to the Committee in November 2019 and did not include any significant findings. The Committee Chair met with representatives of the FRC to ensure the findings were fully understood.

Approach to appointing the external auditor and how objectivity and independence are safeguarded relative to non-audit services

Following the implementation of the EU Audit reforms, the Audit Committee has agreed a policy intended to maintain the independence and integrity of the Company's auditor when acting as auditor of the Group's accounts. The policy governs the provision of non-audit services provided by the auditor and, in summary, categorises the types of non-audit services as:

- **Prohibited –** services that have the potential to impair or appear to impair the independence of their audit role.
- **Permissible (subject to approval limits) –** services which primarily relate to work that is outside the required scope of the statutory audit, but is consistent with the role of the external statutory auditor.
- **Services to be considered on case-by-case basis –** all other services of an advisory or other nature that do not compromise the independence of the external auditor.

In any event, within each of the Group's legal entities, the cumulative total of non-audit fees paid to the external auditors within each financial year must not exceed 70% of the average audit fee for the last three financial years. The above policy has been adhered to throughout the financial year ended 30 June 2019, during which no non-audit services were provided by the Group's external auditor, other than an interim review which is closely related to the audit.

Following the publication of the FRC's revised ethical standard in December 2019, the Committee reviewed and updated the Group's policy on non-audit services. These changes were not material, and primarily related to greater detail and clarity on the types of services included in the permissible category. The updated policy was approved at the March 2020 Committee meeting and will apply from the beginning of FY21.

Independence safeguards

The external auditor is required periodically to assess whether, in its professional opinion, it is independent and those views are shared with the Audit Committee. The Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditor independence. No such advice has been required to date. There are no contractual obligations in place that restrict the choice of statutory auditor.

KPMG LLP was appointed while the Group was under private ownership and has served the DFS business for more than 20 years. The engagement partner has rotated regularly during this time, with the current partner, Frances Simpson, assuming this role for the first time in the current financial year. Following the Company becoming a public listed entity in 2015, KPMG LLP may remain as external auditor without re-tender for ten years from that date, until the completion of the 2025 annual audit.

In last year's Annual report the Committee announced that it would conduct a tender process for the external audit during the course of FY20, with a view to appointing a firm for FY21, to address the risk that an earlier re-tender may be required should the Company enter the FTSE 350 index. Invitations to tender were duly issued to a number of selected firms, and detailed plans were established for the process with significant activity scheduled for March and April 2020. The emergence of the Covid-19 pandemic in the UK at that time prevented the completion of these activities in line with the intended approach and consequently, in line with FRC guidance, the Committee decided to pause the tender process.

It remains the Group's intention to complete a tender process ahead of the regulatory requirement to do so in 2025 in order to ensure a managed and ordered approach. Provided the public health environment permits, the tender process will be conducted during FY21 with the aim of appointing a firm for the FY22 financial year at the November 2021 Annual General Meeting.

Independence assessment by the Audit Committee

The Committee is satisfied that the independence of the external auditor is not impaired and notes that the audit firm's engagement partner rotation policy has been complied with. Furthermore, the level of fees paid for non-audit services, details of which are set out in note 3 to the financial statements, does not jeopardise its independence.

The Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of KPMG LLP as auditor until the AGM in 2021. As noted above, a tender process will be conducted during FY21.

Internal audit

Following its restructure during FY19 as noted in last year's report, the Group's Internal Audit and Risk function has continued to make strong progress. An updated methodology, aligned with CIIA standards, has been established and consistently applied to all internal audits with the scoring and weighting definitions amended to allow consistency across the Group's brands.

The Group has also invested in significant training and development to support the effectiveness of the internal audit function, and has successfully developed its own internal risk management tool to capture and assess risks across each brand. The Group is committed to seeking further development and innovation in its approach to risk management, and moving forward into FY21 will place an increased emphasis in particular on sharing of best practice and wider use of data analytics.

The scope and focus of the Group's internal audit plan continues to be informed by the regular formal reviews of the risk register as well as specific business requirements. The full execution of the FY20 plan was inevitably disrupted in the last quarter of the year by the Covid-19 pandemic, but prior to that point a wide ranging programme of work had been completed, including:

- Regulatory areas such as data protection and the Group's FCA regulatory responsibilities for credit broking, including complaints handling; the store environment, particularly in relation to conduct risk and stock management;
- Retail audits in all brands including a review of management and administration controls, stock management and regulatory compliance;
- Support for a full DFS brand stocktake and review of associated controls;
- Key head office functions including tax compliance and accounts payable;
- Customer Distribution Centres, with a particular focus on stock management;
- Group-wide key risk areas including whistleblowing policies and fraud risk; and
- Update of business continuity plans in early FY20, which were then subject to independent external review.

In addition, an external cyber audit was completed in FY20. This review identified areas where the Group could strengthen its approach and a dedicated cyber working group was subsequently established to progress these actions through FY20 and FY21.

Following the restart of business activities on the easing of Covid-19 restrictions, the internal audit team undertook a comprehensive audit assurance programme designed to verify the level of adherence with our Covid-19 measures at every site within our retail and distribution network. Site visits were completed by a combination of physical and virtual means, utilising video to check evidence where appropriate. Weekly reporting was issued to all stakeholders confirming a very high compliance with our Covid-19 safety measures, and remediation plans were put in place at the few sites where gaps were identified, with all return visits confirming significant improvements. In order to limit visitors to our production sites, a similar cycle of support and checks at all our manufacturing sites was conducted by the Production Health and Safety Manager.

Summarised reporting of internal audit results is provided to the Governance Risk and Compliance committee on a monthly basis and also at each Audit Committee meeting, together with summaries of themes emerging from the results and overall risk profile across the business.

The effectiveness of the internal audit team, and its level of resource, is reviewed by the Committee at least annually. This assessment includes the ongoing review of the:

- Audit agenda and operational plans (including resource requirements);
- Results of the audit fieldwork and any significant issues highlighted; and
- Management of any corrective actions implemented.

Internal control and risk management

The Board is responsible for the overall system of internal controls for the Group and for reviewing its effectiveness. In accordance with FRC guidance, it carries out such a review at least annually, covering all material controls including financial, operational and compliance controls and risk management systems.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has operating policies and controls in place covering a range of issues including financial reporting, capital expenditure, business continuity and information technology, including cyber security, and appropriate employee policies. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements.

In particular, a Governance, Risk and Compliance committee comprising senior management meets monthly to review changes in the regulatory/legal landscape, the Group's key risks and concerns and also ensures the sub-committee framework is working effectively.

There are a number of governance sub-committees that focus separately on: Conduct Risk; Environmental, Social and Governance; Health and Safety; and Legal and Financial. These comprise senior and middle management responsible for the 'day to day' management of the controls to ensure the Group remains both compliant and proactively reviews its processes, risks and forthcoming changes to ensure it plans in a timely, structured and sustainable way.

The Governance, Risk and Compliance committee places emphasis on key metrics and management information designed to provide oversight of performance and highlight any potential detriment or risk to the Group while seeking to achieve the very best customer outcomes and provide a safe environment for staff, customers and data alike. During the year, this management information has continued to be developed and refined in direct association with the ongoing review of the risk register.

The Board is ultimately responsible for the Group's system of internal controls and risk management and discharges its duties in this area by:

- Holding regular Board meetings to consider the matters reserved for its consideration;
- Receiving regular management reports which provide an assessment of key risks and controls;
- Scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- Ensuring there is a clear organisational structure with defined responsibilities and levels of authority;
- Ensuring there are documented policies and procedures in place; and
- Scheduling regular Board reviews of financial budgets and forecasts with performance reported to the Board monthly.

In reviewing the effectiveness of the system of internal controls, the Audit Committee will continue to:

- review the risk register compiled and maintained by senior managers within the Group at least bi-annually and question and challenge where necessary;
- regularly review the system of financial and accounting controls; and
- report to the Board on the risk and control culture within the Group.

In respect of the Group's financial reporting, the Finance Department is responsible for preparing the Group financial statements using a well-established process and ensuring that accounting policies are in accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee.

The impact on internal controls of the Covid-19 pandemic and associated changes to business operations has been considered and appopriate modifications made where necessary, for example to accommodate remote working. There have been no changes in the Company's internal control during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal controls and risk management is in place which enables the Company to identify, evaluate and manage key risks and which accords with the guidance published by the FRC. These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 32 to 38.

Whistleblowing

The Group is committed to the highest standards of openness, honesty, integrity and accountability and, as a result, has a whistleblowing policy in place. This policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. Examples include fraud, breakdown in internal controls, misleading customers, bribery, modern slavery, dishonesty, corruption and breaches of data protection or health and safety. An internal audit of the Group's whistleblowing process conducted during FY20 concluded that it was operating effectively and identified some minor areas for improvement.

During the year, there were 26 reports received through the whistleblowing process, all of which were fully investigated and addressed in accordance with the policy.

Control environment

The Board is committed to business integrity, high ethical and moral values and professionalism in all its activities. The Group has policies in place for:

- Anti-bribery;
- Modern slavery;
- Equal opportunities;
- Gifts and entertainment; and
- Share dealing.

In accordance with the obligations under the Reporting on Payment Practices and Performance Regulations 2017, the Company has submitted its bi-annual reports in line with the legislation during the year.

Following an externally-facilitated risk-assessment exercise, the Company has also reviewed its practices and processes in order to ensure that reasonable prevention procedures are in place to prevent the facilitation of tax evasion in line with the new Criminal Finances Act 2017.

The Company's Modern Slavery Statement, which sets out details of the policies in relation to slavery and human trafficking, as well as its due diligence processes with its partners, has been published on the Company's website (www.dfscorporate.co.uk).

The Company has also updated its Tax Strategy Statement, which is published on the Company's website (www.dfscorporate.co.uk) in compliance with its duty under the Finance Act 2016, which sets out details of the Company's attitude to tax planning and tax risk.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on pages 110 and 119. As set out in the Directors' report, the Directors consider the Company's business to be a going concern. The Company's viability statement can be found on page 39.

Jo Boydell
Chair of the Audit Committee
24 September 2020

Nomination Committee report

Ian Durant
Chair of the Nomination Committee

"This year, the Nomination Committee has focused on the appointment of a new Non-Executive Director which will add diversity and experience to the Board."

The role of the Nomination Committee

The Committee makes recommendations to the Board, with the agreed terms of reference, on the appointment of Executive and Non-Executive Directors ensuring the appropriate blend of skills, knowledge and experience.

2020 highlights

- conducted a review of the composition of the Board, based on the skills, knowledge, experience and diversity of the Board and the requirements of our stakeholders
- conducted the search for a new Non-Executive Director, including consideration of candidates, and recommendation to the Board
- appointed the new Senior Independent Non-Executive Director and a new Chair of the Remuneration Committee
- reviewed the pipeline of talent within the Group Leadership Team

The Nomination Committee keeps the composition and performance of the Board under review to ensure that it has the right blend of skills, knowledge, diversity, and experience to remain effective in supporting the Company in its purpose and strategy. I was pleased with the performance of the Board through the extreme and unprecedented challenges of the Covid crisis and the need for agile and timely decision making and actions to protect the business and support the management team.During the year, after Luke Mayhew indicated his intention to step down from the Board as a Non-Executive Director at the AGM in November 2019 a review of the composition of the Board and the skills, independence and experience of the Non-Executive Directors' was undertaken and a Board succession plan developed.

As a result of that review Alison Hutchinson was appointed the Senior Independent Non-Executive Director with effect from 26 September 2019.

Following an externally facilitated search, Jane Bednall was appointed to the Board as a Non-Executive Director in January 2020. Jane brings a wealth of relevant retail and marketing experience, including digital marketing in both listed company and private equity owned businesses. Jane has settled in well and we welcome her contribution.

Due to her increased responsibilities as Senior Independent Director, Alison Hutchinson stepped down as Chair of the Remuneration Committee on 17 January 2020, and Steve Johnson was appointed Chair of the Remuneration Committee.

We are committed to having a diverse Board, in all respects, to reflect the customers we serve. We consider the Parker review and the Hampton-Alexander review when making appointments to the Board and I can report we currently have three female directors from a Board of seven directors, a 43% female representation.

This year the annual Board evaluation was conducted internally and discussed by the Nomination Committee. The performance of the Nomination Committee was reviewed, and I am pleased to report that the evaluation concluded that the Committee is operating effectively. It is our intention next year to conduct an externally facilitated board evaluation in line with the normal triennial cycle.

Composition

The Nomination Committee is chaired by Ian Durant and comprises all the Non-Executive Directors. Alison Hutchinson, Steve Johnson, and Jo Boydell were members throughout the year; Jane Bednall was appointed to the Committee in January when she joined the Board. Luke Mayhew stepped down from the Committee when he retired from the Board on 14 November 2019.

The UK Corporate Governance Code ("the Code") recommends that a majority of the Nomination Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Board considers that the Company complies with the Code.

Only members of the Committee have the right to attend Committee meetings, but the Committee may invite others, including the Chief Executive Officer, the Chief Financial Officer and the Chief People Officer as well as its external advisers, to attend all or part of any meeting if it is appropriate or necessary or pursuant to the terms of any agreement with shareholders.

The Nomination Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least once a year.

Roles and responsibilities

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and its committees (including an appraisal of skills, knowledge, experience, and diversity) and for making recommendations to the Board regarding any changes. It is also responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Committee's terms of reference are available on the Company's corporate website at www.dfscorporate.co.uk.

Activities of the Nomination Committee

The Nomination Committee met formally once during the year, with additional ad hoc meetings being held to provide updates on the changes to the composition of the Board Committees and the associated recruitment processes.

The Committee focused its activities on the appointments of the new Independent Non-Executive Director and the Senior Independent Director. The main activities of the Committee included:

- conducting the search and selection process, and engaging the services of Spencer Stuart for the appointment of Jane Bednall as an Independent Non-Executive Director from 1 January 2020 and the Designated Non-Executive Director from 1 July 2020;
- the ongoing review of the talent and succession planning for the Board and Group Leadership Team including assessment of their training and development needs;
- the internal review of the Committee's effectiveness;
- a review of Directors' time commitments and independence; and
- the consideration of the re-election of Directors at the Annual General Meeting.

Board appointments

The Nomination Committee was advised by Spencer Stuart with regards to the appointment of the new Non-Executive Director. A detailed brief was developed based on an assessment of the strategy for the business, including the likely challenges and opportunities in the years ahead, as well as defining the best cultural fit for success.

Several potential candidates were considered from which a short-list was prepared and subsequently met by members of the Nomination Committee.

The Committee felt that given Jane's strong background in marketing and in particular her experience in the digital marketing arena, as well as her commercial background working with several large customer-facing UK businesses and her prior experience as the Designated Non-Executive Director for EI Group PLC, she would be a welcome addition to the Board.

The Committee subsequently recommended the appointment of Jane Bednall as an Independent Non-Executive Director to the Board, which approved her appointment in December 2019.

All new Directors are subject to an in-depth and tailored induction process. Jane Bednall had commenced her induction and had met several members of the Group Leadership team, as well as the Company's financial advisors, legal advisors and brokers, when due to Covid-19 the remainder of her induction plan was required to be put on hold. Jane recommenced her formal induction into the Company and has visited several showrooms, and factories across the Group, once the lockdown period had come to an end.

Diversity

The Board and Group Leadership Team believe that increasing the diversity of colleagues and operational teams is an important component in delivering the Group's strategy. This is most evident in its support for gender diversity, having committed to a programme to encourage a higher proportion of female appointments across the business, subject always to there being a sufficiently experienced candidate for a specific role.

Whilst the Board has not committed to any specific diversity targets, we are pleased that our Board continues to reflect a good gender split and that our female directors play key roles within the Board.

We will continue to give due consideration to talent, retail and technology experience, and cognitive, gender and ethnic diversity when making new appointments to the Board.

Ian Durant
Chair of the Nomination Committee
24 September 2020

Directors' remuneration report

Steve Johnson
Chair of the Remuneration Committee
24 September 2020

"The Committee aims to ensure that our remuneration strategy supports the delivery of the Group's long-term strategy and ensures that the pay framework is appropriately flexible to act in shareholders' best interests to attract, retain and motivate our senior executives even in the most challenging and unpredictable circumstances."

The role of the Remuneration Committee

The primary responsibilities of the Committee remain the oversight of the Group's Remuneration Policy, making recommendations to the Board on the remuneration of the Executive Directors and the Chairman of the Board and oversight of the remuneration arrangements for the Group Leadership Team.

Key activities during FY20

- Reviewed and determined for the Executive Directors and Group Leadership Team:
  - Salary levels for FY21;
  - Outcomes vs. performance targets for outstanding LTIP awards;
  - Due to the impact of Covid-19 on trading, the Committee reviewed the Executive Directors annual bonus outcome and applied downward discretion resulting in no bonus payment for FY20; and
  - Performance targets and participation levels for the FY21 annual bonus and 2019 LTIP award
- Responding appropriately to the Covid-19 pandemic
- Considered developments in executive pay and corporate governance

Contents of this report

Part A: Annual statement by the Remuneration Committee Chair

Dear Shareholder,

On behalf of the Board, I am pleased to present this year's Remuneration Committee report. This report is my first as Chair of the Committee, having joined the Board and the Committee in December 2018 and succeeded Alison Hutchinson as Chair of the Committee in January 2020. I thank Alison for her support during the transition of responsibilities. During FY20, Luke Mayhew stepped down from the Committee following his retirement from the Board and we were pleased to welcome Jane Bednall as a new member from January 2020. Jane also joined the Remuneration Committee on her appointment to the Board.

The Remuneration Report provides a comprehensive picture of the structure of our remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the decisions made by the Committee as a result of business performance for this year and the intended arrangements for FY21.

The Committee is committed to ensuring that our remuneration framework supports our strategy and provides a balance between motivating and challenging our Executive Directors and Group Leadership Team to focus on our strategy and to deliver our business priorities.

This year has been overshadowed by the impact of the global pandemic on our business. Having begun the second half of the financial year in a reasonably strong position, the Group's second half financial performance was severely impacted by the imposition of lockdown which prevented the Group from delivering to our customers for most of the final quarter of the year. As we only recognise revenues when an order is delivered to the customer, this resulted in a significant reduction in revenue for FY20 and a resulting loss before tax. Further details of the financial and strategic performance of the business are given in the CEO Report and Financial Review.

The Committee's agenda for the year was another full one as we assessed year end outcomes and approved new awards, measures and targets under the Annual Bonus scheme and Long-Term Incentive Plan ("LTIP"). This was carried out in the context of a difficult retail trading landscape and the impact of global pandemic as noted above.

Given the economic challenges the retail sector is facing, the Committee agreed it would be appropriate to simplify the Executive Directors' annual bonus and create a focus on consistent financial performance throughout the year. Performance conditions were therefore reviewed and for FY21 performance will be measured against underlying EBITDA (70% of the annual bonus) and personalised strategic measures (30% of the annual bonus).

Our Remuneration Policy continues to provide appropriate flexibility, ensuring that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders. The Committee has the ability to apply malus, clawback and responsible application of discretion to override formulaic outcomes of the incentive schemes to ensure that pay outcomes are appropriate in the wider business and economic context. The Committee is firmly of the view that, in the current and likely future environment, its ability to exercise discretion across the remuneration framework is a critical tool for the good governance of the business and is in the best interests of all stakeholders.

Covid-19 impact on remuneration

This year the Committee has taken discretionary action in a number of areas due to the impact of Covid-19. The table below summarises the key components of remuneration that have been impacted and the decisions made by the Committee.

Element of remuneration	Committee decision	Rationale
2020 salary levels	To cancel 2020 salary increases for Executive Directors. In May 2020, the Directors voluntarily took a 20% reduction in pay which remained in place until the financial year end, and after the business had fully re-opened. The salary forgone will not be repaid. The senior management team also took a voluntary 20% reduction in pay for the month of May, aligning them with employees who had been furloughed and returned to work in late-May and early-June.	• As stated in the 2019 Directors' Remuneration Report, it was intended that Tim Stacey's salary increase to £420,000 and Mike Schmidt's salary increase to £306,000 (2% in line with the wider workforce) in April 2020. • However, due to the pandemic the Committee cancelled the annual salary review for the workforce to preserve cash. These increases were therefore not implemented. • Directors determined that they should temporarily reduce their pay by 20% in line with those workers who had been furloughed.
2020 bonus	To exercise downward discretion and not make any payments to Executive Directors.	• The impact of the pandemic on the financial results of the business has rendered the assessment of financial targets irrelevant. • Performance against the non-financial conditions (the NPS target and the personal objectives), have been achieved, in full or in part, and a bonus payment would ordinarily be due to the Executive Directors. • However, the Committee concluded that, given the overall financial performance it would be inappropriate to award any bonus. In consultation with the Executive Directors, the Committee therefore exercised its discretion and no bonus payments were made to the Executive Directors.
2017 LTIP vesting	The 2017 LTIP award will lapse in full in November 2020.	• The Committee set stretching targets for the EPS growth measure which were not met. • Prior to March 2019 the 2017 LTIP had been on track to partially vest in respect of the relative TSR measures. • However, the TSR measure has been severely impacted as several of the comparator retailers were able to continue operating, resulting in a disparity of share price performance over the period. • Given the negative impact of the dividend cancellation and share price performance on shareholders during this period, the Committee decided not to exercise its discretion on this occasion. • This decision will impact both current and previous employees including the current CEO who fully agreed that in the current difficult circumstances this was the correct course of action for the Committee to take.
2020 LTIP (granted in FY21)	The Committee has determined to make a grant on the normal timetable. Targets for the EPS and TSR condition will be set within 6 months from grant when the market has stabilised.	• For the 2021 LTIP grant, performance will be based on at least 50% EPS and 50% relative TSR measures (against the FTSE 250 excl. investment trust and FTSE 350 General Retailers). • However, at the present time, the Committee does not feel able to robustly set three-year EPS and TSR targets given the significant uncertainty in the wider economic environment. • Therefore, the Committee's intention is to set the targets within six months of the 2021 LTIP award being granted (in line with IA guidelines) when the market has stabilised. • Likewise, the Committee will consider the most appropriate weighting between TSR peer groups within six months when the market has stabilised.

Although it has been a difficult year, I feel confident that the Group will emerge stronger from the challenges it has been confronted by and I would like to thank the Executive Directors for their positive approach to the decisions the Committee has had to take in relation to all aspects of the remuneration outcomes. I look forward to working with them to ensure that our remuneration strategy remains flexible and realistic, aligned with our values and culture, and rewards our Executives and the senior management team appropriately.

The decisions taken this year demonstrate the value of the discretionary powers available to the Remuneration Committee in ensuring an equitable outcome for both shareholders and the business. We intend to continue to use these powers to ensure the best outcomes for all stakeholders in this continuing uncertain world.

I thank my fellow Committee members for their valuable contribution and support during a year that has seen some unprecedented challenges for the Group. As always, I welcome any comments or questions from shareholders.

Remuneration for FY21

In FY21 we will continue to operate our remuneration arrangements in line with the Policy approved at the 2018 AGM by our shareholders.

Remuneration arrangements for the CEO, Tim Stacey

As stated in the 2018 Directors' Remuneration Report, we set Tim's salary at a lower level compared to his predecessor but with the intention to increase it to £440,000 p.a. on a stepped basis over a two-year period subject to corporate performance being deemed satisfactory by the Board. We also stated that our intention is to increase the maximum annual bonus opportunity from 100% to 120% of salary in steps over 2 years. However, as set out above, due to the pandemic, the Committee determined to postpone the first step of this increase in April 2020.

The Board was satisfied that under Tim's leadership the Group has delivered solid trading performance and made good progress towards executing our long-term growth strategy. Therefore, after a review of Tim's performance over the year and through the recent crisis the Committee believes that it is appropriate to increase Tim's salary to £440,000 as originally envisaged. This is a 10% increase and will take effect in April 2021 in line with the timing of the salary review for the workforce. We note the Committee reserves the right to review this position again and it may be subject to change reflecting the shareholder experience and challenging external environment.

It should be noted that pension contributions to Tim are fixed and increases to salary over time will be non-pensionable. The Committee will review pension levels for Executive Directors as part of the next policy review to ensure they are aligned to the wider workforce by the end of 2022.

The Committee intends to increase Tim's annual bonus opportunity to 120% of salary effective from FY21 in line with the original decision. It should also be noted that, as set out in last year's Directors' Remuneration Report, Tim's annual bonus opportunity is now greater than 100% of salary so mandatory bonus deferral into shares for three years will be introduced where the payment is greater than 75% of salary in line with policy.

Base salary	£440,000 p.a.
Pension	£50,000 p.a. (fixed amount) less employer's NIC where taken as cash
Annual bonus	120% of salary
LTIP	150% of salary
Shareholding requirement	250% of salary

Remuneration arrangements the CFO, Mike Schmidt

As set out above, the intended 2% increase to Mike's salary in April 2020 was not implemented due to the financial impact of the pandemic. After a review of Mike's performance over the year and through the recent crisis where he led the successful debt and equity raising the Committee believes that it is appropriate to increase Mike's salary to £330,000. This is a 10% increase on his current salary and will take effect in April 2021 in line with the timing of the salary review for the workforce. Future increases to Mike's salary will be considered against appropriate external benchmarks and in light of his personal performance.

Mike's annual bonus opportunity will be 110% of salary. As the annual bonus opportunity is now greater than 100% of salary mandatory bonus deferral into shares for three years will be introduced where the payment is greater than 75% of salary.

As reported in 2019, Mike's pension contribution level was frozen at the level he received in his previous role. Future increases to salary will be non-pensionable and over time Mike's pension contribution as a percentage of his salary will continue to reduce (Mike's pension of £29,250 p.a. is currently equal to 9.8% of salary, this will lower to 8.8% of salary following his salary increase in April 2021). The Committee will review pension levels for Executive Directors as part of the next policy review to ensure they are aligned to the wider workforce by the end of 2022.

Base salary	£330,000 p.a.
Pension	£29,250 p.a. (fixed amount) less employer's NIC where taken as cash
Annual bonus	110% of salary
LTIP	120% of salary
Shareholding requirement	250% of salary

In relation to the performance measures for annual bonus and LTIP awards for FY20, our approach is described on pages 93 and 94.

Our compliance with the 2018 UK Corporate Governance Code ("the Code")

Key Remuneration Element of the 2018 Code	How is this considered within DFS's remuneration framework?
Five-year period between the date of grant and realisation for equity incentives	• The LTIP has a five-year period including the performance and holding period.
Phased release of equity awards	• The LTIP ensures the phased release of equity awards through annual rolling grants.
Discretion to override formulaic outcomes for bonus and LTIP awards	• The Policy contains the ability to override formulaic outcomes and apply discretion where deemed necessary.
Post-cessation shareholding requirement	• We have implemented a minimum shareholding requirement to include a two-year post-cessation shareholding requirement.
Pension alignment	• Pension contributions have been frozen for the most recent appointment to the Board (as discussed above). • The Committee will review pension levels for Executive Directors as part of the upcoming policy review to ensure they are aligned to the wider workforce by the end of 2022.
Extended malus and clawback provisions	• The current malus and clawback provisions reflect requirements of the Code and best practice.
Effective engagement with workforce	• We have appointed a Designated Non-Executive Director (Jane Bednall) who will attend the Employee Voice Forums and engage with the workforce.

Wider workforce considerations

DFS have always believed that the people in our business are fundamental to its success. We are committed to creating an inclusive working environment for all our staff and to rewarding our employees in a fair manner. In this year's report, on pages 98 to 100 we have included some further information on our employee value proposition, our evolving diversity and inclusion policies and accomplishments towards fostering an inclusive and engaging working environment. We are also reporting our CEO pay ratio for the first time this year, see page 100 for further details.

This year the Group continued to develop the role of the Employee Voice Forum. The Employee Voice Forum representatives did an excellent job of voicing their ideas and their colleagues' feedback. Going forward the Employee Voice Forum will continue to play a key role in enabling the Non-Executive Directors to understand the views of our colleagues.

In order to provide further momentum, we have decided to appoint a Designated Non-Executive Director as recommended by the Corporate Governance Code. Jane Bednall has taken on this role from 1 July 2020.

In the coming year I, along with the Designated Non-Executive Director and other Board members, will attend Employee Voice Forums and we will seek to understand the views of our employees across the Group. The Committee will continue to seek to use the feedback received from these meetings as a valuable insight when making wider remuneration decisions, including those relating to the reward principles and Executive Director remuneration.

Committee performance

The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board has confidence in the quality of the Committee's work.

Looking forward

The Committee remains focused on ensuring that we implement the Policy so that it retains and motivates a talented senior leadership team to deliver the business strategy and create sustainable value for shareholders. During the year the Committee will be focused on the review of the Remuneration Policy and will be seeking to work with our investors to develop a policy in line with our culture and values and aligned to our business strategy. A proposal will be put to shareholders at the 2021 Annual General Meeting for approval.

We trust that the information set out in this report provides you with what you need to be able to support the advisory resolution to be put to shareholders on this remuneration report at the Company's AGM on 13 November 2020.

If you would like to discuss any aspect of this Remuneration Report, I would be very happy to hear from you. You can contact me through the Company Secretary, Liz McDonald. I will also be available at the Company's 2020 AGM to answer any questions in relation to this Remuneration Report.

Steve Johnson
Chair of the Remuneration Committee
23 September 2020

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the 2018 Corporate Governance Code and the Listing Rules.

AGM Shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Annual Report on Remuneration (2019 AGM)	175,603,649	5,012,061	50,972
	97.23%	2.77%	–
Approve Policy (2018 AGM)	166,426,128	4,252,410	396
	97.51%	2.49%	–

Part B: Remuneration in FY20 – at a glance

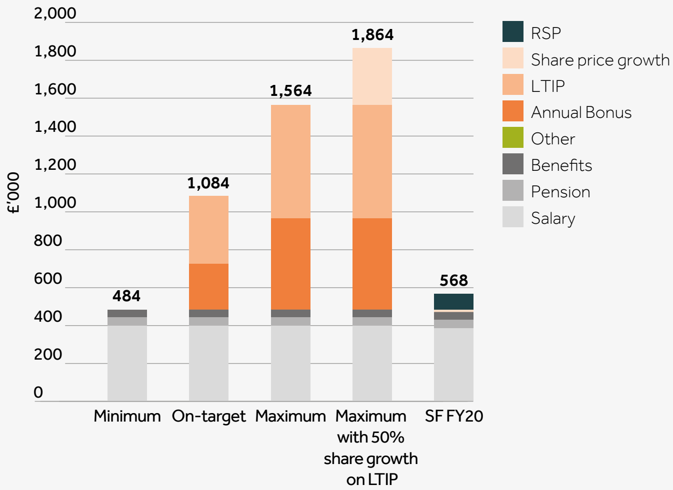
This section briefly highlights performance and remuneration outcomes for FY20, and our approach for FY21. More detail can be found on pages 100 to 105. Full details of the Policy which was approved by shareholders at the 2018 AGM can be found on www.dfscorporate.co.uk.

The 'At a Glance' section contains a summary of the remuneration for Tim Stacey (CEO) and Mike Schmidt (CFO).

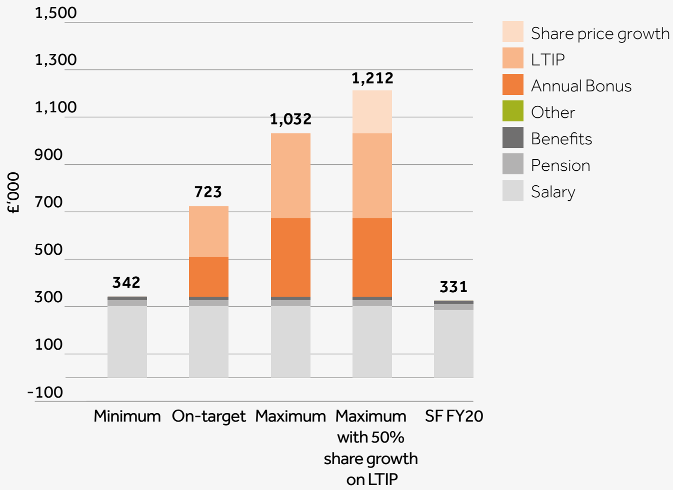
FY20 Single Figure outcomes and our Policy

The graphs below illustrate the CEO and CFO's FY20 single figure outcome as compared to the Policy approved by shareholders in December 2018. The full explanatory notes for each element of remuneration are detailed on pages 92 to 94 in the Annual Report on Remuneration.

CEO



CFO



Notes:

- Minimum pay is fixed pay only (i.e. salary + benefits + pension).
- On-target pay includes fixed pay, 50% of the maximum bonus (equal to 60% of salary for the CEO and 55% of salary for the CFO) and 60% vesting of the LTIP awards (with grant levels of 150% of salary for the CEO and 120% of salary for the CFO).
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards.
- Maximum with 50% share growth shows the maximum scenario with 50% share price growth on the LTIP award over the vesting period.
- All amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying at 1 July 2020. The value of taxable benefits is the cost of providing those benefits in the year ended 28 June 2020. The Executive Directors are also permitted to participate in HMRC tax advantaged all-employee share plans, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Annual bonus FY20 outturn

The annual bonus targets and outcomes for FY20 are based on the financial year up to year ended 28 June 2020 (as described on page 101 of this annual report). When assessing the non-financial elements of the Annual Bonus, the NPS target was achieved in full and the personal objectives had been completed in full or in part prior to lockdown, on which an element of the bonus payment would ordinarily have been due to the Executive Directors. However, the Committee concluded that, given the overall financial performance and the impact on shareholders due to the cancellation of the dividend, it would be inappropriate to award any bonus to the Executive Directors. In consultation with the Executive Directors, the Committee therefore exercised its discretion to override the formulaic outcome and no bonus payments were made to the Executive Directors.

2017 LTIP award vesting in 2020

The chart shows the outcome of the 2017 LTIP awards, for which the performance period ended on 28 June 2020.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Earning per share	50%	4% p.a.	10% p.a.	0%	0%
TSR vs FTSE 250 index*	25%	Index	Index + 10% p.a.	-0.97% below index	0%
TSR vs FTSE 350 retail index	25%	Index	Index + 10% p.a.	-0.35% below index	0%
Total	100%				0%

* Excluding Investment Trusts

The resultant vesting of LTIPs is set out in the table below:

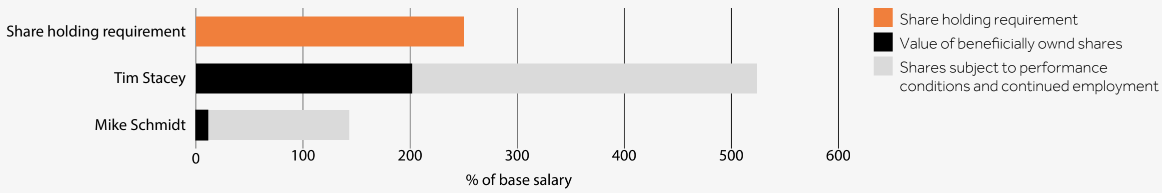
	Number of shares granted	Award vesting (% max)	Number of shares vesting	Value of shares vesting	Value attributable to share price movement	Value of dividend equivalents due	Value of resultant award
CEO	125,000	0%	0	0	0	0	0

Level of shareholdings

Below we present a summary of the level of shareholding for the CEO, Tim Stacey and CFO, Mike Schmidt. In this summary, we have illustrated the current share interests of the Executive Directors, taking into account shares which are owned outright or vested, shares which are unvested and shares which remain subject to performance.

The shareholding requirement is 250% of salary and must be built up over a five-year period and then subsequently maintained. As noted earlier, a post-cessation shareholding requirement has been implemented.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 104. At the year end the value of the CEO's shares equalled 202% of salary, and the CFO's share equalled 11% of salary, based on a closing share price of £1.69 as at 28 June 2020.



Notes:
(i) Beneficial interests include shares held directly or indirectly by connected persons.
(ii) Represents 2017, 2018 and 2019 LTIP shares and remaining 2017 RSP shares, which are subject to ongoing performance conditions for Tim Stacey. Represents 2018 and 2019 LTIP shares and remaining 2017 and 2018 RSP shares, which are not subject to performance conditions for Mike Schmidt.
(ii) Shareholding requirement calculation is based on the share price at the end of the year (£1.69 at 28 June 2020).

Part C: DFS's remuneration philosophy

Our values underpin our pay and recognition policies across the organisation and the remuneration principles which are supported in our Directors' Remuneration Policy.

Our values underpin our pay and recognition policies across the organisation and the remuneration principles which are supported in our Directors' Remuneration Policy.

THINK CUSTOMER

BE REAL

AIM HIGH

Our goal is to attract, retain and develop the best people, who do what they love, and in return for them to be rewarded fairly

Our Remuneration Policy principles are designed to help us achieve our goal

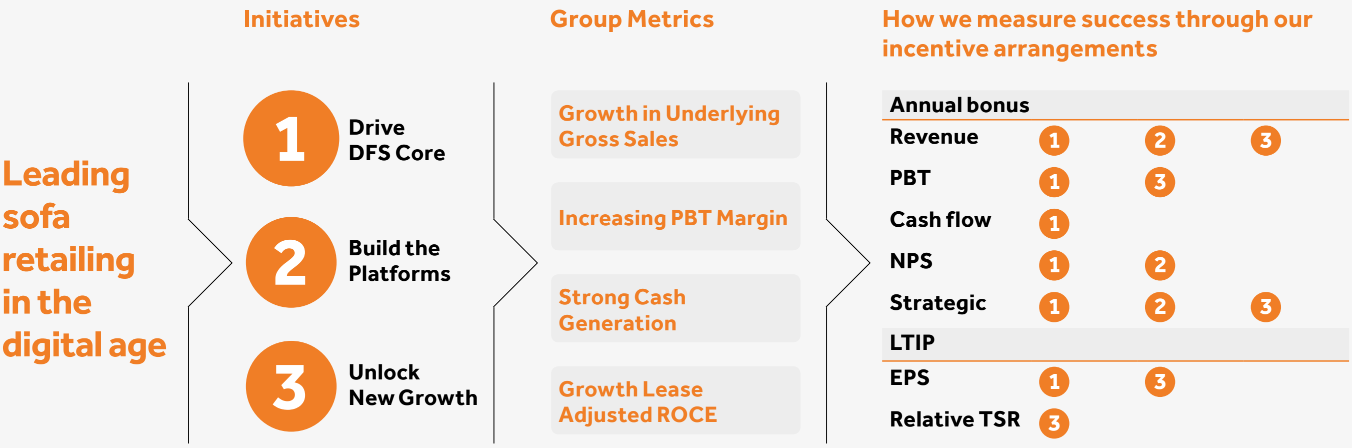
Attract, motivate and retain Executives and Senior Management in order to deliver the company's strategic gaols and business outputs.	Encourage and support a high-performance sales and service culture ensuring good customer outcomes.	Reward delivery of the Group's business plan and key strategic goals.	Adhere to the principles of good corporate governance and appropriate risk management.	Align employees with the interests of shareholders and other encourage widespread equity ownership amongst the Group.

The following section sets out details on the application of our Policy.

Part D: Summary of the Remuneration Policy and alignment to business strategy

DFS's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering our strategy designed to promote the long-term success of the Group.

The Group's focus is to deliver long-term, sustainable growth for shareholders. Our strategy will transform our Group in the medium term by focusing on three interrelated pillars. The Committee is of the view that the performance measures within the annual bonus and LTIP directly relate to delivery against the wider strategy, as shown below.



The table below sets out an overview of the key areas of the approved Policy and summarises how the Committee applied the Policy in FY20, together with details of how the Committee intends to implement the Policy in FY21.

Operation	Maximum Opportunity	Performance measures/ assessment and recovery provisions	Implementation for financial year ended 28 June 2020	Implementation for financial year ending 30 June 2021
Base salary To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group				
Salaries are reviewed annually, and any change will take effect from 1 April.	Annual percentage increases are generally consistent with the range awarded across the Group, unless a higher increase is proposed due to specific circumstances as determined by the Committee.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.	CEO, Tim Stacey: £400,000. CFO Mike Schmidt £300,000. As set out in the Chairman's statement, the intended FY20 increases were cancelled due to the pandemic and a 20% voluntary reduction taken from May-July 2020.	CEO, Tim Stacey: £400,000 to £440,000 (10% increase in April 2021) – see page 87 for further details, this increase will be kept under review. CFO, Mike Schmidt: £300,000 to £330,000 (10% increase April 2021) – see page 87 for further details, this increase will be kept under review.
Benefits To provide competitive benefits and to attract and retain high calibre employees				
Market standard benefits reviewed periodically to ensure market competitive.	Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits.	No performance or recovery provisions apply.	Normal company benefit provision.	No change.

Pension To provide a competitive Company contribution that enables effective retirement planning.				
Contribution to a personal pension scheme or cash allowance in lieu of pension benefits.	The maximum contribution to a personal pension scheme or cash in lieu is equal to £50,000. Pension contributions for new Executive Directors will be reviewed to ensure compliance with corporate governance best practice around alignment with the workforce. Where pension contribution is taken as a salary supplement the amount will be reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the Company from this alternative.	No performance or recovery provisions apply.	CEO, Tim Stacey: £50,000 (fixed) less employer's NIC where taken as cash. CFO, Mike Schmidt £29,500 (fixed) less employer's NIC where taken as cash.	CEO, Tim Stacey: £50,000 (fixed) less employer's NIC where taken as cash. CFO, Mike Schmidt: £29,250 (fixed) less employer's NIC where taken as cash.
Annual Bonus Incentivises the achievement of annual objectives which support the Group's short-term performance goals.				
Bonus awards are granted annually. The performance period is one financial year with pay-out determined by the Committee following the year end, based on achievement against a range of financial and non-financial targets.	Maximum awards under the Annual Bonus are up to 120% of salary. Where maximum awards are increased above 100% of salary, then the Committee will determine that bonus deferral shall apply to part of the annual bonus earned. Where deferral applies, bonus payments greater than 75% of salary will be deferred into shares for three years. There will be no payment made for threshold performance. 100% of maximum will be paid for stretch performance. The Committee may award dividend equivalents on those shares to Plan participants to the extent that they vest.	Performance targets and weightings will be set annually based on a range of financial and non-financial measures. Financial targets govern the majority of bonus payments. The Committee retains discretion to adjust targets and weightings in respect of annual bonus awards as required. Malus and clawback provisions apply.	CEO, Tim Stacey 110% of salary. CFO, Mike Schmidt: 100% of salary. Performance conditions: • Revenue (15%) • Profit before tax (25%) • Cash Flow (20%) • Net Promoter Score (20%) • Personal objectives (20%) See page 101 for details of targets and outcomes against them for FY20.	CEO, Tim Stacey: 120% of salary. CFO, Mike Schmidt: 110% of salary. To simplify the annual bonus and create a focus on the Group's financial performance the performance conditions for FY21 have been simplified to the following: • EBITDA (70%) • Personal objective (30%) Targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

Directors' remuneration report continued

Long-term incentive plan Incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders				
Annual grants of performance share awards (LTIP awards). Three year vesting period subject to the achievement of the performance measures. Two year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors. Participants may be entitled to dividend equivalents on LTIP awards that have vested.	Maximum LTIP awards are equal to 150% of base salary. Targets are typically structured as a challenging sliding scale, with no more than 20% of the maximum award vesting for achieving the threshold performance level through to full vesting for substantial out-performance of the threshold.	Awards vest based on performance against challenging targets, aligned with the delivery of the Company's long-term strategy. Performance measures (metric, targets, and weightings) are reviewed annually. Malus and clawback provisions apply.	LTIP award level of 150% of salary granted to Tim Stacey (CEO) and 120 % of salary granted to Mike Schmidt (CFO) with a three year performance period and two year holding period. • Adjusted EPS growth (50%) • TSR relative to FTSE 250 excl. investment trusts (15%) • TSR relative to FTSE 350 General Retailers Index (35%) See below for full details of the LTIP awards granted in the reporting year.	LTIP award level of 150% of salary will be granted to Tim Stacey (CEO), and 120% salary to Mike Schmidt (CFO), with a three year performance period and two year holding period. For the FY21 LTIP grant, performance will be based on at least 50% EPS and 50% relative TSR measures (against the FTSE 250 excl. investment trust and FTSE 350 General Retailers). At the present time, the Committee does not feel able to robustly set three-year EPS and TSR targets given the significant uncertainty in the wider economic environment. Therefore, the Committee's intention is to set the targets within six months of the 2021 LTIP award being granted (in line with IA guidelines) when the market has stabilised. Likewise, the Committee will consider the most appropriate weighting between TSR peer groups within six months when the market has stabilised.
Minimum shareholding requirements To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.				
The Executive Directors are required to build or maintain (as relevant[1]) a minimum shareholding in the Company.	Not applicable.	Not applicable.	250% of salary for Executive Directors to be built up over five years.[1] For FY20 and beyond, the Committee determined that a shareholding requirement would continue to apply for two years post cessation of employment for the Executive Directors.	No change to shareholding requirements for FY21.

1. Executive Directors are not required to purchase shares to satisfy this requirement.

Illustration of the operation of the Policy

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Base salary				
	Pension and benefits				
Bonus	Cash bonus	Where bonus opportunity is increased above 100% of salary, bonus deferral applies if the bonus outcome is greater than 75% of salary (3-year deferral)			
LTIP	Long-term incentive plan (3-year performance period)			2 year-post vesting holding period	

Chairman and Non-Executive Director Fees

Fees for the Chairman and Non-Executive Directors were reviewed in October 2019 and a 2% increase was to be applied to all fees with effect from 1 April 2020. These increases were in line with those awarded to the wider workforce. In March 2020, due to the impact of the Coronavirus pandemic the 2020 pay increase was cancelled for the wider workforce and the Committee agreed that the increase in fees for the Chairman and Non-Executive Directors would also be cancelled. In April, the Committee agreed that to support the Group, and in line with the voluntary decision by the Executive Directors and senior management team, the Chairman and Non-Executive Directors would also take a temporary 20% reduction in their fees for May and June 2020. The senior management team's reduction only applied during May 2020.

The following table sets out the annual fee rates for the Non-Executive Directors as at 28 June 2020:

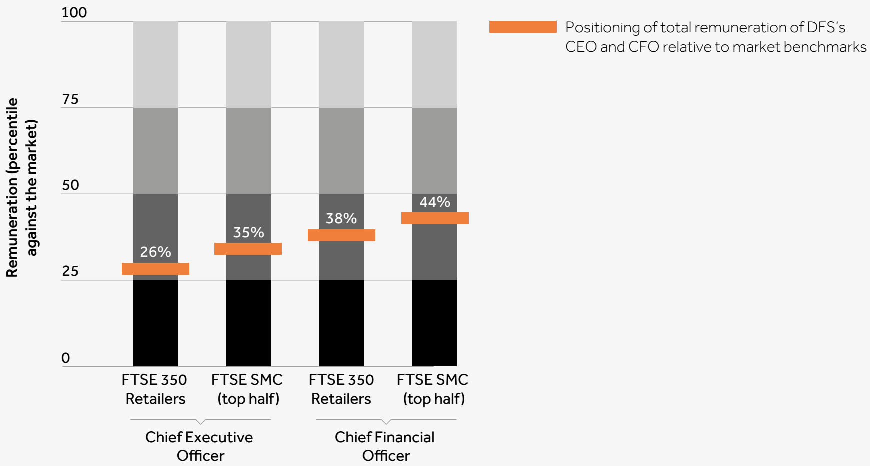
	FY20(i) £	FY19 £	% change
Chairman fee	**184**	184	0%
Senior Independent Director fee	**61**	61	0%
Chair of Audit/ Remuneration Committee fee	**58**	58	0%
Independent Non-Executive Director fee	**51**	51	0%

(i) The Non-Executive Directors, in line with the Executive Directors and senior management, agreed to take a 20% reduction in fees for May and June.
(ii) Non-Executive Director fees will be kept under review for future periods. To the extent there are any increases to fees these will be in line with those awarded to the wider workforce and would be effective no earlier than April 2021.

Pay comparisons

Comparison of Executive Director Policy quantum to our peers

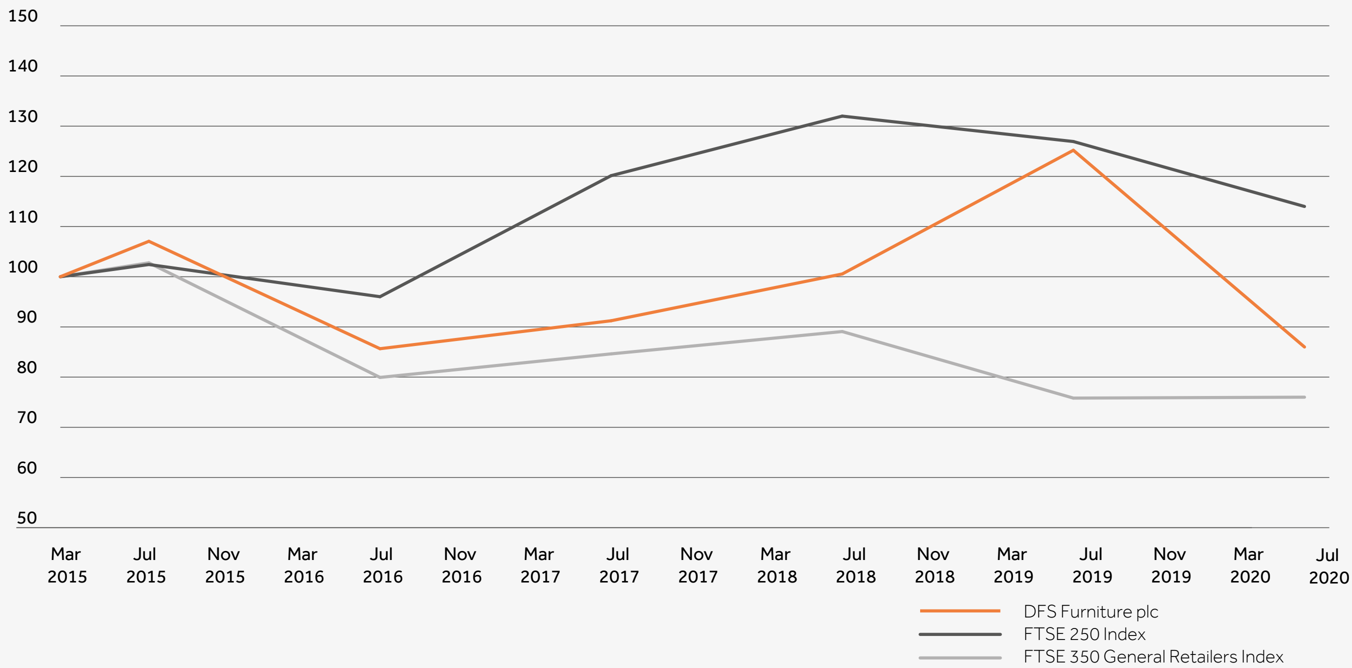
When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant market for talent against which we can compare remuneration levels. We believe the top half of the FTSE SmallCap and FTSE 350 General Retailers are of a similar size and currently represent our key markets for senior executive talent. The following chart shows the relative position of target total remuneration for our CEO and CFO compared to these talent markets.



Directors' remuneration report continued

Remuneration of CEO role versus wider company performance since IPO

The chart below illustrates the Group's Total Shareholder Return performance against the FTSE250 Index and FTSE 350 General Retailers Index since 5 March 2015, the date of IPO, to the end of FY20 (28 June 2020). The peer groups here represent the Company's key markets for investment capital (noting this is distinct from the peer groups used for pay benchmarking above).



The table below indicates the total single figure of remuneration for the CEO since IPO, along with the annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity.

	FY20	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	Tim Stacey	Ian Filby	Ian Filby	Ian Filby	Ian Filby	Ian Filby
Single Figure	**568**	464	374	673	666	804	790
Annual Bonus (% of max)	**0%**	26.2%	32.2%	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**0%**	28.6%	28.6%	0%	0%	n/a	n/a

Notes:
1. Tim Stacey became CEO and Executive Director on 1 November 2018.
2. The Committee applied downward discretion to override the formulaic outcome of the 2020 annual bonus to zero.
3. Tim Stacey's single figure for FY20 includes an award under the DFS Restricted Share Plan which was made to the CEO prior to his appointment as an Executive Director. The award had a value of £97.7k and vested on 16 November 2019.

Percentage change in the Directors' remuneration.

The table below compares the percentage increase in Directors' pay with the wider employee population. The Company considers DFS employees other than those whose remuneration includes piecework or commission, and excluding the Executive Directors, to be an appropriate comparator group.

We note that the 2019 figures used to calculate the % changes below reflect the 11-month financial year. No Directors received a salary or fee increase for FY20.

% change FY19 – FY20		Base salary	Benefits	Annual bonus
CEO	Tim Stacey	2%	41%	-100%
CFO	Mike Schmidt	39%	0%	-100%
	Ian Durant	5%	n/a	n/a
	Jane Bednall	n/a	n/a	n/a
	Jo Boydell	81%	n/a	n/a
	Alison Hutchinson	17%	n/a	n/a
	Steve Johnson	79%	n/a	n/a
Non-Executive Directors	Luke Mayhew	-63%	n/a	n/a
Employee pay		0%	n/a	n/a

Notes:
1. In line with the regulations, this analysis will be extended up to five years in the future.
2. Tim Stacey became the CEO and Executive Director on 1 November 2018. The change in CEO remuneration is Tim Stacey's FY20 remuneration compared to FY19 remuneration which has been calculated by adding together the remuneration paid to Tim Stacy and the previous CEO Ian Filby in respect of the period these individuals were Executive Directors in FY19.
3. Mike Schmidt became the CFO and Executive Director on 11 July 2019. Nicola Bancroft stepped down from the CFO role and the Board in March 2019. The change in CFO remuneration is Mike Schmidt's FY20 remuneration compared to FY19 remuneration for Nicola Bancroft which represents remuneration for only 9 months of the year. We note that Mike Schmidts joining base salary level was the same as his predecessors (£300,000) and he did not receive a salary increase for FY20.
4. No annual bonus was paid to Executive Directors for FY20.
5. Whilst the NED's all took a 20% reduction in their fees in May and June to support the business through the pandemic (see single figure remuneration table for Non-Executive Directors on page 103 for further details), the changes in fees above also represent a number of changes to roles:
   a. Luke Mayhew stepped down from the Board on 15 November 2019.
   b. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019.
   c. Jane Bednall was appointed to the Board on 1 January 2020.
   d. Jo Boydell was appointed to the Board on 6 December 2018 and appointed as Chair of the Audit Committee on 1 April 2019.
   e. Steve Johnson was appointed to the Board and its Committees on 6 December 2018 and appointed as the Chair of the Remuneration Committee on 17 January 2020.
6. With regards to the annual bonus for the wider employee population, payments for targets achieved (for the NPS and personal performance measures) have been withheld until the first half of FY2021 and are subject to achievement of a financial underpin.

Relative Importance of spend on pay

The table below sets out the overall spend on pay for all employees compared with the returns distributed to shareholders.

Significant distributions	2020	2019	% change
Employee remuneration	**£186.5m**	£167.4m	+11.4%
Distributions to shareholders (dividends and share buybacks)	**£17.0m**	£23.8m	-28.6%

Notes:
1. The above figures are taken from notes 4, 21 and 22 to the financial statements.

Part E: Employee value proposition and wider workforce considerations

The Committee oversees remuneration of the Chairman, Executive Directors, and the Group Leadership Team, having regard to pay conditions across the Group. The Committee's focus is on determining the Policy and practices to ensure that the incentives operated by the Company align with its culture and strategy. In line with the Code, the Committee has oversight of wider workforce pay and policies and incentives, which enables it to ensure that the approach to Executive remuneration takes into account the approach to broader workforce pay.

Wider workforce employee value proposition

The Group employs over 5,000 people across the UK, Republic of Ireland, the Netherlands, and Spain. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our people across all parts of the Group. The various factors which make up our "Fair Deal" proposition is set out below.

Area	Details
Pay and benefits	• We have a clear reward philosophy across the Group as highlighted previously • We aim to be the market median payer of remuneration for good individual performance, believing that this approach balances fairness to the employee as well as responsible use of shareholders' funds • Employees can share in our success via bonus schemes and the Sharesave scheme which is available in the UK and Republic of Ireland
Working environment	• We strive to create a positive working environment and promote the right behaviours through evidence of objective decision making, equity of treatment and trust in doing the right things in the right way • Company-wide groups generate positive engagement more broadly with activities such as the #HealthySelfie campaign in the 'Living Well' Workplace group • We launched Workplace by Facebook as an internal communication and engagement tool in 2017, and currently more than 2,300 of our colleagues use it daily to connect teams and support business efficiencies • We also continue to receive external recognition for excellence in employee conditions by the retention of our Top Employer certification from the Top Employers Institute
Development opportunities	• We provided access to development opportunities enabling growth within function or cross-functionally • We have an award-winning apprenticeship programme. To date, 65 young people have successfully completed the programme and now hold permanent positions in the Group in a variety of areas including service upholstery, manufacturing, retail, and administration • We provided access to development opportunities enabling growth within function or cross-functionally • We actively participate in the national development of apprenticeship standards in manufacturing and retail for our industry
Recognition	• We provide monetary and non-monetary recognition • We have visible celebrations of achievements • We have opportunities for peer-led and hierarchical recognition

Cascade of remuneration across the group

The policy described above applies specifically to Executive Directors of the Company. The Committee believed that the structure of management and employee reward at DFS should be linked to DFS's strategy and performance. The table below illustrates how the remuneration framework operates below the Executive Directors.

Level	Employee numbers	Fixed remuneration	Annual bonus or sales commission plans	Restricted share plan	Long-Term incentive plan	Sharesave	Shareholding guidelines
Executive Directors	2	✓	✓		✓	✓	✓
Group Leadership Team	8	✓	✓	✓	✓	✓	
Head of divisions/ functions	c.75	✓	✓	✓		✓	
Managers	c.335	✓	✓	✓		✓	
All employees	c.4,952	✓	✓			✓	

Notes:

1. Manager population may participate in the restricted share plan by invitation.

Oversight of wider workforce pay and policies

In order for the Committee to carry out its oversight review of wider workforce pay and policies and incentives under the Code, the Committee has approved a process by which it will be provided with additional information, in the form of a Workforce Report, to carry out these responsibilities. This is an annual summary setting out the key details of remuneration changes for the senior management and the wider workforce. The Committee appreciates that the level and type of remuneration offered will vary depending on an individual employee's level of seniority, the nature of their role, and the Group brand to which they belong.

The first Committee report is due to be considered by the Committee in FY21. Details of the findings on the alignment of pay across the Group will be communicated to employees and reported on in next year's report.

Consideration of employee views

In setting the policy for Directors, the pay, and conditions of other employees of the Group are taken into account, including any base salary increases awarded. As described above, the Committee will be provided with data on the remuneration structure for management level tiers below the Executive Directors and will use this information to ensure consistency and fairness of approach throughout the Company.

As reported in 2019 DFS set up its Employee Voice Forum in June 2019. Attendees have been chosen from our front-line teams, with representatives from all areas of the Group providing feedback from their areas. In November, the Non-Executive Directors attended the Employee Voice Forum along with the Group People Director and topics covered included executive pay and employee share schemes. Other sessions planned during the year had to be cancelled due to the pandemic and the majority of the representatives being furloughed.

The purpose of these sessions is to understand the views of our employees better and ensure their views are factored in as part of decision making including, where appropriate, decisions on remuneration.

The Employee Voice Forum operates in addition to existing open communication via Workplace, and employee views are sought in an active program of engagement surveys, which are shared with the Board and with the Committee. The results of the surveys and the actions taken by the business are communicated back to employees.

During the year the Board again reviewed how best to engage and communicate with our employees and concluded that in addition to the Employee Voice Forum, a Designated Non-Executive Director would be appointed to enhance our employee engagement arrangements.
Jane Bednall was duly appointed to this role from 1 July 2020.

Gender pay gap reporting and diversity and inclusiveness initiatives

Gender pay gap reporting

The UK Government Equalities Office legislation requires employers with more than 250 employees to disclose information on their gender pay gap annually. The Group is confident our male and female employees receive equal pay for equivalent jobs. We published our gender Pay Gap Reporting for 2019 in April 2020 and it is available online: https://www.dfscorporate.co.uk/media/48485/2019-Group-Gender-Pay-Gap-Narrative-1-.pdf

We recognise that there continues to be a gender pay gap in the business, although the mean and median gaps fell 3.6% and 3.1% respectively in the year. The Group's employee base has an approximate two-thirds male, one-third female split driven mainly by the fact that historically our manufacturing, supply chain and retail business areas have, for various reasons, attracted a predominantly male workforce. Analysis shows that our 14.8% mean and 10.1 % median pay gap is a result of more men in senior positions throughout all business areas. We note that we have no positions in the Group where there is a gender pay gap for men and women performing the same job.

The Group has several initiatives in place to work towards closing the gap. These are part of wider diversity and inclusiveness initiatives, which are described below.

Further information can be found in the Sustainability Report on pages 54 to 55 of this Annual Report.

Inclusivity and diversity

DFS is committed to ensuring that all our employees can thrive and prosper. The Company is committed to addressing the gender pay gap and a number of steps are in place to promote equality and diversity in the workforce as well as prohibiting discrimination in any form:

- We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. Wherever practicable we offer training and make adjustments to ensure disabled employees are not disadvantaged in the workplace
- We are actively working to improve female representation in key business areas with a traditional skew towards men
- We are setting performance targets for a large proportion of the management population to focus on the gender split across all sectors of our business
- We are offering recruitment development workshops for hiring managers with a dedicated section on unconscious bias training
- We are building assessment criteria into our online recruitment processes that remove gender bias
- We have introduced Group wide family friendly policies and increased time off for parents
- We have introduced flexible working and are creating the tools, mechanisms, and environment to offer this to all employees
- An equal split between male and female colleagues on Apprenticeships and Management Training programmes
- The Board is kept aware of progress and initiatives with regards to inclusivity and diversity

CEO Pay ratio

This is the first year in which we are required to disclose the CEO Pay ratio.

The Company has adopted Option B: Gender Pay Gap data, this approach was considered appropriate due to data availability. The Committee will continue to determine the most appropriate methodology (Option A, B or C) to be used each year, by considering the robustness of the calculation methodology as well as the availability of data and operational time constraints.

The relevant employees at each quartile were identified in April 2020, this was as a result of using the Gender Pay Gap data which is calculated for the period covering 5th April 2020.The pay and benefits data for the relevant 25th, 50th and 75th percentile employees is taken from the 12-month period ending in June 2020, financial year FY20. The pay and benefits figure includes:

- all earnings paid through the payroll, e.g. salary, bonus, long term incentives
- the value of the employer pension contributions
- any other taxable benefits, e.g. private medical, company car etc
- no elements of pay were omitted and there was no departure from the single figure methodology

Pay and benefits for the relevant employees have been calculated on a full-time equivalent basis and there was no reliance on estimates.

The lower quartile, median and upper quartile employees were identified from the gender pay gap data where the hourly pay for employees was ranked. A sample of 10 employees pay and benefits either side of the initially identified employees was reviewed to ensure that the appropriate representative employees are selected.

The table below compares the FY20 single total figure of remuneration for the CEO with that of employees who are paid at the 25th, 50th and 75th percentile of the employee population.

FY20 Data: Single Figure Total Remuneration

Year	Method	Measure	CEO	25th percentile	50th percentile	75th percentile
		Pay Ratio		24:1	20:1	16:1
2020	**Option B**	**Salary**	**£386,667**	**£21,850**	**£25,648**	**£30,367**
		Total pay and benefits	**£568,399**	**£23,644**	**£28,740**	**£35,048**

Part F: Annual Report on Remuneration for the Financial Year ended 28 June 2020

Single total figure of remuneration for Executive Directors – audited

The remuneration of Executive Directors showing the breakdown between components with comparative figures for the prior financial year is shown below. Figures provided have been calculated in accordance with the Regulations.

Name	Year	Base salary	Taxable Benefits[1]	Bonus	LTIP	RSP[2]	Pension[5]	Other[6]	Total Fixed	Total Variable	Total
Tim Stacey	**2020**	**387**	**40**	**0**	**0**	**98**	**43**	**0**	**470**	**98**	**568**
	2019	267	21	70	77[4]	–	29	0	317	147	464
Mike Schmidt[3]	**2020**	**289**	**13**	**0**	**0**	**–**	**27**	**2**	**331**	**–**	**331**

Notes:

1. Taxable benefits comprise car, private medical insurance (including cover for spouses and dependents), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses – the value of which has been included in the Taxable Benefits column.
2. This is an award under the DFS Restricted Share Plan that was made to the CEO prior to his appointment as an Executive Director. The award vested on 16 November 2019 and was subject to a share price performance condition. The share price increase attributed to this award is £11,181.
3. As Mike Schmidt was not an Executive Director during 2019, the table only shows his single figure for 2020.
4. The 2016 LTIP award which vested in 2019 for Tim Stacey has been restated using the actual share price on vesting of £2.14 as at 15/11/2019.
5. Where pension contribution is taken as a salary supplement the amount is be reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the company from this alternative.
6. The 'Other' column for Mike Schmidt represents a car allowance supplement.

Incentive outcomes for 2020

Annual bonus outturn for the year – audited

As reported in the Chairs statement the impact of the pandemic on the financial results of the business has rendered the assessment of financial targets irrelevant. When assessing the non-financial elements of the Annual Bonus, the NPS target was achieved in full and the personal objectives had been completed, in full or in part prior to lockdown, on which an element of the bonus payment would ordinarily have been due to the Executive Directors. However, the Committee concluded that, given the overall financial performance and the impact on shareholders due to the cancellation of the dividend, it would be inappropriate to award any bonus to the Executive Directors. In consultation with the Executive Directors, the Committee therefore exercised its discretion and no bonus payments were made to the Executive Directors.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Group revenue	15%	£991.7m	£1,035.5m	£1,059m	0%
Group underlying PBT	25%	£52.1m	£56.6m	£59.0m	0%
Group net debt	20%	£46.2m	£50.2m	£52.4m	0%
Net promoter score	20%		See note above		
Personal objectives	20%		See note above		–
Bonus outcome following discretion (% maximum)					0%
Bonus opportunity for FY20 following discretion (% salary)					0%
Total bonus outcome following discretion (£)					0

LTIP awards vesting in relation to performance in 2019/20 – audited

The 2017 award was granted on 15 November 2017 and was assessed against the performance targets at the end of FY20 (i.e., to 28 June 2020). The final level of vesting of these awards was 0% as set out on in Part B At a glance on page 90 .

However, as set out in the single figure table Tim Stacey received 45,635 shares in relation to his Restricted Share Plan award as granted on 16 November 2017 prior to becoming CEO. This award was subject to a share price performance condition which was met.

LTIP awards granted in FY20 (2019 award)

The CEO, Tim Stacey was granted an award over 248,275 shares, in the form of nil cost options, equivalent to 150% of salary on 25 October 2019 and the CFO, Mike Schmidt was granted an award of 148,965 shares, in the form of a nil cost option, equivalent to 120% of salary on 25 October 2019 (the number of shares granted was based on a share price of £2.42 (which was the average of the closing share price on the three days prior to the grant). The performance period for the 2019 award is from 1 July 2019 and will end 30 June 2022. The performance measures are based on Adjusted EPS and Relative TSR and details are set out below.

For FY20, we applied an absolute range for the EPS measure (50% of the LTIP award) as the Committee felt that it was more appropriate to adopt an absolute range as it gave the clearest line of sight for management and shareholders alike.

As reported in 2019, the Committee confirmed that the comparator groups within the TSR measure would be weighted more heavily towards the UK retail sector as the more relevant group. Therefore, for the 2019 LTIP award, the split between the FTSE 350 General Retailers Index and the FTSE 250 Index (excluding Investment Trusts) was 35:15 (50% of the LTIP award).

Director	Number of shares granted in form of a nil-cost option	Face value of shares at date of grant (£)	Minimum value at vesting (£)
Tim Stacey	248,275	600,000	120,000
Mike Schmidt	148,965	360,000	72,000

(1) Adjusted EPS (50% of the award)

Adjusted EPS will be measured by reference to the reported Adjusted EPS figure for the Financial Year ending in 2022. This portion of the award will vest as follows:

Adjusted EPS for the Financial Year ending in 2022	Percentage of this portion of Award Vesting
Less than 23.5p	Nil
23.5p	20%
28.5p	100%
Between 23.5p and 28.5p	Between 20% and 100% on a straight-line basis

(2) Total Shareholder Return (TSR) (50% of the award)

TSR growth will be measured against two indices: the FTSE 250 Index (excluding investment trusts) and the FTSE 350 General Retailers Index. The performance period for this award commenced at the beginning of the Company's FY20 and shall terminate at the end of the FY22. This portion of the award will vest as follows:

FTSE 250 Index (15% of the award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 250 Index return	Nil
Equal to FTSE 250 Index return	20%
10% p.a. above the FTSE 250 Index return	100%
Between FTSE 250 Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

FTSE 350 General Retailers Index (35% of the award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 350 General Retailers Index return	Nil
Equal to FTSE 350 General Retailers Index return	20%
10% p.a. above the FTSE 350 General Retailers Index return	100%
Between FTSE 350 General Retailers Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

LTIP awards to be granted in FY21 (2020 award)

For the FY 2021 LTIP grant, Executive Directors will be awarded quantum in line with policy. Performance will be based on EPS and relative TSR (against the FTSE 250 index excluding investment trusts and FTSE 350 General Retailers). However, at the present time, the Committee does not feel able to robustly set three-year EPS and TSR targets given the significant uncertainty in the wider economic environment. Therefore, the Committee's intention is to set the targets within six months of the 2020 LTIP award being granted (in line with IA guidelines) when the market has stabilised. Likewise, the Committee will consider the most appropriate weighting between TSR peer groups within six months when the market has stabilised.

SAYE awards – audited

There were no SAYE awards granted to Executive Directors during the year.

Payment to past directors

None

Payment for loss of office

None

Dilution

The Company intends to fund its share incentives through a combination of new issue and market purchased shares. The Company monitors the levels of share grants and the impact of these on the ongoing requirement for shares. In accordance with guidelines set out by the Investment Association ("IA") the Company can issue a maximum of 10% of its issued share capital in a rolling 10-year period to employees under all its share plans.

Single figure remuneration table for Non-Executive Directors – audited

The remuneration of Non-Executive Directors showing the breakdown between components, with comparative figures for the prior year, is shown below. Figures provided have been calculated in accordance with the Regulations.

Director		Fees £'000	Other £'000	Total £'000
Ian Durant	**2020**	**177**	**1**	**178**
	2019	168	–	168
Luke Mayhew	**2020**	**21**	**–**	**21**
	2019	56	–	56
Alison Hutchinson	**2020**	**61**	**–**	**61**
	2019	52	–	52
Jo Boydell	**2020**	**56**	**–**	**56**
	2019	31	–	31
Steve Johnson	**2020**	**52**	**–**	**52**
	2019	29	–	29
Jane Bednall	**2020**	**24**	**–**	**24**

Notes:
1. 2019 figures reflect the 11-month financial year.
2. The NED's all took a 20% reduction in their fees in May and June to support the business through the pandemic.
3. Luke Mayhew stepped down from the Board on 15 November 2019.
4. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019.
5. Jane Bednall was appointed to the Board on 1 January 2020.
6. Steve Johnson was appointed as Chair of the Remuneration Committee on 17 January 2020.
7. Ian Durant other remuneration relates to health insurance benefit in kind.

Shareholding and other interests at 28 June 2020 – audited

Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain (as relevant) a personal shareholding equal to 250% of their base salary in the Company (this applies to existing Executive Directors only) over a five-year period from appointment.

	Shareholding at 28 June 2020			Interests in shares under the LTIP (Conditional shares)				
Director	Number of beneficially owned shares[1]	% of salary held[2]	Shareholding requirement met	Subject to conditions	Not subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 28 June 2020
Tim Stacey[3]	477,208	202%	no	761,449	–	–	–	1,238,657
Mike Schmidt[4]	19,375	11%	no	181,007	54,098	–	–	254,480
Ian Durant	44,666	n/a	n/a	–	–	–	–	46,666
Jane Bednall	13,333	n/a	n/a	–	–	–	–	13,333
Jo Boydell	13,333	n/a	n/a	–	–	–	–	13,333
Alison Hutchinson	13,333	n/a	n/a	–	–	–	–	13,333
Steve Johnson	26,666	n/a	n/a	–	–	–	–	26,666
Luke Mayhew[5]	44,121	n/a	n/a	–	–	–	–	44,121
Total	652,035	–	–	942,456	54,098	–	–	1,635,259

Notes:
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Shareholding requirement calculation is based on the share price at the end of the year (£1.69 at 28 June 2020).
3. Tim Stacey's interests in share, subject to conditions include 106,484 shares under his 2017 RSP award.
4. Mike Schmidt's interests in shares, not subject to conditions, refer to his outstanding 2017 and 2018 RSP awards. The RSP awards were granted to Mike prior to him becoming Executive Director and have no performance conditions attached to them.
5. Luke Mayhew stepped down from the Board on 15 November 2019 the shareholding was correct at that date.

At 21 September 2020 there had been no movement in Directors' shareholdings and share interests from 28 June 2020.

Outstanding share awards

The following share awards remain outstanding as at 28 June 2020 for the Executive Directors (excluding the 2017 LTIP award for which performance has been tested):

Director	Type of award	Date of grant	Number of awards	Award vested	Awards lapsed	Outstanding awards	Market price on date of grant	Norma vesting date
Tim Stacey	2017 LTIP[1]	16/11/17	125,000	–	–	125,000	£1.90	16/11/20
	RSP	16/11/17	106,484	–	–	106,484	£1.90	16/11/20
	2018 LTIP	30/11/18	281,690	–	–	281,690	£2.13	30/11/21
	2019 LTIP	25/10/19	248,275	–	–	248,275	£2.42	25/10/22
Mike Schmidt	2017 RSP[2]	16/11/17	35,789	–	–	35,789	£1.90	16/11/20
	2018 RSP[2]	30/11/18	18,309	–	–	18,309	£2.13	30/11/21
	LTIP	30/11/18	32,042	–	–	32,042	£2.13	30/11/21
	2019 LTIP	25/10/19	148,965	–	–	148,965	£2.42	25/10/22

Notes:
1. The 2017 LTIP award will lapse on 16 November 2020.
2. Mike Schmidt's 2017 and 2018 RSP awards were granted prior to him becoming an Executive Director.

Details of LTIP award performance conditions

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Threshold level vesting	Maximum vesting
2018 LTIP	EPS growth	50%	Reporting underlying EPS	23.0p	28.5p	20%	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	20%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%
2019 LTIP	EPS growth	50%	Reporting underlying EPS	23.5p	28.5p	20%	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	20%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%

Statement of implementation of Policy for the year ending 28 June 2020

See pages 92 to 95.

Matters covered during the Committee's meetings in FY20

As at 28 June 2020, the Committee consisted of the following members:

- Steve Johnson Chair
- Alison Hutchinson
- Jo Boydell
- Jane Bednall

The key matters covered by the Committee during the year are summarised below.

Matter	Sep 19	Dec 19	Mar 20	Jun 20
Approved bonus outcomes for 2019	•			
Approved bonus scorecard for FY20 and monitored interim performance	•		•	•
Signed-off LTIP performance outcomes for 2016 LTIP	•			
Approved LTIP performance targets for 2020 LTIP and monitored performance		•		•
Signed-off Directors Remuneration Report	•			
Review of corporate governance code changes and market practice update			•	
Chair Fee Review	•			
Gender pay reporting and diversity and inclusiveness initiatives			•	
Retail Management and Sale Colleague reward review			•	
The Committee agreed to apply downward discretion to override the formulaic outcome for the bonus outcomes for 2020 for Executive Directors				•
The Committee reviewed and made changes to remuneration for Directors and the senior management team in light of Covid-19				•
Reviewed format for wider workforce remuneration reporting				•

Note:
Details of meeting attendance by Committee members can be found on page 71 of this Annual Report.

Internal and external support for the Committee

The Chairman, the CEO and the CFO attend meetings at the invitation of the committee but are not present when their own remuneration is being discussed. The Company Secretary acts as Secretary to the Committee. The Committee is supported by the Group People Director, Finance and Company Secretariat functions.

The Committee received external advice in FY20 from PwC during the year. The Committee appointed PwC as its advisers after a tender process in July 2015. PwC are considered by the Committee to be objective and independent. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee reviewed the nature of all the services provided during the year by PwC and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to PwC in respect of services to the Committee during the year were £72,387. Fees were determined based on the scope and nature of the projects undertaken for the Committee.

Service Contracts for Executive Directors

When setting notice periods, the Committee has regard to market practice and corporate governance best practice. The table below summarises the service contracts for our Executive Directors.

	Date of contract	Notice period
Tim Stacey	21 May 2018	6 months (Executive) or 12 months (Company)
Mike Schmidt	12 July 2019	6 months (Executive) or 6 months (Company)

All service contracts are available for viewing at the Company's registered office and at the AGM. The Executive Directors may accept outside appointments subject to approval of the Board and provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company. The Executive Directors concerned may retain fees paid for these services.

Letters of appointment for Non-Executive Directors

The Non-Executive Directors do not have service contracts but are appointed under letters of appointment which provide for a review after an initial three-year term terminable by either the Non-Executive Director or the Company with three month's prior written notice.

Each Non-Executive Director is subject to annual re-election at the Company's AGM.

The table below sets out the dates that each Non-Executive Director was first appointed as a Group Director.

	Date of appointment
Ian Durant	2 May 2017
Alison Hutchinson	1 May 2018
Jo Boydell	6 December 2018
Steve Johnson	6 December 2018
Jane Bednall	1 January 2020

For and on behalf of the Committee

Steve Johnson
Chair of the Remuneration Committee
24 September 2020

Directors' report

DFS Furniture plc (the "Company") is a company incorporated and domiciled in the UK, with registration number 07236769. It is the holding company of the DFS Group of companies (the "Group").

The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 52 weeks ended 28 June 2020.

The Company has no overseas subsidiaries but operates branches in the Republic of Ireland, Spain and the Netherlands.

The Directors present their Annual Report and audited financial statements for the 52 weeks ended 28 June 2020, in accordance with section 415 of the Companies Act 2006.

As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 63 as the Board considers them to be of strategic importance as well as some matters contained within the Directors' remuneration report on pages 84 to 105.

Specifically, these matters are:
- Future business developments and our strategy and objectives (contained throughout the Strategic Report);
- Employees, which can be found on pages 52 to 55;
- Risk management on pages 32 to 38;
- Total global Group greenhouse gas emissions for FY20 on page 51;
- The Corporate Governance statement, set out on pages 66 to 75; and
- Information on how the Directors have had regard for the Company's stakeholders and complied with their responsibilities under s172, and the effect of that regard, on pages 60 to 63.

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R.

The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

Board of Directors

The membership of the Board and biographical details of the Directors are provided on pages 64 and 65. Changes to the Directors during the year and up to the date of this report are set out below. Details of Directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 103. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 104. Further information regarding employee share option schemes is provided in note 25 to the financial statements.

The Directors who served during the financial year were as follows:

Director	Position	Service in the year ended 28 June 2020
Ian Durant	Chair	Served throughout the year
Luke Mayhew	Senior Independent Non-Executive Director	Resigned 14 November 2019
Mike Schmidt	Chief Financial Officer	Appointed 11 July 2019
Tim Stacey	Chief Executive Officer	Served throughout the year
Alison Hutchinson	Senior Independent Non-Executive Director	Served throughout the year
Jo Boydell	Independent Non-Executive Director	Served throughout the year
Steve Johnson	Independent Non-Executive Director	Served throughout the year
Jane Bednall	Independent Non-Executive Director	Appointed 1 January 2020

The appointment and replacement of directors is governed by the Company's Articles of Association (the "Articles"), the UK Corporate Governance Code (the "Code"), and the Companies Act 2006 and related legislation. The Articles of Association provide that a Director may be appointed by an ordinary resolution of the shareholders or by the existing directors either to fill a vacancy or as an additional Director. All of the Directors will, in accordance with the Code, retire from office and seek re-election at the Company's Annual General Meeting (the "AGM") on 13 November 2020, with the exception of Jane Bednall who will seek election for the first time.

Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

The Company may, by ordinary resolution, declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends and also any fixed rate dividend whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

Executive Directors' Contracts

The Executive Directors serve under rolling contracts that are terminable upon 6 months' notice from the Company and 12 months' notice from the Executive Director. The Non- Executive Directors are under letters of appointment. Copies of service contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and able to devote sufficient time to discharge their responsibilities.

Directors' interests

Information about the Directors' interests in the Ordinary Shares of the Company on 28 June 2020, or date of appointment if later, and any subsequent changes as at 23 September 2020 is set out in the Directors' remuneration report on pages 103 to 104.

Directors' indemnities and insurance

In accordance with the Companies Act 2006 and the Company's Articles, the Company has purchased and maintains directors' and officers' liability insurance cover which remains in place as at the date of this report. A review is carried out on an annual basis to ensure that the Board remains satisfied that an appropriate level of cover is in place.

Directors' conflicts of interest

The Company has procedures in place for identifying and managing potential and actual conflicts of interest. Should a Director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with any Group company, they should notify the Board in writing or at the next Board meeting. The Board has discretion whether to authorise any such conflicts of interest, in accordance with the Companies Act 2006 and the Company's Articles. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Change of control and significant agreements

The Company is not a party to any significant agreements which take effect, alter, or terminate, solely upon the event of a change of control in the Company following a takeover bid. However, in the event of a change of control of the Company, the Company is obliged to give written notice to its lenders. Each individual lender then has the right to give written notice to the Company to demand early repayment of its outstanding loans to that lender and to cancel that lender's commitments in full.

The Company's share option plans, and its Long-Term Incentive Plan, contain provisions regarding a change of control. Outstanding options and awards may vest on a change of control, subject to the satisfaction of any relevant performance conditions.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Employees

As at the year end the Company employed 5,372 employees (as set out in the gender analysis table on page 55). The Group places considerable value on the involvement of its employees and uses a number of ways to engage with employees on matters that impact them and on the performance of the Group. These include the annual employee engagement survey as well as regular employee business briefings by the Group Leadership Team in the form of "Town Hall" broadcasts across the Group and our Employee Voice Forums at which the Non-Executive Directors meet with employee representatives to discuss key issues.

The Company believes in encouraging employee share ownership and operates an all-employee Save As You Earn Scheme.

Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders.
No amendments are proposed at the 2020 AGM.

Financial Results

The Group's results for the year are set out in the consolidated financial statements on pages 120 to 151. The Company only results of DFS Furniture plc are set out on pages 152 to 156.

Dividends

On 25 March 2020, as part of our update on the impact of Covid-19, the Board of Directors announced its decision to cancel the intended interim ordinary dividend of 3.7 pence per share which had been due to be paid to shareholders on 17 June 2020. This decision was made as part of the proactive steps we have taken to strengthen our balance sheet and maximise liquidity for the likely duration of the crisis. This step preserved close to £8m of cash. The terms of the £70m incremental banking facility obtained in April preclude the payment of dividends at present and the Board has subsequently announced the decision not to pay a final dividend for FY20 and that it does not currently anticipate paying a dividend for FY21. While this was a difficult decision, it was taken to protect the Group during the immediate crisis and throughout the recovery period.

No interim dividend	(last year 3.7p per share)
No proposed final dividend	(last year 7.5p per share)
Total dividend of 0.00p per share for 2019/20	(last year 11.2p per share)

Directors' report continued

Annual General Meeting ('AGM')
The Company's next AGM will take place virtually, at 2.30pm on 13 November 2020 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA, and the Chair of each of the Board's Committees will be available to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM, including the resolutions to be proposed, will be sent to shareholders at least 21 clear days prior to the date of the meeting.

To encourage shareholders to participate in the AGM process, the Company provides electronic proxy voting through the CREST service and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced through the Regulatory News Service and made available on the Company's corporate website.

Share capital
Details of the Company's share capital are set out in note 22 to the consolidated financial statements. In order to maintain liquidity during the year and at the peak of the Covid-19 pandemic, the Company increased the number of issued shares by 42,606,119 and as at 24 September 2020, the Company had an issued share capital of 255,636,720 Ordinary Shares of £1.50 each.

The rights and obligations attached to these shares are governed by UK law and the Company's Articles of Association. Holders of Ordinary Shares of the Company are entitled to participate in authorised dividends and to receive notice and to attend and speak at general meetings. On a show of hands, every shareholder present in person or by proxy (or duly authorised corporate representatives) shall have one vote and, on a poll, every member who is present in person or by proxy shall have one vote for every share held.

Other than the general provisions of the Articles of Association and prevailing legislation, there are no specific restrictions on the size of a holding or on the transfer of the Ordinary Shares. The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority to purchase own shares
At the last AGM of the Company on 14 November 2019, the Company was authorised to purchase a maximum of 10% of the Company's issued share capital. This authority will expire at the close of the next AGM on 13 November 2020 unless revoked, varied or renewed prior to that meeting.

Since the date of the last Annual Report, the Company purchased 400,000 shares in order to satisfy Long Term incentive plans and 978,246 treasury shares have been utilised to satisfy share-based employee-awards and SAYE options. As at the date of this Annual Report, 266,473 Ordinary shares of £1.50 each are held by the Company as treasury shares with the expectation that they will be utilised to satisfy future share-based employee-award/SAYE option obligations.

A resolution will be proposed at the 2020 AGM to renew this authority.

Authority to allot shares
At the last AGM of the Company on 14 November 2019, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £106,092,941 (or up to £212,185,882 in connection with an offer by way of a rights issue).

As at the date of this Annual Report, 42,606,119 shares have been issued under this authority. This authority will expire at the conclusion of the 2020 AGM unless revoked, varied or renewed prior to that meeting.

A resolution will be proposed at the 2020 AGM to renew this authority.

Substantial Shareholders
As at 21 September 2020, the Company has been notified of the following holdings of voting rights in its shares under Rule 5 of The Disclosure Guidance and Transparency Rules of the Financial Conduct Authority:

Investor	Number of voting rights	% voting rights	Date of last notification
Aviva Investors	19,900,155	7.8	30 Apr 2020
Liontrust AssetMgt	19,709,335	7.7	25 Nov 2019
Franklin Templeton Investments	19,451,033	7.6	13 Apr 2020
JO Hambro Capital Mgt	19,253,988	7.5	24 Nov 2017
Pelham Capital Mgt	18,742,760	7.3	12 Dec 2019
Aberforth Partners	16,311,222	6.4	4 Oct 2018
Stadium Capital Mgt	15,624,674	6.1	26 Sept 2017
Aberdeen Standard Investments (Standard Life)	13,045,209	5.1	10 Apr 2020

Financial risk management

The Company's objectives and policies on financial risk management, including information on credit, liquidity and market risks can be found in note 24 to the financial statements.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 28 June 2020 or the previous financial year. The Group has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Charitable donations

Charitable donations made by the Group during the year amounted to £115,378 (2019: £142,500). Further information regarding the Company's charitable donations can be found in the sustainability and responsibility report on pages 58 to 59.

Going concern

The Group has a £250.0m revolving credit facility in place until August 2022, and in April 2020, to increase resilience to the short-term effects of the Covid-19 pandemic, secured an additional twelve month facility of £70.0m from the same group of lending banks. In the same month the Group also secured to £63.9m of equity funding from a placing of ordinary shares. During the period from the inception of the additional £70.0m facility through to June 2021, existing covenants on the revolving credit facility (of 3.0x net debt/EBITDA and 1.5x Fixed Charge Cover) have been replaced by new minimum quarterly EBITDA and net debt covenants. At the date of approval of these financial statements, none of the £70.0m facility had been utilised and a further £170.0m of the revolving credit facility remained undrawn, giving the Group a total of £240.0m available facility in addition to cash in hand, at bank (£47.8m as at 21 September 2020).

The Directors have prepared cash flow forecasts for the Group covering a period of 18 months to March 2022. These forecasts indicate that the Group will be in compliance with the minimum quarterly EBITDA and net debt covenants applicable for that period, which are assessed monthly, as well as the original covenants which become effective once more from June 2021. These forecasts include a number of assumptions in relation to: level of customer order intake; gross profit margins; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These downside scenarios include specific consideration of a range of impacts that could arise from the continued coronavirus pandemic and the UK's exit from the EU. These scenarios included: significantly reduced customer spending; a second lockdown during FY21 leading to reduced order intake and customer deliveries; disruptions to manufacturing and supply chain causing delays in receiving stock; and possible changes in the regulatory environment surrounding product warranty insurance. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group and Company to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the coronavirus pandemic, and are confident that the Group and Company have adequate resources to continue to meet all liabilities as and when they fall due for the foreseeable future and at least for the period of twelve months from the date of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

Auditor and disclosure of information to auditor

The Directors who held office at the date of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each such Director has taken all the reasonable steps that they ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006. KPMG LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it as the Company's auditor will be proposed at the forthcoming AGM.

Subsequent events

Following the end of the financial year, the Group completed the sale of The Sofa Workshop Limited on 18 September 2020. Between 28 June 2020 and the date of signing this report there have been no other reportable subsequent events.

Elizabeth McDonald
Group Company Secretary
24 September 2020

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that, to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the Directors consider the Annual Report and financial statements, take as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 23 September 2020 and signed on its behalf by:

Elizabeth McDonald
Group Company Secretary
24 September 2020

Independent auditor's report

Independent auditor's report to the members of DFS Furniture plc

1. Our opinion is unmodified

We have audited the financial statements of DFS Furniture plc ("the Company") for the 52 week period ended 28 June 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1 to both the Group and parent Company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 June 2020 and of the Group's loss for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 6 July 2015. The period of total uninterrupted engagement is for the 6 financial years ended 28 June 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£1.8m (2019:£1.4m) 3.6% (2019: 5.0%) of three financial year average absolute Group profit/loss before tax excluding non-underlying items (2019: Group profit before tax excluding non-underlying items)	
Coverage	72% (2019:100%) of Group loss before tax (2019: Group profit before tax)	
Key audit matters		**vs 2019**
Recurring risks	Going concern	▲
	The impact of uncertainties due to the UK departure from the European Union on our audit	◀▶
	Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies	▲
	DFS Trading guarantee provision	◀▶
Transitional risk	New: Implementation of IFRS 16	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

2. Key audit matters: including our assessment of risks of material misstatement continued

Going concern.

Refer to page 39 (Viability reporting), page 78 (Audit Committee Report), page 109 (Directors' report) and page 125 (accounting policy).

Disclosure quality:
The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and the parent Company's business model and how those risks might affect the Group's and the parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risks most likely to adversely affect the Group's and the parent Company's available financial resources over this period were:

- The impact of the Covid-19 pandemic and the risk of any future periods of lockdown either in the UK, China or other significant supplier territories , leading to reduced order intake and customer deliveries and disruption to the Group's manufacturing or supply chain;
- The impact of Brexit on the Group's supply chain; and
- Regulatory changes to the sale of financial products, including extended warranties.

There are also less predictable but realistic second order impacts, such as the impact of Brexit or Covid-19 on the erosion of consumer confidence, which could result in a rapid reduction in sales.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our procedures included:

- **Funding assessment:** assessed the committed level of finance, and its expiry, to determine the level of financing available to the Group and its associated covenants. Considered covenant compliance, both in the financial year and for the forecast period;
- **Historical comparisons:** critically assessed historical results in order to consider the directors' track record of forecasts versus actual cash flows achieved in the current financial year and previously;
- **Benchmarking assumptions:** Benchmarked the key assumptions behind the cash flow forecasts to third party evidence, including analyst reports and market data;
- **Sensitivity analysis:** Considered sensitivities over the level of available financial resources, including associated covenant compliance, indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. This was done through stress testing the forecasts to reflect severe but plausible downside situations, including various Covid-19 lockdown scenarios, a reduction in sales due to a decrease in consumer confidence, disruptions to manufacturing and supply chain causing delays in receiving stock and the potential impact of a change in regulation around warranty insurance products;
- **Evaluation of directors' intent:** Evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, including reduction in non-essential capital expenditure and marketing costs.
- **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure through our specific entity understanding, industry and market analysis and through cumulative audit knowledge.

Our results
We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).

	The risk	Our response
The impact of uncertainties consequent upon the UK's departure from the European Union on our audit. Refer to page 33 (principal risks), page 39 (Viability reporting), and page 78 (Audit Committee Report)	***Extreme levels of uncertainty:*** The UK left the European Union (EU) on 31 January 2020 and entered an implementation period which is due to operate until 31 December 2020. At that point current trade agreements with the European Union terminate. The UK is entering negotiations over future trading relationships with the EU and a number of other countries. Where new trade agreements are not in place World Trade Organisation (WTO) arrangements will be in force, meaning among other things import and export tariffs, quotas and border inspections, which may cause delivery delays. Different potential outcomes of these trade negotiations could have wide ranging impacts on the Group's operations and the future economic environment in the UK and EU. All audits assess and challenge the reasonableness of estimates, in particular as described in *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* below and *Going concern* above, and related disclosures; and the appropriateness of the going concern basis of preparation of the financial statements (see above). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The uncertainty over the UK's future trading relationships with the rest of the world and related economic effects give rise to extreme levels of uncertainty, with the full range of possible effects currently unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from the UK's departure from the EU in planning and performing our audits. ***Our procedures included:*** • **Our knowledge of the business:** We considered the directors' assessment of risks arising from different outcomes to the trade negotiations for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* , *Going concern* and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from these uncertainties and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* and *Going concern* we considered all of the disclosures concerning uncertainties related to the UK's future trading relationships together, including those in the strategic report, comparing the overall picture against our understanding of the risks. ***Our results*** As reported under *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* , we found the resulting estimates and related disclosures, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the impact of the UK's departure from the EU.

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies. (Group's goodwill £509.3m; 2019 £514.6m; impairment expense £5.3m (2019: nil) parent Company's investment in subsidiaries £245.3m; 2019: £244.1m; parent Company's receivables £355.4m; 2019 £293m). Refer to page 78 (Audit Committee Report), pages 128 to 130 (accounting policy), note 10 on pages 142 to 143 (financial disclosures), and notes 2 and 3 to parent Company financial statements on page 155 (financial disclosures).	***Subjective estimate:*** There is a risk, particularly in light of current political and economic uncertainty and more challenging market conditions, that the business may not meet expected growth projections in order to support the carrying value of goodwill, or the parent Company's investment in subsidiaries, or recoverability of its receivables from other group companies. This risk remains significant in light of recent financial years of trading performance for the Group falling behind internal and market expectations. The directors considered the recoverability of the goodwill balances, the parent Company investment in subsidiaries and recoverability of receivables from other group companies through a value in use calculation that had underlying assumptions of varying sensitivities. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	***Our procedures included:*** • **Historical comparisons**: Compared the Group's previous forecasts against actual outcomes to assess the historical reliability of the forecasting; • **Benchmarking assumptions:** Compared the Group's trading forecasts against current trading performance and anticipated growth in the furniture retail sector, and investigated any significant deviations, in order to challenge the assumptions included in the forecasts. This was performed by comparing the anticipated growth in the forecasts to industry projections and applying our knowledge of the Group and of the retail sector; • **Sensitivity analysis:** Performed sensitivity analysis over revenue, profit margins, terminal growth rate, and discount factor in order to determine their impact on the value in use calculations; • **Our sector experience:** Engaged our own valuation specialists to assess and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculation, benchmarking each input against our own expectations, and comparing the overall rate to an expected range based on our own benchmarks; • **Comparing valuations:** Compared the sum of the discounted cash flows for all CGUs and the parent company net asset position to the Group's market capitalisation to assess the reasonableness of those cash flows and the reasonableness of the carrying value of those assets; and • **Assessing transparency:** Considered the adequacy of the Group's disclosures around the carrying value of goodwill and the impairment analysis, as well as the disclosures around the recoverability of parent company investments. ***Our results*** We found the carrying amount of goodwill in the Group, the parent Company's investment in subsidiaries and recoverability of receivables from other group companies to be acceptable (2019: acceptable).

	The risk	Our response
DFS Trading guarantee Provision. Refer to page 78 (Audit Committee Report), pages 128 to 130 (accounting policy) and note 20 on page 146 (financial disclosures).	***Subjective estimate:*** The guarantee provision reflects the estimated cost of fulfilling the obligations arising from the product guarantee provided to retail customers of DFS Trading. The amount of the provision is inherently uncertain and there is significant estimation involved in the provision model, including assumptions around: average cost per claim, volume of claims, and the average period over which customer service telephone calls are received ("phasing assumption"). The effect of these matters is that, as part of our risk assessment, we determined that the guarantee provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work we reassessed the degree of estimation uncertainty to be less than that materiality.	***Our procedures included:*** • **Historical comparisons:** Compared expected volumes of customer service calls and assumptions relating to the number and value of claims received per service call, against historical data; • **Test of details:** Tested key inputs of the calculated cost per customer service call to supporting internal documentation and benchmarking to third party costs per call. • **Expectation vs outcome:** Compared the timing of when items were sold to the timing over which calls are expected to arise in order to corroborate the phasing assumption; • **Methodology evaluation:** Assessed the reasonableness of Group's forecasting methodology by comparing the prior period's provision recognised to the costs incurred during the current financial year in relation to servicing calls received. Assessed alternative methodologies considered and prepared by the Group as confirming evidence; • **Sensitivity analysis:** Performed sensitivity analysis on key inputs to the calculation of the provision, including average cost per claim and the percentage of orders on which calls are received, in order to determine their impact on the calculations; and • **Assessing transparency:** Determined whether the Group's disclosures in relation to the provision, the assumptions on which it is based and sensitivities around those assumptions are adequate. ***Our results*** We found the resulting estimate of the guarantee provision to be acceptable (2019: acceptable).

Independent auditor's report continued

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
IFRS 16 transition. (Right of Use Asset on transition £445.0m; Lease Liability on transition £548.6m) Refer to page 78 Audit Committee Report), pages 130 to 131 (accounting policy) and note 1.18 on pages 130 to 134 (financial disclosures).	***Accounting Application/Subjective Estimate:*** The Group adopted IFRS 16 – Leases from 1 July 2019 using the modified retrospective method. Given the magnitude of the adjustment arising on its adoption, there exists a material risk of error on transition. IFRS 16 requires that what was previously operating lease liabilities be recognised on the balance sheet for the first time together with the associated right-of-use (ROU) assets. The calculation of ROU assets and lease liabilities require assumptions to be made. These assumptions include, but are not limited to, duration of the lease term and discount rate. The effect of these matters is that, as part of our risk assessment, we determined that the amount of ROU assets and liabilities contained a high degree of estimation uncertainty, with a potential range of reasonable customer outcomes greater than our materiality for the financial statements as a whole.	***Our procedures included:*** • **Accounting analysis:** We assessed the Group's accounting policy in light of the adoption of IFRS 16 in the financial year to assess if the transition adjustments were made appropriately. • **Benchmarking assumptions:** We compared the discount rates calculated and used by the Group to external and internal data such as confirmations from the Group's bank syndicate and independent property yield valuation; • **Test of details:** Tested a sample of leases to assess if the key terms had been recorded appropriately and performed recalculation procedures for management's models; and • **Assessing transparency:** We assessed whether the Group's disclosures detailing the transition adjustments on adoption of IFRS 16 are adequately disclosed. ***Our results*** We found the resulting amounts adopted for IFRS 16 assets and liabilities on transition to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.8m (2019: £1.4m), determined with reference to a benchmark of three financial year average absolute Group profit/loss before tax excluding non-underlying items, of which it represents 3.6% (2019: 5.0% of Group profit before tax, excluding non-underlying items).

The group audit team performed procedures on the items excluded from normalised Group profit before tax.

Materiality for the parent Company financial statements as a whole was set at £1.0m (2019: £0.7m), determined with reference to a benchmark of the parent Company total assets, of which it represents 0.17% (2019: 0.13%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.09m (2019: £0.07m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2019: 9) reporting components, we subjected 4 (2019: 4) to full scope audits for Group purposes.

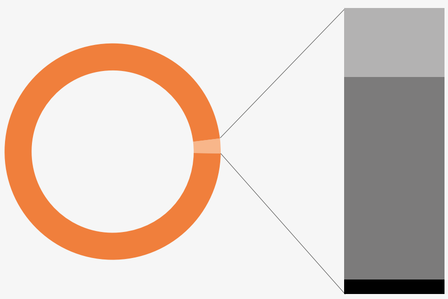
For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

* The remaining 28% (2019: 7%) of total Group loss before tax is represented by 5 (2019: 5) reporting components, none of which individually represented more than 5% (2019: 5%) of either of total Group revenue or total Group assets.

The work on all components, including the audit of the parent company, was performed by the Group audit team. Component materialities ranged from £1.0m to £1.5m (2019: £0.7m to £1.2m), having regard to the mix of size and risk profile of the Group across the components.

Three financial year average absolute Group profit/loss before tax, excluding non-underlying items (2019: Group profit before tax excluding non-underlying items)
50.2m (2019: £28.2m)

Group materiality
£1.8m (2019: £1.4m)



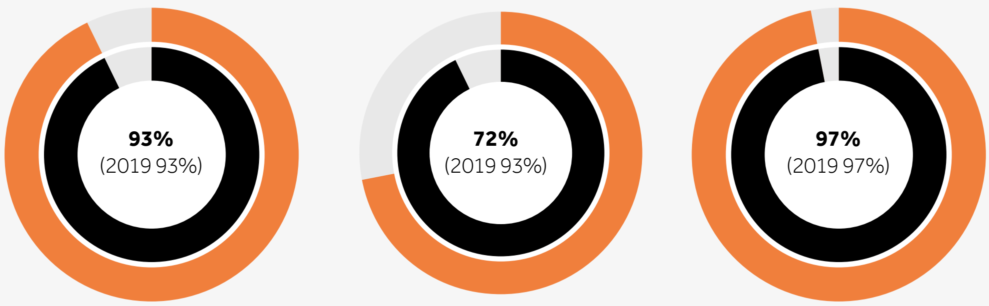
£1.8m
Whole financial statements materiality (2019: £1.4m)

£1.5m
Range of materiality at 9 components (£0.1m-£1.5m) (2019: £0.7m to £1.2m)

£0.09m
Misstatements reported to the audit committee (2019: £0.07m)

Revenue Group materiality

Group Revenue **Group loss before tax** **Group total assets**



Full scope for group/statutory audit purposes 2020
Full scope for group/statutory audit purposes 2019
Residual components

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the parent Company or the Group or to cease their operations, and as they have concluded that the parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period"). Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the parent Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the parent Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 109 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Reporting (page 39) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Reporting of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Reporting. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and the parent Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 110, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified financial service litigation as the area most likely to have such an effect, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Frances Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants 1 Sovereign Square Sovereign Street Leeds
LS1 4DA

24 September 2020