Governance report

This section introduces our Directors, and details the activities of our Board and Board Committees.

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Independent Non-Executive Director

Board of Directors continued

IAN DURANT
Non-Executive Chair
N

Date of joining DFS: May 2017

Experience: Ian has held senior executive and non-executive positions in the retail, property, hotels and transport sectors in the UK and internationally. 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, Sea Containers and Thistle Hotels, Dairy Farm International, Hongkong 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) Development Studies (Kent University)
- Fellow of the ICAEW

External appointments:
- Chair of Greggs Plc
- Non-Executive Director Warren Partners & Chair of Employee Ownership Trust

Independent:
- On appointment

TIM STACEY
Chief Executive Officer
S

Date of joining DFS: July 2011

Experience: Tim has been with the DFS Group for over 10 years and has an in-depth knowledge of all aspects of the business. Prior to being appointed Group CEO in November 2018, Tim served as the Chief Operating Officer, where he was responsible for retail, supply chain, technology and customer service in addition to online operations and international development.

Tim has significant experience in digital retail having joined DFS as Director of Online and Business Development and having led the multi-channel transformation of DFS. He was previously Multi-Channel Director for Boots.com and Director for Online and Business Development for Alliance Boots.

Tim also has significant experience in M&A, operations and marketing.

Qualifications:
- BA (Hons) Accounting and Finance (Nottingham Trent University)
- Member of the ICAEW

External appointments:
- No external appointments

Independent:
- Not applicable

MIKE SCHMIDT
Chief Financial Officer
–

Date of joining DFS: March 2014

Experience: Prior to his appointment as CFO in July 2019, Mike served as DFS's Chief Development Officer with responsibility for property, strategic development, M&A and investor relations activities. Mike leads the Group finance, risk and compliance functions.

In addition to his other responsibilities Mike previously 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) Economics and Management (Cambridge University)

External appointments:
- No external appointments

Independent:
- Not applicable

ALISON HUTCHINSON CBE
Senior Independent Non-Executive Director
A N R S

Date of joining DFS: May 2018

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

Alison is the CEO of The Pennies Foundation charity, working with retail leaders for the last 12 years to support the industry in delivering on its social purpose in communities.

She also held senior management positions, including Marketing Director at Barclaycard having started her career at IBM. In 2016, Alison received a CBE for her services to the Economy and Charity.

Qualifications:
- BA (Hons) Technology & Business Studies (Strathclyde University)

External appointments:
- Chief Executive of The Pennies Foundation charity
- Independent Non-Executive Director of Liverpool Victoria Friendly Society Ltd.
- Vice Chair and Senior Independent Non-Executive Director of Yorkshire Building Society
- Senior Independent Non-Executive Director of Foresight Group Holdings Limited

Independent:
- Yes

Committee membership key

- A Audit Committee Member
- N Nomination Committee Member
- R Remuneration Committee Member
- S Responsibility and Sustainability Committee Member
- Denotes Chair
- – None

Board of Directors continued

JO BOYDELL

Non-Executive Director

A N R

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.

Jo has experience in M&A and corporate restructuring as well as risk management and corporate governance.

Qualifications:

– BA (Hons) Physics (University of Oxford)

– Associate of ICAEW

– ICAEW Business & Finance Professional

External appointments:

– Director and Chief Financial Officer of Thame and London Limited, the parent company of the Travelodge Group and for Travelodge Hotels Limited and Director of other subsidiary companies within the group

Independent:

– Yes

STEVE JOHNSON

Non-Executive Director

A N R

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 is currently the Executive Chairman at the Matalan Group.

Previously served as CEO of Focus Wickes DIY Group and Woolworths, as well as working with several other retailers. Prior to this Steve spent eight years at Asda having started his career with Bain & Co.

Steve is an experienced Independent Non-Executive Director and was on the Board of Big Yellow PLC until 2020. Steve has significant retail and M&A experience.

Qualifications:

– BA (Engineering) MEng (University of Cambridge)

External appointments:

– Chairman of Missouri Topco Limited, the holding company of Matalan Group Limited and Director of other subsidiary companies within the group

– Senior Independent Director of Lenta Limited

Independent:

– Yes

JANE BEDNALL

Non-Executive Director

Designated Director for Workforce Engagement

A N R S

Date of joining DFS: January 2020

Experience: Jane has over 30 years' experience in marketing including digital marketing, commercial and people leadership in customer led 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.

Jane previously held Non-Executive Directorship's with EI Group and Smart Energy GB.

Qualifications:

– BA (Hons) Modern Languages (French, German, Spanish) (University of Sheffield)

External appointments:

– None

Independent:

– Yes

LORAINE MARTINS OBE

Non-Executive Director

A N R S

Date of joining DFS: June 2021

Experience: Loraine has been the Director of Diversity and Inclusion at Network Rail since 2012 and is an expert in this field. Prior to that Loraine was responsible for Jobs & Skills and Equality and Inclusion in the construction of the Queen Elizabeth Olympic Park for the London 2012 Olympic games.

In 2021 Loraine was awarded the OBE for her services in this area, having previously been awarded the MBE in 2016, for her work on the Olympics.

Loraine brings experience of organisational transformation, culture change and a strong commitment to responsible business.

Qualifications:

– BA Comparative American Studies (University of Warwick)

– FRSA (Fellow of Royal Society of Arts)

External appointments:

– None

Independent:

– Yes

Committee membership key

A Audit Committee Member

N Nomination Committee Member

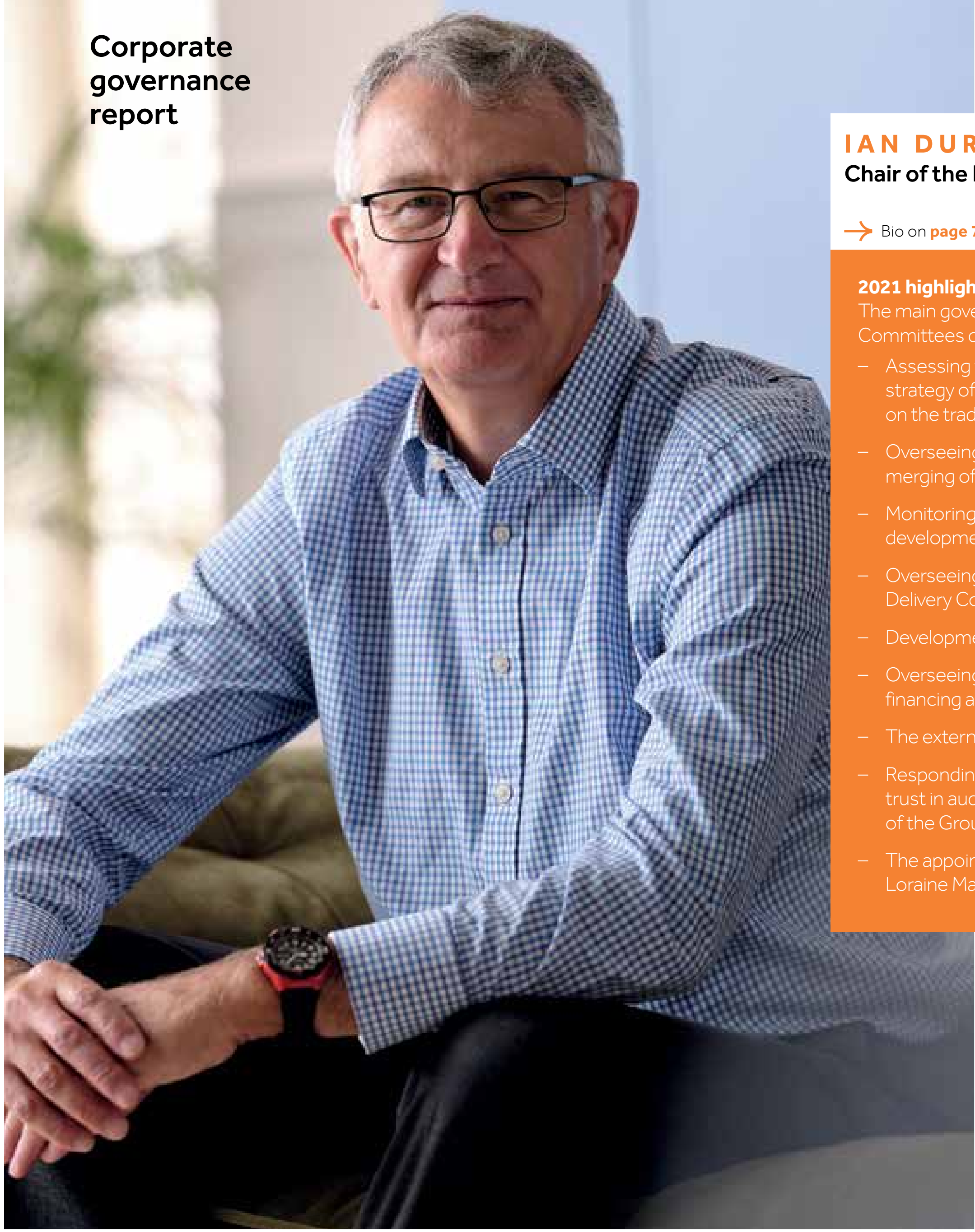
R Remuneration Committee Member

S Responsibility and Sustainability Committee Member

Denotes Chair

– None

Corporate governance report



IAN DURANT
Chair of the Board

Bio on page 73

2021 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 light of the impact of the pandemic on the trading environment and market expectations.
- Overseeing the sale of Sofa Workshop Limited and the merging of Dwell into DFS.
- Monitoring progress against ESG Phase 1 targets and the development of the Inclusion and Diversity strategy.
- Overseeing the transfer of people and assets into The Sofa Delivery Company Limited.
- Development of the new Remuneration Policy.
- Overseeing the extension to the Group's syndicated financing arrangements.
- The external Board evaluation by Gould Consulting.
- Responding to the UK Government White Paper on Restoring trust in audit and corporate governance and initiating a review of the Group's internal controls.
- The appointment of a new Non-Executive Director, Loraine Martins.

Dear Shareholder

I am pleased to present our Corporate Governance report for the year ended 27 June 2021, on behalf of the Board. This report sets out the Group's corporate governance framework and explains how it underpins and supports the Group Leadership Team in delivering the Group's strategy.

The Board recognises that good governance is essential to support resilience and innovation and enable the Board to take decisions that create long-term sustainable value for the benefit of our shareholders and wider stakeholder groups.

Board composition and roles
All our Directors' served throughout the year. As you will have seen from my introductory statement on pages 9 and 10 at the start of this year's report and accounts immediately after the end of the year, we were pleased to welcome Loraine Martins to our Board as a Non-Executive Director.

People
It has been a priority for the Board this year to look after the health and welfare of our people, and listen to their views, while at the same time continuing to serve the needs of our customers amid disrupted operating conditions

Board Evaluation
During the year, working with Gould Consulting we undertook an externally led evaluation of the Board and its Committees. The evaluation, which incorporated a detailed assessment of the view of the Directors and the Group Leadership Team has provided the basis for the Board Action plan. More detail on this can be found on page 80 in this report.

Corporate governance report continued

ESG

Environmental, social and governance ("ESG") considerations continue to be an increasingly important area of focus for our shareholders. The Board recognise the importance of this area and DFS is committed to continually improving our performance towards our targets and a more sustainable future for our communities. Given the importance of our ESG Strategy after the year-end we established the Responsible and Sustainable Business committee, chaired by Alison Hutchinson, the Senior Non-Executive Director. The Committee will lead and oversee the delivery of how the Group operates as a Responsible and Sustainable business. Further information on our ESG initiatives can be found in our Responsibility and sustainability report on pages 51 to 70.

Revised Articles of Association and 2021 AGM

We will be asking shareholders to adopt revised articles of association at the 2021 AGM. This is principally to allow hybrid shareholder meetings in the future, but we have also taken the opportunity to update the articles. A summary of the proposed changes is set out in the appendix to the Notice of AGM, which in turn is available on the website. I would appreciate your support on resolution 20 to give us the ability in the future to be flexible in how we hold meetings.

This year our AGM will be held on 12 November 2021 at 3:30pm at our Group Support Centre in Doncaster. After last year when due to the Covid-19 restrictions our AGM had to be held behind closed doors, the Directors and I are looking forward to once again welcoming shareholders to the meeting.

I invite you to review the following pages, which set out how we have complied with the UK Corporate Governance Code (2018) ("the Code") and describes how the Directors have fulfilled their duties to our key stakeholders under Section 172 of the Companies Acts 2006 details of which can be found on pages 46 to 50.

Ian Durant
Chairman
23 September 2021

GOVERNANCE FRAMEWORK

DFS Furniture plc Board

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

The Board has responsibility for the overall leadership of the Group, setting the Group's purpose, values and strategy and satisfying itself that these align with its culture, taking into consideration the views of shareholders and other key stakeholders, to promote the long-term sustainable success of the Group and its contribution to wider society. It also has responsibility for the Group's performance and governance oversight.

Governance Documents are available at www.dfscorporate.co.uk

Audit Committee

Oversees financial reporting, internal controls, risk management, compliance, and audit.

See committee report on **pages 83-89**

Remuneration Committee

Oversees linking remuneration with strategy and determines the levels of remuneration.

See committee report on **pages 91-113**

Nomination Committee

Oversees the composition of the Board and succession planning.

See committee report on **pages 89-90**

Responsible & Sustainable Business Committee

Oversees the delivery of our ESG strategy

See report on **pages 51-70**

Corporate governance report continued

OUR BOARD

The Board currently consists of five independent Non-Executive Directors, an independent Non-Executive Chair and two Executive Directors. Biographies of all members of the Board appear on pages 73 to 74.

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 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. During the year the Chair and the Non-Executive Directors met twice without the Executive Directors present, and the Non-Executive Directors met privately with the CEO on four occasions.

The Board has implemented a Group Policy framework which is considered by the Board on an annual basis. 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 plan, major acquisitions and disposals, corporate restructuring, the determination of any 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 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 certain authorities to its Committees. The terms of reference for each of the Committees are available on the corporate website. Separate reports for each Committee are included in this Annual Report from pages 83 to 90.

In September 2021 after a recommendation by the Nomination Committee, the Board established a new committee: the Responsible and Sustainable Business Committee, chaired by Alison Hutchinson the Senior Independent Non-Executive Director. The focus of the Committee is to lead and oversees delivery of our strategy as a Responsible & Sustainable business focused on:

1. Our people
2. Our planet
3. Our customers
4. Our communities

The Committee will be comprised of Alison Hutchinson (Chair), the CEO Tim Stacey, Jane Bednall and Loraine Martins.

ROLE OF THE CHAIR AND CHIEF EXECUTIVE OFFICER

There is a clear division of responsibilities between the Chair and the CEO. As the Chair, Ian leads the Board ensuring its effectiveness in all aspects of its role. Tim, the CEO, is responsible for managing the operation of the Group to create value over the long-term. The role is distinct and separate to that of the Chair 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 Leadership 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 all of its stakeholders, the public and the media.

Role of the Senior Independent Director ("SID")

Alison Hutchinson, the Senior Independent Director is responsible for:

– Acting as a sounding board for the Chair;
– Meeting with the Non-Executive Directors annually, without the Chair being present and collating feedback on the Chair's performance as part of the annual Board evaluation process; 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

Elizabeth McDonald, the Company Secretary & General Counsel is responsible for:

– Advising the Board and its Committees on corporate governance policies and procedures and for the management of Board and Committee meetings;
– Managing the provision of timely, accurate and considered information; and
– Advising the Board and representing the Company in legal matters.

Corporate governance report continued

Skills and experience	Retail	Customer Services/ Marketing	People	Operations	International	Governance & Regulatory	Finance	Digital	M&A
Ian Durant	✓			✓	✓	✓	✓	✓	✓
Tim Stacey	✓	✓	✓	✓			✓	✓	✓
Mike Schmidt	✓				✓	✓	✓		✓
Jo Boydell	✓			✓		✓	✓		✓
Steve Johnson	✓	✓	✓	✓	✓				✓
Alison Hutchinson	✓	✓	✓			✓	✓	✓	
Jane Bednall	✓	✓	✓	✓				✓	
Loraine Martins			✓	✓				✓	

BOARD BALANCE AND INDEPENDENCE

The Board considers that the Chair was independent on appointment and that all of the Non-Executive Directors are independent. Full details are set out below, and remuneration is addressed in the Remuneration Report.

The Board has determined that each of the Non-Executive Directors have sufficient time to devote to their role and that they have a complementary set of skills and experience as shown in the table below.

This year the Board reviewed the skills and experience in the light of the changes to the business brought about by the pandemic and the market in which the business now operates. Three additional skills were identified as key skills required by the Board. Governance & Regulatory, Digital, and Mergers and Acquisitions.

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. Neither the Chair 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 its discussions. Meeting agendas are agreed in advance 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 two or three 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.

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. Three additional meetings were held during the year bringing the total number of Board meetings to eleven. Board decisions made outside of a meeting are made by written resolutions. Details of attendance at Board meetings is set out on page 79.

Until April 2021, lockdown restrictions meant that the Board was unable to meet in person for Board and Committee meetings. These meetings were held online. Following the easing of restrictions from this date, the Board recommenced in person meetings. The Board usually splits its meetings between Doncaster and London as well as at a number of operational locations to provide an opportunity to promote colleague engagement and provide the Board with greater insight and direct feedback.

Additionally, all of the Non-Executive Directors spend time visiting the Group's showrooms, warehousing, and manufacturing sites throughout the UK. Due to the pandemic fewer visits than normal have been possible over the last year but they have re-commenced over the last few months. These visits provide the Non-Executive Directors with the opportunity to meet and talk with a wider group of colleagues and provide 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 being held to review important trading periods or strategic matters, as required.

Corporate governance report continued

Name	Meetings attended	Maximum meetings	Independent	Responsibility and role during 20/21	Date of appointment
CHAIRMAN					
Ian Durant Chairman	11	11	✓	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 CEO	11	11	–	Leading and managing Group performance and strategy to ensure the long-term profitable operation of the Group.	1 November 2018
Mike Schmidt CFO	11	11	–	Leading, managing, and maximising Group financial performance, investor relations, legal and property functions.	11 July 2019
NON-EXECUTIVE DIRECTORS					
Alison Hutchinson (SID)	11	11	✓	Overseeing the implementation of the strategy and development of the Group whilst maintaining a system of internal control and risk management.	1 May 2018
Steve Johnson	11	11	✓	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	11	11	✓		6 December 2018
Jane Bednall	11	11	✓		1 January 2020
Loraine Martins*	–	–	✓		28 June 2021

* Loraine Martins was appointed 28 June 2021 so was not eligible to attend any Board meetings during the year.

Name	Meetings attended			Responsibility and role during 20/21	Date of appointment
STANDING ATTENDEES					
Elizabeth McDonald, Company Secretary				Advising the Board on all corporate governance and legal issues.	30 September 2018
ATTENDED BY INVITATION – members of the Group Leadership Team are invited to attend Board meetings to present papers and discuss key matters					
Nick Smith	7			The Group Leadership Team reports to the CEO and implements the strategy and manages 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 Group's activities and assessing the ability of the management team. This process also affords the team the opportunity to bring matters to the attention of the Board.	
Scott Fishburn	5				
Sally Hopson	4				
Alex Salden	4				
Russ Harte	3				
Jo Shawcroft	4				

COMMITTEE MEETINGS

All Directors are invited to Audit Committee meetings, and the Chair of the Board is invited to 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. Neither the CEO or CFO are present for any of the discussions regarding their remuneration.

Name	Audit Committee	Remuneration Committee	Nomination Committee
Ian Durant	–	–	2/2
Alison Hutchinson	3/3	4/4	2/2
Steve Johnson	3/3	4/4	2/2
Jo Boydell	3/3	4/4	2/2
Jane Bednall	3/3	4/4	2/2
Loraine Martins*	–	–	–

* Loraine Martins was appointed on 28 June 2021, so was not eligible to attend any Committee Meetings during the year.

Corporate governance report continued

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018

Introduction

The report has been prepared in line with the requirements of the 2018 UK Corporate Governance Code ("the Code") and The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations). The Board remains supportive of the Code's enhanced emphasis on engagement with stakeholders, diversity, remuneration structures and strengthening of corporate culture. A copy of the Code can be found at www.frc.org.uk.

Compliance statement

This Corporate Governance Report, which incorporates reports from the Audit and Nomination Committees on pages 83 to 88 and 89 to 90 together with the Strategic Report on pages 1 to 70, the Directors' Remuneration Report on pages 91 to 113 and the Directors' Report on pages 114 to 116, 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.

We are pleased to report that during the year the Company was compliant with all Provisions of the Code 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 the policy for existing Executive Directors, do not yet match the wider workforce. Changes proposed in the Directors' Remuneration policy, will see the existing CEO and CFO pension allowances being reduced from 11% and 9% respectively to the wider workforce level by the end of 2022. Further details regarding the Executive Directors pension contributions are set out at page 98 of the Directors' Remuneration Report.

Conflict 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 Company Secretary on an ongoing basis of any change in their respective positions.

In line with the Companies Act 2006, the Company's Articles of Association ("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 FRC's 2018 Code on Corporate Governance, the Board undertakes an annual evaluation of itself and its committees. Having conducted an internal review last year, the Board appointed an independent external consultant, Gould Consulting, to perform this year's effectiveness evaluation. The Company has no other business relationship with Gould Consulting.

Between March and May 2021, a four-stage process was followed, as depicted below:

Stages of our external Board evaluation

Stage 1	Stage 2	Stage 3	Stage 4
Gould consulting gathered data from Board members/ Company Secretary/members of the Group Leadership Team using a confidential online questionnaire	One-to-one sessions between each Board member and Gould Consulting were held	Gould consulting attended one full Board meeting (and one committee) as a silent observer	An independent report was presented to and discussed by. The Board then developed and agreed an improved plan

Results overview

In considering the feedback from the above process, Gould Consulting concluded that the Board and its Committees were performing well and had increased its effectiveness over the last year. The continuity provided by longer-standing Board members and the fresh thinking from newer members had been particularly helpful.

Highlighted strengths

- The Board was felt to be balanced, collaborative and has developed an effective way of working together
- Boardroom conversations were observed as open and transparent, able to be both supportive yet challenging
- Strong relationships existed between the Board and senior management and appeared to be based on mutual respect
- Each of the directors were willing to engage fully in Board conversations. Any risk from 'group think' was thought to be low.

Board Action plan for 2021/22:

The review has helped identify areas where the Board now plans to spend more time or would wish to revisit familiar topics in a different way.

The Board action plan for 2021/22 includes:

- Investing further Board time debating long-term strategy for the business
- Heightening focus on talent planning and diversity
- Exploring the role of culture as a key enabler of our future strategy
- Increasing the focus on risk (including emerging risks), audit and internal controls
- Reducing operational updates at meetings to improve further the quality of boardroom debate.

Corporate governance report continued

The Board will continue to review its procedures, effectiveness, development, and composition during FY22. The Chair will use the output of the Board evaluation to further develop the performance of the Board during the year ahead.

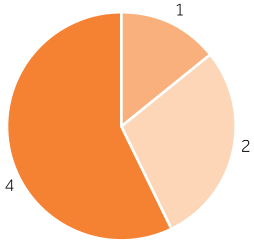
Election of Directors

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 AGM and shall then be eligible for election by shareholders. In accordance with the Articles, Loraine Martins 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.

As noted above, following the formal external evaluation process of the effectiveness of the Board, the Board is satisfied that each Director remains competent to discharge his/her 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 pages 73 and 74.

Independence

During the year all of the Non-Executive Directors (excluding the Chairman) were independent during the reporting period and the Chairman was independent on appointment. The Remuneration Committee membership is made up of only independent Non-Executive Directors.



- Chairman
- Executive Directors
- Independent Non-Executive Directors

Culture and Company purpose

The Board recognises the importance of its role in setting the tone of the Company's culture. The Group's culture is underpinned by our Code of Conduct and associated policies and practices. In compliance with the Code, DFS has established its Corporate Purpose, which is set out on page 2, along with details of the Company's values and strategy. The Board regularly discusses the importance of the Company culture and is mindful that it remains aligned with its purpose, values, and strategy.

Diversity & experience

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.

New Directors

Following appointment, a new Director will undergo a detailed, tailored month long induction programme.

As such new Directors spend a considerable amount of time understanding our company purpose, values, strategy, and culture to provide a solid groundwork to make a greater impact in relation to Board Discussions.

Should any individual development needs be identified, the Company will address those needs with the individual Director.

Understand the business	– One-to-one meeting with the Company Secretary to understand the Governance issues which applies to the business (e.g. Directors Duties (Companies Act 2006), Listing Rules and the UK Corporate Governance Code). – One-to-one meetings with the rest of the Board, including the Chairman, Executive Directors and other Non-Executives. – Review previous Board & Committee papers, Committee terms of reference and Investor presentations etc. – Meeting with External Advisors (External Lawyers, Registrars etc.)
Meet our colleagues	– One-to-one meetings with the members of Group Leadership Team and Senior Leadership teams of the operating subsidiaries. – Presentations from key functions within the Group (People, Finance etc.)
Visit the business	– Visiting operational locations including showrooms, factories, support offices and customer distribution centres and meeting with our colleagues from these areas.

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 ongoing impact of the pandemic on the Group all the Directors spent considerably more time during the year than the minimum commitment required.

During the year Alison Hutchinson, the Senior Independent Non-Executive Director, was appointed to the Board of Foresight Group Holdings Limited, a company listed on the London Stock Exchange. Foresight is a specialist asset manager focused on sustainability.

Corporate governance report continued

Alison accepted the position after discussions with both the Chairman and CEO in accordance with provision 15 of the Code. Given the part-time nature of her executive role with the charity Pennies, the fact that she is not an Executive Director of Pennies, as well as her high level of engagement and record of attendance at Board and Committee meetings, the Board were satisfied that Alison could undertake this new opportunity whilst continuing to devote the time necessary to fulfil her role as the Company's Senior Independent Non-Executive Director. Additionally, it was felt that the specialist knowledge on sustainability Alison would gain from her role with the Foresight Group would be of benefit to the Company in further developing its sustainability and responsibility strategy.

The Executive Directors may accept outside appointments provided that such appointments do not impact their ability to perform their duties as Executive Directors of the Company.

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 Chair of the Remuneration Committee 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 can be communicated to the Board. 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 yet for the Senior Independent Non-Executive Director to meet with shareholders. The Chairman and Non-Executive Directors are also available to attend investor relations meetings or to meet with investors or analysts independently of the Executive Directors, if required.

The Company communicates with both 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 and 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 are regularly updated.

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.

Relationships with other stakeholders

For details of our relationship with our wider stakeholders please see our section 172 statement on pages 46 to 50 and our Responsibility and sustainability report on pages 51 to 70 sets out more detail on how we manage our relationships with all our stakeholders.

External auditor

Our external auditor is Frances Simpson at KPMG LLP. Our auditors were appointed following a comprehensive tender process. The Audit Committee oversees the Group's relationship with its external auditor, including assessing the independence and effectiveness of the audit firm.

Internal audit

Further details relating to the internal audit function are contained within the Audit Committee report on pages 83 to 88.

Non–audit service policy

Our non-audit services policy can be found on our website and further details on pages 86.

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 Directors' remuneration report on pages 91 to 113.

DTR Disclosure

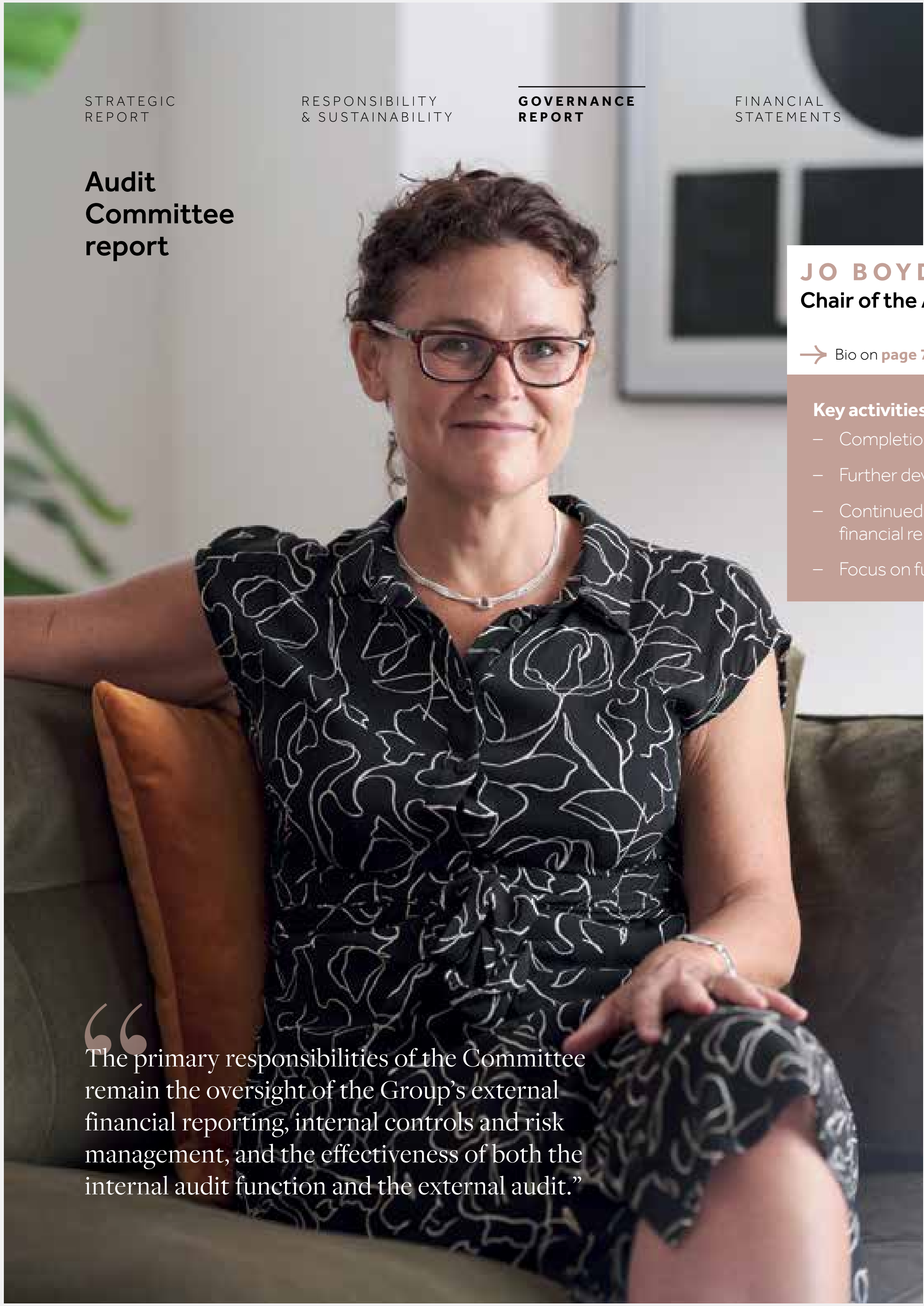
The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee reports, except for information required under DTR 7.2.6 which is contained in the Directors' report on pages 115 to 116.

Signed on behalf of the Board of Directors.

Elizabeth McDonald

Company Secretary & General Counsel
23 September 2021

Audit Committee report



"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."

JO BOYDELL

Chair of the Audit Committee

→ Bio on **page 74**

Key activities during FY21

- Completion of the external audit tender process.
- Further development of the internal audit function.
- Continued consideration of the impact of Covid-19 on financial reporting.
- Focus on future governance and reporting developments.

On behalf of the Board I am pleased to present this year's Audit Committee report.

The continued disruption from the Covid-19 pandemic has demanded an agile and dynamic approach to risk management and I am proud of the way that our operational, risk and internal audit teams have responded to this challenge.

The further enhancements to our internal audit approach together with our increasing experience and confidence in working remotely have enabled our internal audit programme to remain wide-ranging and effective during this time. The Committee was delighted to see the quality of the Group's Internal Audit and Risk Team receive external recognition from the Chartered Institute of Internal Auditors during the year with the award of 'Outstanding Team – Private Sector' at the 2021 Audit and Risk Awards.

The Committee has also been able to conclude the external audit tender process that was initiated and then paused during the previous financial year. After a rigorous and informative series of meetings and presentations, the Committee recommended to the Board that KPMG LLP be re-appointed for the FY22 audit, subject to shareholder approval at the forthcoming AGM.

Following two years of significant changes to the Group's financial statements (due to a change of financial reporting period and the implementation of IFRS 16) the current financial year allows for a more straightforward presentation of results. The Committee has retained its focus on the key areas of financial reporting, particularly with regard to viability assessment given the volatility of trading experienced through the course of the pandemic.

The Committee also continues to consider the Group's response to the changing landscape of corporate financial reporting and governance and is taking proactive steps to ensure the Group is well placed to address future requirements such as those that may arise from the recently published BEIS consultation on audit and corporate governance reform.

I thank my fellow Committee members for their valuable contribution and support during the year, and I welcome any comments or questions from shareholders.

Audit Committee report continued

COMPOSITION

The Audit Committee continues to be chaired by Jo Boydell, who was appointed to the role in April 2019. Other current Committee members who served during the year are Alison Hutchinson, Steve Johnson and Jane Bednall. In addition, Loraine Martins became a member of the Committee on her appointment to the Board on 28 June 2021.

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 74, 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 pages 73 and 74 and a summary of their principal skills and experience is shown on page 78.

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.

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 80. There were no significant concerns raised from this review and the Committee was deemed to be operating effectively.

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 and external audit:

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

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.

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met three times during the year and attendance at those meetings is shown on page 79. At each meeting, standing agenda items relating to risk, internal audit results, whistleblowing and litigation issues were reviewed in addition to specific financial reporting or other topics.

FINANCIAL REPORTING

Financial Statements

The ultimate responsibility for reviewing and approving the Annual report and accounts and the half-yearly reports remains with the Board. 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. This review includes an assessment of the adequacy of the disclosure with respect to going concern and viability reporting and due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

Viability

The Committee reviewed 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 Group's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis. As explained in further detail below, the Committee also reviewed the Group's longer term viability statement.

Fair, balanced and understandable

In reviewing the Annual report for the 52 weeks ended 27 June 2021, the Committee considered the balance of the strategic report with respect to proportional focus on positive and negative results and events, adequate disclosure of risks and the consistency of reporting of financial and other measures. The Committee also considered the extent and prominence of Alternative Performance Measures presented. 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.

Significant issues considered in relation to the financial statements

The Committee considered the following significant matters in relation to the financial statements and how these were addressed. This included reviewing papers prepared by management detailing the basis of and rationale for the treatments adopted. The Committee also received reports from and held discussions with the external auditor to ensure that a robust level of challenge had been made to management's assessments and to confirm that there were no significant differences of opinion between management and auditors.

Audit Committee report continued

Impairment of goodwill	Note 10
As a result of business acquisitions, the Group has recognised significant balances for goodwill. 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 made 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, and also reviewed KPMG LLP's report and discussed their observations and findings in this area. The Committee will continue to review the carrying value of intangible assets at least annually, or in the event of any significant changes to the structure or circumstances of the Group.
Parent company investments	Note 2 to the Company financial statements
The ultimate parent company of the Group, DFS Furniture plc, holds a significant value of investments in subsidiary companies in the Group. The carrying value of these investments and related intragroup borrowings is supported by the enterprise values of the underlying trading entities. Assessment of these enterprise values requires a number of judgements and estimates to be applied.	The Committee reviewed management's assessment of the recoverability of the parent company investments, including the underlying judgements and estimates, and considered the consistency of these with the assessment of the impairment of intangible assets as noted above. The Committee considered the appropriateness of the conclusions reached, and also reviewed KPMG LLP's report and discussed their observations and findings in this area. The Committee will continue to review the carrying value of the parent company investments at least annually, or in the event of any significant changes to the structure or circumstances of the Group.
Going concern and viability reporting	Page 45
In addition to the statement on going concern, the Group is required to make an assessment of its longer term viability. This requires the application of a number of judgements and estimates, particularly given the potential for further disruption to the Group's activities as a result of the Covid-19 pandemic.	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 27 June 2021, being a reasonable period for the assessment of key risks for a retail business given continuing political and economic uncertainties. This review included challenging underlying assumptions and stress-testing the scenario modelling, including the potential future impacts of Covid-19, and concluded that the going concern assumption remains appropriate and the Board is able to make the viability statement on page 45 of the Strategic Report.

EXTERNAL AUDIT

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 Group's auditor, before making a recommendation to the Board to be put to shareholders.

As part of this responsibility to assess the effectiveness of the external auditors, the Committee approved the audit plan for the 52 weeks ended 27 June 2021 and reviewed the auditor's findings and management representation letters.

In addition to consideration of the audit process, responses to questions from the Committee and the audit findings reported to the Committee, a structured feedback exercise was also undertaken during the year. This exercise collated feedback on a wide range of factors from Non-Executive Directors, senior managers and relevant colleagues from the Finance, Audit and Risk, Legal and Compliance teams. The results of this feedback were positive from all stakeholder groups across all areas surveyed, particularly with regard to objectivity and robustness of challenge, strong formal reporting and open communication. These results further supported the Committee in its conclusion that the external audit process had been run efficiently and that KPMG LLP has been effective in its role as external auditor.

The appointment of the Group's external auditors for FY22 was subject to a tender process as discussed below.

Approach to appointing the external auditor

As noted in last year's Annual report, the Committee took the decision, in line with FRC guidance, to pause the external audit tender process that had been initiated in FY20 as a consequence of the pandemic. This process was completed in FY21, with greater familiarity and capability with remote working on the part of both the Group and the tendering firms supporting a thorough and robust process even where restrictions on in person meetings remained in place.

After an initial review of potential audit firms four were selected to participate, comprising a mixture of 'Big Four' and other firms. The firms were issued with a detailed invitation to tender, which set out the information to be included in the proposal together with the criteria on which the proposals would be evaluated:

- Approach to ensuring overall audit quality with a specific focus on:
  - independence, scepticism and ability to challenge
  - the audit quality record of the lead partner and the firm
- The quality and experience (including industry expertise) of the lead partner, team and the firm
- The approach to managing the audit including:
  - Approach to managing the day to day process
  - Reliance placed on the Group's systems of accounting and internal control
  - Coordination and communication
  - Working with other assurance providers
  - The value provided from the audit including planned use of technology in the audit process

Audit Committee report continued

- Approach to transition including experience in transitioning similar audits
- Capability of the firm to look forward and adapt to future changes in audit requirements and focus areas.

Each firm was given access to a data room containing a broad range of information about the Group and had the opportunity to meet with relevant stakeholders including key finance and IT management, the Chairman, Chief Financial Officer, Chief Executive Officer, Company Secretary, Group Audit and Risk Director in addition to the Chair and members of the Audit Committee.

The firms submitted written proposals, which were considered in conjunction with detailed feedback obtained from the management meetings. In addition, all firms responded to a separate accounting technical challenge. Two of the four firms were then invited to present to a panel comprising the Chairman, Audit Committee, Chief Financial Officer, Group Financial Operations Director, Group Financial Controller and the Company Secretary.

Additional information brought out by the presentation sessions was then considered alongside the submitted documents and feedback gained throughout the process, including references from other audit clients.

Following detailed discussion by all those that attended the presentations, the Committee put forward a recommendation to the Board that KPMG LLP be appointed as external auditor for FY22, subject to approval by shareholders at the November 2021 AGM.

In making this recommendation, the Committee noted the strong external audit quality performance of KPMG LLP and the proposed audit team members and the positive results of the Group's own assessment of the performance of its external auditors. The Committee further considered the potential perceived and actual risks to the independence of the external audit that may arise from the length of KPMG LLP's current appointment and made specific enquiries on this point. The responses to these enquiries, together with the recent change in audit partner and level of challenge and rigour in evidence through recent audits satisfied the Committee that the length of appointment did not prevent delivery of a robust and independent audit. The Committee was also satisfied that re-appointment of KPMG LLP would not be a significant concern for shareholders based on feedback from investor roadshows and other interactions.

Safeguarding objectivity and independence relative to non-audit services

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. The 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 took effect from the beginning of FY21.

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 a 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 27 June 2021, during which the only non-audit service provided by the Group's external auditor was an interim review, which is closely related to the audit.

Independence assessment by the Audit Committee

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.

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.

INTERNAL AUDIT

The Group's internal audit function has continued to innovate with the aim of providing wider coverage with a more efficient and agile approach to increase the speed of results and support 'real time' assurance. The Committee reviewed and approved the proposed audit plan for FY21 which was built around the following core areas:

- Group Risks
- Regulatory & Legal
- Head Office functions
- Group Retail
- Supply Chain

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. Priority factors also included regulatory requirements and audits that had not featured in recent previous years or that were not completed due to the impact of the pandemic. The Committee also considered the areas not included in the FY21 audit plan in order to confirm the rationale for their exclusion.

Internal audit work is conducted through a blend of traditional full audits and lighter touch assurance reviews, introduced for the first time in FY21. These assurance reviews apply the same methodology as full audits but provide more of a snapshot of the auditable area giving timely assurance for specific areas or projects. As anticipated in last year's annual report, FY21 also saw an increased focus on sharing audit results across the Group to enable proactive remediation of identified issues and implementation of best practice.

Other improvements to the internal audit approach included increased accountability of auditors for monitoring completion of agreed remediation actions, to ensure deadlines are met and risks are adequately mitigated, as well as further development of the use of data and analytics to support the identification and tracking of risk areas.

Although the planned timetable of FY21 internal audit reviews had to be modified as a consequence of further Covid-19-related showroom closures, the Committee received updates on progress throughout the year and the overall schedule of work progressed satisfactorily given the restrictions imposed by the pandemic. Areas covered by the programme included:

- Consumer credit, including regulatory compliance with FCA Limited Permission requirements;
- Retail audits in all brands including a review of management and administration controls, stock management and regulatory compliance;

Audit Committee report continued

- Policy management;
- IT asset management;
- Retail banking and cash controls;
- Group code of conduct, anti-bribery and diversity & inclusion policies; and
- Group vehicle compliance

Following the external cyber audit carried out in FY20, the Group has continued to progress identified actions to strengthen its approach, including establishing a data strategy to ensure appropriate governance and consistency, and enhanced training for all colleagues to increase awareness and responsibility for cyber risks such as phishing, malware and password security. A follow up external cyber audit was initiated in June 2021, the outcome of which will inform developments in this area for FY22.

In addition, the internal audit team has provided a range of consulting and advisory support to the business such as collation of regulatory and compliance data, process improvements and additional resource for Covid-19 health and safety procedures.

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 the 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.

The Committee was delighted to see the quality of the Group's Internal Audit and Risk Team receive external recognition from the Chartered Institute of Internal Auditors during the year, winning the 'Outstanding Team – Private Sector' category at the 2021 Audit and Risk Awards.

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 Group utilises a bespoke risk management system which allows for continuous updates and monitoring of risk by each business area and provides clear visibility of business engagement with risk management. The Committee receives an update at each meeting, highlighting new risks identified and progress and changes in rating of principal risks.

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, the Group Leadership Team conducts a quarterly risk review and 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 and the Board.

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

As part of its horizon scanning activities the Committee has considered the potential impact of the recently published BEIS White Paper. An outline timeline of activity to review the Group's internal controls framework to ensure a thorough and orderly approach to compliance and an externally facilitated initial maturity assessment of the Group's controls against the anticipated new requirements has been undertaken in the year.

Audit Committee report continued

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 Group 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 36 to 45.

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 FY21 the Group has made further improvements to the reporting and analysis of whistleblowing incidents, including trends and highlights reviewed at the monthly Group Governance, Risk and Compliance Committee and shared with the Audit Committee.

During the year, there were 40 (FY20:26) reports received through the whistleblowing process, all of which were fully investigated and addressed in accordance with the policy.

Business ethics

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 Group 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 Group'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 Group's website (www.dfscorporate.co.uk).

The Group has also updated its Tax Strategy Statement, again published on the Group's website, in compliance with its duty under the Finance Act 2016, which sets out details of the Group's attitude to tax planning and tax risk.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Group and the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on pages 117 and 124. As set out in the Directors' report, the Directors consider the Group's business to be a going concern. The Group's viability statement can be found on page 45.

Jo Boydell

Chair of the Audit Committee
23 September 2021

Nomination Committee report

"This year, the Nomination Committee has focused on ensuring that the Board has the necessary skills, diversity of thinking and experience to support the strategy of the Group."

IAN DURANT
Chair of the Nomination Committee

→ Bio on **page 73**

Key activities during FY21

Whilst the impact of Covid-19 on the Nomination Committee was less immediately felt, the Committee has nonetheless had a busy year:

- Overseeing the external Board Evaluation in accordance with the principles of the UK Corporate Governance Code.
- Conducting a review of the composition of the Board, based on the skills, knowledge, experience and diversity of the Board, the needs of our strategy and the requirements of our stakeholders.
- Recommending the appointment of an additional Non-Executive Director to the Board.
- Reviewing 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, inclusivity and diversity, and experience to remain effective in supporting the Company in its purpose and strategy.

During the year the Committee continued to review the composition of Board and the Group leadership team to ensure it has the right balance of skills, knowledge, experience and diversity of thinking to support the strategic needs of the business, including the need for the Board to be more reflective of society as a whole. The Nomination Committee regularly updates a matrix of the skills brought to the Board by all Directors, both Executive and Non-Executive. The current matrix is shown on page 78.

Following a review by the Committee and to reflect the Group's development as an integrated retailer the Board accepted the Committee's recommendation and updated the core skills required to include digital, and M&A and Corporate Governance.

Following an introduction via our CEO and Group People Director, who had met Loraine whilst developing the Group's inclusion strategy, we decided to strengthen our Board further with the appointment of an additional Non-Executive Director, and so just after our year end Loraine Martins, MBE, was appointed to the Board as a Non-Executive Director 28 June 2021. Loraine, a senior executive with Network Rail, brings a wealth of experience in inclusion and diversity working in health and safety critical businesses.

Loraine joined us for her first Board and Committee meetings in July and is undergoing a comprehensive induction programme.

We are committed to having a diverse Board, in all respects, to reflect the customers we serve. I can report we currently have four female directors on our Board of eight directors, a 50% female representation.

Following the internally facilitated Board review in 2020, an external review process was undertaken this year. More information on the Board Evaluation process and outcomes are set out on page 80 of the Corporate Governance report. The performance of the Nomination Committee was reviewed, and I am pleased to report that the evaluation concluded that the Committee continues to operate effectively.

Nomination Committee report continued

Since the year end and following the recommendation by the Nomination Committee the Board has a established a new Committee, the Responsible and Sustainable Business Committee, which will be focused on the delivery of the Group's Environmental, Social and Governance strategy. The Committee will be chaired by Alison Hutchinson. More details of the remit and membership of the Committee is set out at page 53 of the Responsibility and sustainability report.

COMMITTEE MEMBERSHIP

The Nomination Committee is chaired by Ian Durant and comprised of all the Non-Executive Directors. Alison Hutchinson, Steve Johnson, Jo Boydell and Jane Bednall were members throughout the year. Loraine Martins joined the committee on her appointment to the Board post the year end. Only members of the Committee have the right to attend Committee meetings, but the Committee may invite others, including the Chief Executive Officer and the Chief Financial Officer to attend all or part of any meeting where appropriate.

The UK Corporate Governance Code recommends that the 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 each of the Non-Executive Directors are independent and the Chair was independent upon appointment and as such the Company complies with the Code.

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

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.

KEY ACTIVITIES OF THE NOMINATION COMMITTEE

The main activities of the Committee included:

- Conducting the selection process, for the appointment of Loraine Martins, as an Independent Non-Executive Director effective from 28 June 2021;
- The ongoing review of the talent of the Group Leadership Team including an assessment of their training and development needs;
- A review of the succession plan for the Board;
- A review of Directors' time commitments and independence;
- The external evaluation review of the Board and Committee's effectiveness; and
- The consideration of the re-election of Directors at the Annual General Meeting.

BOARD APPOINTMENT

The Nomination Committee had previously identified the desire to change the makeup of the Board to better reflect our employee base and the customers we serve. The Board began to consider the additional skills and experience it required however, before commencing a formal process the Chairman was introduced to Loraine Martins, through the CEO and Group People Director.

Loraine had been introduced to the Group Leadership Team, as an expert in the field of Inclusivity and Diversity a key element of the Group's Environmental, Social and Governance strategy. Loraine has significant experience in Inclusivity and Diversity and in health and safety, she is currently the Director of Diversity and Inclusion at Network Rail, and in 2021 was awarded an OBE for her work with them on diversity and inclusion. Prior to that, Loraine was responsible for Jobs & Skills and Equality & Inclusion in the construction of the Queen Elizabeth Olympic Park for the London 2012 Olympic Games, for which she was awarded an MBE.

The Committee felt that given Loraine's strong background in inclusion and diversity and her experience working for large public sector organisations focused on delivering services in a safety-first environment she would be a welcome addition to the Board. Loraine subsequently met with the Chairman, Senior Independent Director, Chair of Audit as well as the Executive Directors and several members of the Group Leadership Team. Following those meetings and the completion of a formal due diligence process the Committee recommended the appointment of Loraine as an Independent Non-Executive Director to the Board.

All new Directors are subject to an in-depth and tailored induction process. Loraine had already spent some time with the Group's People Director as a critical friend advising on the development of the Group's inclusivity and diversity strategy. However, since her appointment she has commenced a formal induction process and has met the Company's financial advisors, legal advisors and brokers, and has visited several showrooms and factories across the Group.

The Board and Group Leadership Team believe a diverse and inclusive workforce and a culture where everyone is welcome, which reflects the customer base we serve is crucial to the long-term success of the Group. The appointment of Loraine will provide additional focus and understanding around these complex issues, as well as strengthening the Board's overall understanding of its responsibilities in relation to Health and Safety and employee wellbeing.

As a Committee, we will continue to give due consideration to the skills and experience new directors can bring in key areas such as integrated retail as well as cognitive, gender and diversity when making new appointments to the Board.

During the year the Board appointed Gould Consulting to carry out an in-depth evaluation of the Board and its Committees details of which are set out on page 80 of the Corporate Governance report.

Ian Durant

Chair of the Nomination Committee
23 September 2021

Directors' remuneration report

"During the year the Committee's focus has been on ensuring our Executive Directors were fairly rewarded in the context of business performance, colleague experience and shareholder outcomes, as well as developing our new Remuneration policy."

STEVE JOHNSON
Chair of the Remuneration Committee

→ Bio on **page 74**

Key activities during FY21

- Appointment by competitive tender process of Willis Towers Watson as the independent Advisors to the Remuneration Committee.
- Development of the new Remuneration Policy.
- Consultation with our largest shareholders and proxy agencies on our new Remuneration Policy and implementation of pay.
- Setting performance targets for incentives in FY22 and determining outturns for incentives in respect of FY21, taking into consideration the experience of key stakeholders over the period.
- Consideration of market trends and governance updates.
- Consideration of pay and conditions across the wider workforce.

CONTENTS

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.

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 FY22. This year's Remuneration Report also includes the new Remuneration Policy for which we will be seeking shareholder approval for at the AGM in November 2021.

I would also like to take the opportunity to welcome Loraine Martins to the Board and to the Remuneration Committee.

Directors' remuneration report continued

REMUNERATION IN CONTEXT

This year has been amongst the most challenging the Group has ever faced. The majority of our showrooms were closed for 21 weeks out of 52 and most of our head office colleagues have been obliged to work from home for the whole year. Thousands of colleagues have had to be sent home and brought back to work several times, often at short notice. Performance throughout the year was impacted by shipping disruption from the Far East and raw materials supply issues relating primarily to foam availability in Europe. The Group has also faced internal and external manufacturing capacity constraints due to high levels of demand for our products.

Against this backdrop, the Remuneration Committee carefully considered the experiences of our key stakeholders over the year, as well as overall Group performance, when making executive remuneration decisions.

We have outlined below the key drivers behind our decisions:

Group performance

- Group revenue for FY21 was £1,067.7m (FY20: £724.5m), demonstrating the resilience of our business model and progression of our strategic agenda.
- Underlying profit before tax, excluding brand amortisation[1], was £105.8m (FY20: loss of £63.1m), demonstrating our focus on long-term operational profitability.
- The Group's share of the sofa market has grown by an estimated 2%pts in the year, and we saw exceptional growth in gross sales[1] through our online channels of +184%, driven by outperforming competitors in lockdown due to our long-standing commitment to online channel development.
- Strong underlying cash generation and significantly reduced net debt at year end. Net bank debt[1] at June 2021 was £19.0m compared to £157.7m at the previous financial year end.

Shareholder experience

- Dividends were suspended in FY20 to conserve cash during the early phases of the pandemic. Having now renewed the Group's banking facility, the restrictions on dividend payments have been removed and a full year dividend of 7.5p will be recommended to shareholders for FY21.
- The DFS Group's Total Shareholder Return ("TSR") in the last 12 months has significantly outperformed both the FTSE 250 index and FTSE 350 General Retailers Index and reflects a longer-term trend of outperformance of both indices over the preceding three years.

Colleague experience

- The Group did not participate in the UK government Coronavirus Job Retention Scheme ("Furlough") during FY21. Instead, the Group introduced a new scheme, funded entirely by the business, which paid colleagues who were sick or absent for Covid-related reasons 80% of base pay for the duration of any absence.
- Employees eligible for a bonus below board level were paid in two half yearly instalments. The bonus was funded 100% for the financial element, with personal performance also contributing to overall payout levels.
- Support for colleagues continued through our enhanced Health and Wellbeing programme.

PAY FOR PERFORMANCE IN FY21

The Remuneration Committee is committed to a responsible approach to executive pay and believes that variable pay should only be earned for achievement against stretching targets. The Committee is confident that it sets stretching targets and the fact that they have been achieved is due to the hard work and leadership of the management team.

ANNUAL BONUS FOR FY21

As explained in last year's report, to simplify priorities in response to Covid-19 for FY21 only, 70% of the Annual Bonus for FY21 was based on EBITDA performance and 30% was based on personal performance. EBITDA for FY21 was £220.5m against a target of £145.4m. The bonus targets were increased to ensure there was no benefit of the extension of business rates relief. The corresponding pay-out in respect of EBITDA performance was therefore 100% of the maximum award. Stretching personal objectives were also achieved in full and as such 100% of the maximum outcome was awarded for this element. As a result the bonus awarded to Tim Stacey is £491,968 (100% of maximum opportunity) and the bonus awarded to Mike Schmidt is £338,227 (100% of maximum opportunity). Full detail on the targets set and performance against them can be found on page 104. For the avoidance of doubt, in assessing whether the formulaic bonus outcome was a fair reflection of performance, the Committee considered the underlying financial performance of the business and aforementioned experience of all stakeholders as well as the exclusion of business rates relief from the bonus determination to ensure management did not unduly benefit.

LTIP VESTING IN RESPECT OF FY21

The FY19 award was granted on 30 November 2018 and was assessed against the performance targets at the end of FY21 (i.e., to 27 June 2021). Performance was based 50% on EPS growth and 50% on relative TSR growth against two peer groups. For maximum vesting EPS growth had to exceed a stretching target of 28.5p. Although reported underlying[1] basic EPS was 36.0p, the Committee decided to exclude the benefit of business rates relief from the calculation of adjusted EPS as well as the additional operating costs associated with protecting colleagues and customers during COVID. The adjusted EPS figure the Committee used for the purpose of determining the vesting outcome was lower than that reported, however it remained above the maximum target and therefore resulted in 100% of this element of the award vesting.

Relative TSR performance against the FTSE 250 excluding Investment Trusts was 12.83% p.a. against a stretch target of 10% p.a. above the Index therefore 100% of this element of the award vested. Relative TSR performance against the FTSE 350 General Retailers was similarly positive at 12.34% against a stretch target of 10% p.a. above the Index therefore 100% of this element of the award vested. The overall vesting level was 100%. Full detail on the targets set and performance against them can be found on page 106.

COMMITTEE CONSIDERATION OF INCENTIVE OUTTURNS IN THE CONTEXT OF COVID-19

When assessing performance against the targets for both the Annual Bonus and LTIP, the Committee considered whether the outturns were appropriate based on overall Group performance, the experience of our stakeholders and in light of the risk of paying 'windfall' gains in relation to the pandemic. The Committee are comfortable that incentive plan achievements during the year were a result of the strong leadership of our executive team, the successful implementation and operation of our business strategy and outperformance of our peers and growth in market share, in addition to the hard work and dedication of Group employees. The Committee therefore decided it appropriate not to apply any discretion to override formulaic outcomes.

OTHER PAY DECISIONS IN RESPECT OF FY21

LTIP awards

As disclosed in last year's report, in the context of Covid-19 and economic uncertainty making target setting challenging, the Committee decided that it would be appropriate to temporarily delay announcing the performance conditions in respect of the FY21 LTIP awards.

1. Refer to pages 33 to 35 for APM definitions.

Directors' remuneration report continued

The targets were subsequently determined on 9 March 2021 and are set out on page 106. These awards were granted on 6 October 2020 at a face value of 150% and 120% of salary for the CEO and CFO (respectively).

The awards are subject to targets based 50% on EPS growth and 50% on Relative Total TSR performance against two peer groups.

FY22 REMUNERATION POLICY

The Committee reviewed Remuneration Policy ahead of its triennial approval by shareholders at the 2021 AGM. The policy review process started in Autumn 2020 and included reviewing the existing policy against the business strategy, pay and conditions in the wider group and market practices. We also carefully considered governance developments and shareholder views. Having drafted the policy in consultation with our largest shareholders and taken into account their feedback in finalising the Remuneration policy we believe the policy takes a balanced approach and ensures the Group recognises the role of the Executive Directors in delivering the Group's strategic aims and strong shareholder returns.

The Committee has concluded that the structure of the current policy remains fit for purpose and aligned with the strategy, therefore no substantial changes are being proposed. However, the Committee does believe that aspects of the policy should be adapted to reflect governance developments. In addition, the Committee found that, in terms of both quantum and elements of structure, the overall market competitiveness of the policy had fallen somewhat behind those of companies of a similar size and sector.

The Remuneration Policy is set out in full in Part D of this report but in summary the following changes are being proposed:

- Pension allowances for new Executive Director appointments will be in line with the average for the wider workforce (As stated last year, pensions for the CEO and CFO will be reduced from 11% and 9% respectively to the wider workforce level by the end of 2022).
- Extension of the shareholding guideline such that it will apply for two years post-employment.
- A modest increase to the LTIP opportunity from 150% to 175% of salary for the CEO and from 120% to 140% of salary for the CFO. In the context of the growth in size of the Group over the last three years, the market data reviewed by the Committee indicated that the total remuneration package of the executives had fallen behind companies of a similar size and sector, which posed concerns with regard to potential retention and incentivisation of our executive team. Given the long-term strategic aims of the Group, the Committee considered that the LTIP was the most appropriate element to increase as it provides the best alignment with stakeholders being performance based and delivered in shares over the long-term. The Committee also purposefully set the FY22 LTIP targets at a level that would require additional stretch for maximum vesting to occur.
- Strengthening the bonus deferral mechanism, from deferral only of bonus amounts above 75% of salary to a straightforward deferral of 25% of any bonus paid. The bonus deferral period will also be changed from three years to two years. The change to the operation of the deferral mechanism seeks to align the policy with the most recently published Investment Association guidelines and with majority market practice, and results in an increase to deferred amounts for performance below c.80% of maximum.
- A revision of the shareholding guideline from 250% of salary to 200% of salary. The Committee considered the overall opportunity of the remuneration package alongside market practice and considered that a shareholding requirement of 250% was uncompetitive and more onerous than necessary for a company of DFS' size. A 250% holding is in line with the upper quartile of the FTSE 250 for the CEO, and above the upper quartile for the CFO. As such a small reduction is being proposed to bring the policy into line with the market to ensure its competitiveness. Given the addition of a post-cessation shareholding policy, the proposed change to bonus deferral and an increase to LTIP opportunity, the Committee considers there are enough mechanisms in place to enable executives to build long-term and meaningful shareholdings.
- Minor amends to policy wording to keep pace with best practices and flexibility to introduce an ESG metric during the policy period.

Details of how the Remuneration Policy will be Implemented in FY22 is set out in Part B of this report.

We look forward to the continued support of our shareholders and welcome any comments you may have in relation to this report.

Steve Johnson

Chair of the Remuneration Committee
23 September 2021

Directors' remuneration report continued

Part B: Remuneration at a glance

OVERVIEW OF REMUNERATION POLICY CHANGES

Element	Former policy	New policy
Pension	CEO: 11% of salary CFO: 9% of salary	All executives: 4% of salary by the end of 2022
Post-cessation shareholding	2 year post-cessation	2 year post-cessation of 200% of salary formalised through nominee account
LTIP opportunity	CEO: 150% of salary CFO: 120% of salary	CEO: 175% of salary CFO: 140% of salary
Annual Bonus Deferral	Amounts above 75% of salary for 3 years	25% of bonus for 2 years
Shareholding guidelines	250% of salary	200% of salary

Other changes made to the policy include increased flexibility to choose performance metrics and revised wording in order to clarify our policy in relation to remuneration on loss of office and recruitment.

OUR COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE ("THE CODE")

Key Element of the 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 annual 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	Post-cessation shareholding requirement of 2 years.
Pension alignment	Pension contributions for new Executive Directors are aligned to the wider workforce. Pensions for incumbent Executive Directors will be aligned to the 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 attends the Employee Voice Forums and engages with the workforce.

KEY IMPLEMENTATION DECISIONS FOR FY21

Salaries were increased to CEO: £440,000 and CFO: £330,000 in April 2021, as set out in last year's report.

Annual bonus

Performance measure	Weighting	Achievement
Group EBITDA	70%	100%
Personal	30%	100%

FY21 Bonus opportunity: CEO: 120%, CFO: 110%

LTIP

Performance measure	Weighting	Achievement
TSR vs FTSE 250	15%	100%
TSR vs FTSE 350 Retailers	35%	100%
EPS growth	50%	100%

FY19 LTIP award opportunity: CEO: 150%; the CFO was awarded 32,042 shares under this scheme prior to his appointment to the Board.

No discretion was used in determining the incentive plan outturns.

IMPLEMENTATION OF POLICY FOR FY22

Element	Implementation for FY22
Base salary	Salaries to be reviewed in April 2022 intended to be in line with the wider workforce.
Pension	CEO: 11% of salary, CFO: 9% of salary
Annual bonus maximum	CEO: 120% of salary. CFO: 110% of salary
Annual Bonus metrics	• 70% Financial (Revenue: 20%, Profit before tax: 30%, Free Cash Flow: 20%) • 15% Non-Financial Strategic 'ESC' objectives (Environmental: 5%, Social – Inclusion: 5%, Customer – Average NPS: 5%) • 15% Personal objectives
LTIP maximum	CEO: 175% of salary, CFO: 140% of salary
LTIP metrics	• Adjusted EPS growth (50%) • TSR relative to FTSE 250 excl investment trusts (15%) • TSR relative to FTSE 350 General Retailers Index (35%)

Directors' remuneration report continued

Part C: Our remuneration philosophy and workforce reward

OUR REMUNERATION PHILOSOPHY & PRINCIPLES

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 COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE ("THE CODE")

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

Fair, market competitive pay and benefits	**Aligned to our business strategy and culture**	**Supports a high-performance sales and service culture**
To pay a market competitive rate to reflect the role and skills of each employee. To operate a pay and reward system that is free from discrimination. To enable all employees to share in success by encouraging widespread equity ownership amongst the Group.	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. Our incentive plans are designed to reward and incentivise delivery of the Group's business plan and key strategic goals, within the risk appetite of the Group.	Our pay and reward programs are designed to encourage and support a high-level of performance and positive customer experiences. We provide access to development opportunities enabling growth and success within function and cross-functionally.

REMUNERATION IN THE WIDER CONTEXT

The Group employs approximately 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 are set out below.

Fair, market competitive pay	• 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 • We regularly review our pay and benefits arrangements for fairness and market competitiveness • Employees can share in our success via bonus schemes and the Sharesave scheme which is available in the UK
Aligned to our business strategy and culture	• Company-wide groups generate positive engagement more broadly with activities in the 'Living Well' Workplace group • We have partnered with Peppy to provide all of our colleagues with a new healthcare benefit that offers support through life's more challenging transitions
Supports a high-performance sales and service culture	• We have an award-winning apprenticeship program. To date, 73 young people have successfully completed the program and now hold permanent positions in the Group A further 18 existing colleagues have completed either an advanced or higher apprenticeship with a further 63 internal colleagues currently completing an apprenticeship. • We actively participate in the national development of apprenticeship standards in manufacturing and retail for our industry.

Directors' remuneration report continued

CASCADE OF REMUNERATION ACROSS THE GROUP

The table below illustrates the remuneration framework across the Group:

Level	Employee numbers	Fixed remuneration	Annual bonus and other variable pay awards	Restricted share plan	Long-term incentive plan	All employee HMRC plans
Group Leadership Team	6	●	●	●	●	●
Heads of divisions and functions	81	●	●	●		●
Managers	377	●	●	●		●
All employees	4,792	●	●			●

The table below explains how the remuneration framework operates across the Group:

<table>
<tr><th>Level</th><th>Base salary</th><th>Pension, benefits</th><th>Annual bonus and recognition awards</th><th>LTIP</th></tr>
<tr><td>Senior management</td><td rowspan="4">Base salary is set by reference to the wider workforce and market practice.</td><td rowspan="3">Taxable benefits include car, private medical insurance and reimbursement of business-related expenses.

Pension policy to align to workforce by end of 2022</td><td rowspan="3">The annual bonus for our Support Centre population is based on a combination of financial and non-financial objectives.

Where possible we seek to ensure that Group based measures and targets are consistent.</td><td>Our most senior management are eligible to participate in the LTIP which rewards achievement of stretching strategic goals which align their interests with investors over the long-term.</td></tr>
<tr><td>Heads of divisions and functions</td><td rowspan="3">All employees in the UK may participate in the Group's Sharesave plan.</td></tr>
<tr><td>Managers</td></tr>
<tr><td>All employees</td><td>Average pension provision is 4% of salary.</td><td>The CEO and CFO are required to defer 25% of the bonus for 2 years.

Colleagues in operational areas across the Group (in retail showrooms, manufacturing sites and in the Sofa Delivery Company) have access to variable pay and bonuses based on a combination of individual and team performance.</td></tr>
</table>

Directors' remuneration report continued

Part D: Remuneration Policy

The following section sets out the Directors' Remuneration Policy which is to be subject to a binding shareholder vote at the AGM in November 2021. The policy will take effect from the date of approval. The Policy is intended to apply for three years from the date of approval.

The Remuneration Policy 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 current Code and the Listing Rules.

REMUNERATION PRINCIPLES

The Committee concluded that the Group's remuneration principles remain appropriate and that the proposed Remuneration Policy is in line with the relevant principles. The remuneration principles are set out below:

- Attract, motivate and retain Executives and senior management in order to deliver the Group's strategic goals 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 external stakeholders and encourage widespread equity ownership amongst the Group.

Overview of key changes

Changes to the operation, structure and quantum of Remuneration Policy elements have been summarised in the Executive Remuneration Policy table below. The context in which the changes have been made and associated rationale are set out in the Remuneration Committee Chair's letter on pages 92 to 93.

EXECUTIVE REMUNERATION POLICY TABLE

Base salary

To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group

Operation

Salaries are reviewed annually, and any change will generally take effect from 1 April.

When determining the salary of the Executives the Committee takes into consideration:

- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities;
- pay and conditions throughout the Group, including the level of salary increases awarded to other employees; and
- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity.

Maximum opportunity

- Annual percentage increases are generally consistent with the range awarded across the Group.
- Percentage increases in salary above this level may be made in certain circumstances, such as a change in responsibility or a significant increase in the role's scale or the Group's size and complexity.
- Individuals who are recruited or promoted to the Board may have their salaries set below the targeted Policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general increase for employees until the target positioning is achieved.

Performance measures/assessment and recovery provisions

- A broad assessment of individual and business performance is used as part of the salary review.
- No recovery provisions apply.

New for FY22 policy

- No changes to policy.

Directors' remuneration report continued

Benefits
To provide competitive benefits and to attract and retain high calibre employees.

Operation
Reviewed periodically to ensure benefits remain market competitive.

Benefits currently include but are not limited to:

- Car and fuel allowance;
- Life insurance;
- Directors' & Officers' liability insurance;
- Private medical insurance (including cover for spouses and dependents);
- Professional subscriptions;
- Critical illness cover;
- Staff discounts; and
- Other minor benefits as provided from time to time, including seasonal gifts.

Maximum opportunity
- Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits.

Performance measures/assessment and recovery provisions
- No performance or recovery provisions apply.

New for FY22 policy
- No changes to policy.

Pension
To provide a competitive Company contribution that enables effective retirement planning.

Operation
- Pension is provided by way of a contribution to a personal pension scheme or cash allowance in lieu of pension benefits.
- The Committee may review pension contributions for new joiners to the Board to ensure the approach is aligned with corporate governance best practice/market practice.

Maximum opportunity
- Pension contributions for new Executive Directors will be aligned to the pension provision for the wider workforce which is currently 4% of base salary.
- Incumbent directors have agreed to a voluntary reduction to pension contributions in line with wider workforce levels to be implemented by the end of 2022.
- 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.

Performance measures/assessment and recovery provisions
- No performance or recovery provisions apply.

New for FY22 policy
- Pension contributions for new Executive Directors will be aligned to wider workforce levels (currently 4% of base salary).
- Pension contributions for incumbent Executive Directors will be aligned to wider workforce levels from the end of 2022.
- For the CEO pension will be reduced from a fixed £50,000 (11.4% of salary) less NIC where taken in cash. For the CFO pension will be reduced from a fixed £29,250 (8.9% of salary) less NIC where taken in cash.

Annual bonus
Incentivises the achievement of annual objectives which support the Group's short-term performance goals.

Operation
- Bonus awards are granted annually following the signing of the Report and Accounts, usually in October.
- 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.
- 25% of any bonus earned is granted as a deferred award under the Deferred Bonus Plan.
- The deferred award shall ordinarily have a vesting period of 2 years and its vesting is conditional on the participant's continued employment with the Group at the end of the deferral period unless they are a "good leaver".
- The Committee may award dividend equivalents on shares subject to a deferred award

Maximum opportunity
- The maximum Annual Bonus opportunity is 120% of salary.
- There will be no payment made for threshold performance. 65% of maximum will be paid for achievement of on-target performance which requires a stretching level of performance. 100% of maximum will only be paid for outstanding levels of performance.

Performance measures/assessment and recovery provisions
- Performance measures will be selected by the Committee annually and may include financial, strategic and personal objectives. Financial targets will account for no less than 50% of the weighting.
- The Committee will determine the performance targets and measurement weightings annually to ensure that they support the business strategy and objectives for the relevant year.
- Malus and clawback provisions apply to Annual Bonus awards at the discretion of the Committee where the Committee considers such action is reasonable and appropriate. See notes below table for further details.

New for FY22 policy
- Change to deferral mechanism from deferral of bonus amounts above 75% of base salary to deferral of 25% of the entire bonus.
- Change to deferral timeframe from 3 years to 2 years.
- Performance conditions for FY22:

  Financial (70%): Revenue (20%), Profit before tax (30%), Free Cash Flow[1] (20%); Non-financial (30%): Strategic 'ESC' objectives (15%): Environmental (5%), Social – Inclusion (5%), Customer – Average NPS (5%) and Personal objectives (15%).

- Targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

1. Refer to pages 33 to 35 for APM definitions.

Directors' remuneration report continued

Long-term incentive plan
The DFS Furniture plc 2015 Long-Term Incentive Plan ("LTIP") incentivises Executive Directors and the Group Leadership Team to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders.

Operation
- Under the LTIP, the Committee may award annual grants of performance share awards in the form of nil-cost options or conditional shares (LTIP Awards) on an annual basis.
- LTIP awards under the plan will vest after a three-year performance period subject to the achievement of the performance measures. The Committee reserves the right to change performance metrics attaching to future LTIP awards should it consider it appropriate e.g. change in strategy or to introduce an ESG related metric
- A two-year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors. Upon vesting, sufficient shares can be sold to pay tax.
- Participants may be entitled to dividend equivalents representing the dividends paid during the performance period on LTIP awards that have vested

Maximum opportunity
- Maximum LTIP awards are equal to 175% of base salary.
- In exceptional circumstances e.g. recruitment the Committee retains discretion to increase this to 230% of 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.

Performance measures/assessment and recovery provisions
- Awards vest based on performance against challenging targets, aligned with the delivery of the Group's long-term strategy.
- The Committee will review performance measures, targets and weightings annually to ensure that they continue to align to the Group's strategy.
- In accordance with the rules of the LTIP, malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate. See notes below table for further details.

New for FY22 policy
- Maximum LTIP award level increased from 150% to 175% of salary for the CEO and from 120% to 140% of salary for the CFO. Exceptional maximum remains unchanged.
- No change to the performance period or holding period.
- Additional flexibility to determine appropriate performance measures on an annual basis, providing that the majority of the weighting is on financial measures.
- Malus and clawback trigger events and time scales have been expanded to align with best practice.
- For the FY22 LTIP grant, performance will be assessed as follows:
  – Adjusted EPS growth (50%)
  – TSR relative to FTSE 250 excl investment trusts (15%)
  – TSR relative to FTSE 350 General Retailers Index (35%)
- See page 111 for further details of performance targets and measures for FY22 awards.

Minimum shareholding requirements
To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.

Operation
- Executive Directors are required to build or maintain (as relevant) a minimum shareholding in the Company. Shares included in this calculation are those held beneficially by the Executive Director and their spouse/life partners. This includes vested LTIP shares subject to the two-year post-vesting holding period and deferred bonus shares net of tax.

Maximum opportunity
- 200% of salary to be built up over five years from the date of appointment as an Executive Director.
- Executive Directors are not required to purchase shares to satisfy this requirement.

Performance measures/assessment and recovery provisions
- No performance or recovery provisions apply.

New for FY22 policy
- Shareholding guidelines will be reduced from 250% to 200% of base salary from FY22.
- 2-year post-cessation shareholding requirements will be enforced through holding the shares in a global nominee account.

All-employee incentives
Encourages all employees to become shareholders and thereby align interests with shareholders.

Operation
- Eligible employees may participate in the SAYE and Share Incentive Plan or country equivalent.
- Executive Directors will be entitled to participate on the same terms.

Maximum opportunity
- Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.

Performance measures/assessment and recovery provisions
- Not applicable.

New for FY22 policy
- No changes to policy.

Directors' remuneration report continued

NOTES TO THE REMUNERATION POLICY TABLE

Pre-existing remuneration arrangements and minor changes

The Committee may make remuneration payments outside of the terms of this Policy where the terms of the payment were agreed prior to the introduction of this or our prior Policy, provided the terms were in line with the Remuneration Policy in place at that time, or where the terms were agreed prior to the relevant director being a member of the board. Any such payments may be satisfied in line with the terms agreed.

Performance measures and targets

When selecting performance measures for our incentive plans our primary reference is the business strategy and Key Performance Indicators. We also consider market practice both in our sector and general industry. We seek to choose measures that create balanced incentives and that promote sustained, responsible growth and motivate the right behaviours.

The performance measures selected for LTIP awards to be granted in FY22 (and for those granted in FY21) were chosen because EPS provides a clear assessment and line of sight of overall profitability and shareholder value creation. Relative TSR was chosen because it motivates and rewards outperformance of sector peers and the market and provides an external independent view of performance from a shareholder perspective. The Committee considers that the combination of external (relative TSR) and internally focused (EPS growth) metrics provide a suitable balance and overall assessment of long-term performance.

Incentive plan targets are set primarily in reference to the latest business plan and budget. We also take into consideration market and economic forecasts, analyst consensus and practice in our sector and general industry. Our incentive plan targets are set at a challenging level which reflect the scale and the challenge implicit in our financial budgets.

We seek to ensure that pay-out levels are commensurate with overall group and individual performance.

As set out in the policy table, performance measures and targets for LTIP awards are generally disclosed in advance in the annual report. In certain circumstances (e.g. market uncertainty) the Committee may instead provide details of the targets and measures applicable to awards when announcing award grants. Bonus plan measures will generally be disclosed in advance. Bonus targets and outcomes will be disclosed in the annual report for the following year.

The Committee retains discretion in exceptional circumstances to change incentive plan performance measures and targets and the weightings attached to performance measures part-way through a performance period if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. In such circumstances the Committee will seek to ensure that the revised conditions are not less difficult to satisfy.

Discretion may also be exercised in cases where the Committee believes that the formulaic outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of the bonus pay-out resulting from the application of the performance measures. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report.

Discretion

The Committee has discretion in several areas of Policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend Policy regarding minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

As noted, the Committee reviews all incentive outturns to assess whether they align to the overall performance of the business and the experience of its key stakeholders over the period e.g. shareholders and employees. The Committee retains discretion to adjust the final outturn of incentives up or down to reflect its judgement, any such exercise of discretion will be disclosed in the relevant annual report.

Malus and clawback

Malus and clawback provisions apply to both the Annual Bonus and LTIP.

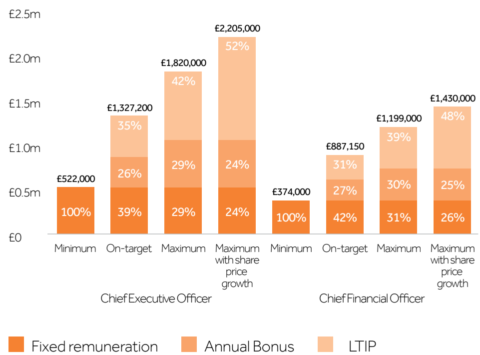
Malus may apply before the determination of the bonus, before the vesting of any deferred component under the bonus and before the vesting of any LTIP award. Clawback may apply up until three years after the date of any cash bonus payment and up until three years after the date of vesting of LTIP awards. Malus and clawback will continue to apply following cessation of employment.

Circumstances where malus and/or clawback could apply include: a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct by the participant and fraud or any other reason as determined by the Committee.

Illustrations of application of Policy

The charts below seek to demonstrate how pay varies with performance for the Executive Directors based on the stated remuneration Policy. The charts show an estimate of the remuneration that could be received by Executives Directors under the Policy set out in this report. Each of the bars is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP. The charts indicate that a significant proportion of both target and maximum pay is performance related. In line with changes to the Directors' Remuneration Reporting Regulations, scenarios including share price growth of 50% over the period of the Policy are shown.

Remuneration scenarios



Directors' remuneration report continued

Assumptions used in determining the level of pay-out under given scenarios are as follows:

Element	Minimum	On-target	Maximum
Fixed elements		CEO: £492,000 CFO: £352,000	
Annual bonus	Nil	65% of maximum	CEO: 120% of salary CFO: 110% of salary
LTIP	Nil	60% of maximum	CEO: 175% of salary CFO: 140% of salary

APPROACH TO RECRUITMENT AND PROMOTIONS

The Committee aims to pay no more than is necessary to attract appropriately skilled and experienced individuals. The ongoing remuneration package for any new Executive Director would be in line with that set out in the remuneration Policy table.

For a new Executive Director who is an internal appointment, the Company may also continue to honour contractual commitments made prior to appointment to the Board even if those commitments are otherwise inconsistent with the Policy in force when the commitments are satisfied. Any relevant incentive plan participation may either continue on its original terms or the performance targets and/or measures may be amended to reflect the individual's new role, as the Committee considers appropriate.

Element	Policy description
Base salary and benefits	• The salary level will be set taking into account a number of factors including market factors, the individual's experience and responsibilities, the individual's previous salary and remuneration package, the salary Policy for the wider Group, the salary for the previous incumbent and for existing Executive Directors. • This may mean that the Executive Director is recruited on a salary below the market rate with a view that it would be increased (potentially by above workforce level increases) over a number of years, subject to performance. • Benefits may be provided in line with DFS' benefits Policy as set out in the remuneration Policy table.
Pension	• An Executive Director will be able to receive either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits in line with DFS' Policy as set out in the remuneration Policy table.
Annual bonus	• An Executive Director will be eligible to participate in the Annual Bonus as set out in the remuneration Policy table. • Awards may be granted up to the maximum opportunity allowable in the remuneration Policy table at the Committee's discretion and will ordinarily be subject to proration from the date of employment.
LTIP	• An Executive Director will be eligible to participate in the Long-Term Incentive Plan as set out in the remuneration Policy table. • Awards may be granted up to the maximum opportunity allowable under scheme rules at the Committee's discretion.
Maximum variable remuneration	• The maximum annual variable remuneration that an Executive Director can receive upon recruitment is up to 350% of salary (i.e Annual Bonus and exceptional LTIP Award limit)
Share buy-outs/ replacement awards	• The Company may, where appropriate, compensate a new Executive Director for variable or share based remuneration that has been forfeited as a result of accepting the appointment with the Company. Where the Company compensates a new Executive Director in this way, it will seek to do so under the terms of the Company's existing variable remuneration arrangements, but may compensate on terms that are more bespoke than the existing arrangements where the Committee considers that to be appropriate. The Committee may if necessary, rely on Listing Rule 9.4.2 to facilitate the making of awards. • In such instances, the Company will disclose a full explanation of the detail and rationale for such recruitment related compensation. In making such awards the Committee will seek to consider the nature (including whether awards are cash or share-based), vesting period and performance measures and/or conditions for any remuneration forfeited by the individual when leaving a previous employer. Where such awards had outstanding performance or service conditions (which are not significantly completed) the Company will generally impose equivalent conditions. The Committee's preference is to buy-out forfeited awards using deferred share awards or performance-based share awards, however, cash may be used. • The value of the buy-out awards will broadly be the equivalent of, or less than, the value of the award being bought out.
Relocation policies	• In instances where the new Executive is relocated from one work location to another, the Company will provide compensation to reflect the cost of relocation for the Executive in cases where they are expected to spend significant time away from their home location in accordance with its normal relocation package for employees. • The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences; housing allowance; and schooling in accordance with the Company's normal relocation package for employees.

Directors' remuneration report continued

EXECUTIVE DIRECTOR SERVICE CONTRACTS

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.

PAYMENTS FOR LOSS OF OFFICE

When determining any loss of office payment for a departing director the Committee will always seek to minimise cost to the Company whilst complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Executives will generally receive base salary for the duration of their contractual notice period, or in lieu of notice, except for certain circumstances such as termination for gross misconduct.

Executive Directors may at the Committee's discretion be eligible for an annual bonus for the financial year of cessation. Any annual bonus awarded would be based on performance during the year as determined by the Committee and pro-rated for time.

For good leavers (in accordance with the definition in the plan rules), outstanding Deferred Award Bonus Plan awards will generally continue and vest at the normal date. The Committee may determine to time pro-rate the number of shares to vest however it is the Remuneration Committee's normal policy is that it will not pro-rate awards for time. If a participant ceases employment for any other reason, their awards will lapse in full on the date of such cessation.

For good leavers (in accordance with the definition in the plan rules), outstanding LTIP awards will generally continue and vest at the normal vesting date, subject to the Committee's assessment of performance against targets, with awards pro-rated for time in office. However, the Committee retains discretion to allow vesting on cessation and to not pro-rate awards for time if it considers the circumstances warrant this action. If a participant ceases employment for any other reason, awards will lapse in full on the date of cessation. Unless otherwise determined by the Committee and except in the event of the participant's death, any applicable post-vesting holding period will continue to apply post cessation of employment.

Any vested annual bonus and LTIP shares that are subject to the post-cessation shareholding will be held for two years after cessation.

In exceptional circumstances and if it is considered in the best interest of the Group, arrangements may be made to facilitate the cessation of employment of an individual, any such arrangements would seek to minimise cost to the group.

In a change of control unless otherwise determined by the Board, outstanding Deferred Award Bonus Plan awards and LTIP awards will vest. Unless otherwise determined by the Board, LTIP award vesting will be subject to an assessment of achievement of the performance conditions to date and subject to time pro-rating. However, the Committee retains discretion to not pro-rate awards for time or consider performance conditions if it considers the circumstances warrant this action.

CONSIDERATION OF EMPLOYEE REMUNERATION AND SHAREHOLDERS

Consideration of shareholder views

The Committee takes the views of the shareholders seriously and these views are considered in shaping the Policy and practice. Shareholder views are considered when evaluating and setting remuneration strategy and the Committee welcomes an open dialogue with its shareholders on all aspects of remuneration. The Committee consulted its major shareholders (who together hold 87% of the Issued Share Capital) and the main shareholder representative bodies (IA, ISS and Glass Lewis) on the proposed new Remuneration Policy for which we are seeking shareholder approval at the 2021 AGM.

The Committee is grateful for the time that shareholders have taken to consider proposals and provide feedback. At the end of the consultation a large majority of shareholders consulted indicated they were supportive of the proposed new Remuneration Policy.

The Committee will continue to maintain an open and constructive dialogue with its major shareholders and the representative bodies and where appropriate, will always seek to consult with them where appropriate.

Consideration of employee views and employment conditions elsewhere in the Group

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. The Committee is provided with data on the remuneration structure for management level tiers below the Executive Directors and uses this information to ensure consistency and fairness of approach throughout the Company.

Formal consultation on the remuneration of Executive Directors is not undertaken with employees. However, currently a survey on employee engagement is undertaken annually and includes discussion on parts of the Group's remuneration approach and the Designated Non-Executive Director, has discussed Executive Director Remuneration with the Group wide Employee Voice Forum. The Committee is looking at ways that practice in this area can evolve.

The Policy described above applies specifically to Executive Directors of the Company. The Committee believes that the structure of management and employee reward should be linked to the Group's strategy and performance.

Directors' remuneration report continued

NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

Remuneration Policy table

The Chairman and the Executive Directors of the Board are responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman whose remuneration is determined by the Committee and recommended to the Board.

The table below sets out the key elements of the Policy for Non-Executive Directors:

Purpose
- To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group

Operation
- Fee levels are reviewed periodically considering independent advice and the time commitment required of Non-Executive Directors.
- The fees paid to the Chairman and the fees of the other Non-Executive Directors aim to be competitive with other fully listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity.
- Non-Executive Directors may receive a base fee and additional fees for the role of Senior Independent Director or membership and/or Chairmanship of certain committees.
- Non-Executive Directors also receive reimbursement of reasonable expenses (and any tax thereon) incurred undertaking their duties and or Company business.
- Non-Executive Directors do not receive any variable remuneration element.
- Non-Executive Directors are entitled to staff discount on Group merchandise on the same basis as other employees and may also receive seasonal gifts.

Maximum opportunity
- Any increase in Non-Executive Director fees may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities.
- The Company will pay reasonable expenses incurred by the Chairman and Non-Executive Directors.

Performance measures/assessment and recovery provisions
- Non-Executive Director fees are not performance related.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the Policy which applies to current Non-Executive Directors. The current fee structure and levels are set out below:

Chairman fee	£187,275
Senior Independent Director fee	£62,425
Chair of Audit / Remuneration Committee fee	£59,305
Basic Non-Executive Director fee	£52,020

Non-Executive Director fees will be kept under review and to the extent there are any increases to fees these will generally be in line with those awarded to the wider workforce. Fees for the non-Executive Directors are paid via payroll and are subject to PAYE.

Non-executives do not participate in any incentive plans and do not receive any benefits except health insurance benefits provided to the Chair.

Letters of appointment

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 and are terminable by either the Non-Executive Director or the Company with one 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.

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
Loraine Martins	28 June 2021

Directors' remuneration report continued

Part E: Annual Report on Remuneration for the Financial Year ended 27 June 2021

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[2]	RSP[3]	Pension[4]	Other	Total Fixed	Total Variable	Total
Tim Stacey	**2021**	**410**	**38**	**492**	**780**	**243**	**44**	**–**	**492**	**1,515**	**2,007**
	2020	387	40	–	–	98	43	–	470	98	568
Mike Schmidt[5]	**2021**	**308**	**14**	**338**	**89**	**–**	**26**	**4**	**352**	**427**	**779**
	2020	289	13	–	–	–	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. The amount presented for LTIP awards represents the number of shares vesting under the FY19 (2018) Plan valued at £2.77 per share, being the average share price for the three months ended 27 June 2021.
3. 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 first part of the award vested on 16 November 2019 and was subject to a share price performance condition with an increase attributed to this award is £10,952. The second part of the award vested on 16 November 2020 and was subject to a share price performance condition with an increase attributed to this award of £40,464. The CFO also received awards under the same Plan prior to his appointment as an Executive Director which were not subject to any share price conditions and therefore not included in the single figure remuneration table above. The value of these awards in the current and prior year were £81,599 and £20,156 respectively.
4. Where pension contribution is taken as a salary supplement the amount is reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the company from this alternative.
5. The 'Other' column for Mike Schmidt represents a car allowance supplement.

ANNUAL BONUS OUTTURN FOR FY21 – AUDITED

As disclosed in last year's report, 70% of the Annual Bonus for FY21 was based on EBITDA performance and 30% was based on personal performance. EBITDA for FY21 was £220.5m and therefore 100% of the maximum outcome was awarded for this measure. Personal objectives were achieved in full and as such 100% of maximum outcome was also awarded for this measure. As a result of the performance results shown above, the bonus awarded to Tim Stacey is £491,968 (100% of maximum opportunity) and the bonus awarded to Mike Schmidt is £338,227 (100% of maximum opportunity). In line with the policy in operation during FY21, bonus amounts in excess of 75% of salary are deferred for 3 years, for Tim Stacey this is 36.8% of salary (£161,968) and for Mike Schmidt this is 27.5% of salary (£90,727). The percentage of bonus deferred into shares is 45% for the CEO and 35% for the CFO. No discretion was exercised in determining the annual bonus outturn.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Group EBITDA	70%	£130.9m	£145.4m	£152.7m	100%
Personal objectives	30%	See notes below		100%	
				Tim Stacey Mike Schmidt	100% 100%
Bonus outcome (% maximum)				Tim Stacey Mike Schmidt	100% 100%
Total bonus outcome (£)				Tim Stacey Mike Schmidt	£491,968 £338,227

Directors' remuneration report continued

Detail of performance against personal objectives

Performance against the personal objectives and the Committee's assessment of performance for the CEO and CFO is set out in the tables opposite.

As part of its assessment, the Committee also took into account Group health and safety objectives to ensure that a safe environment was in place for all employees and customers. The Committee was satisfied that timely reporting of health and safety and risk mitigation activities had been undertaken throughout the year with no major incidents arising.

Executive Director	Performance area	Measures of achievement	Level of performance
CEO – Tim Stacey	**Delivery of the Transformation Strategy** – Execute the agreed business strategy through the transformation plan	• The Sofa Delivery Company rolled out successfully by end of FY21. • Dwell integrated into DFS by H1. • Manufacturing Transformation Strategy agreed by H1. • Sofa Workshop Limited disposal by end of H1.	Achieved
	ESG strategy – Launch the new ESG strategy externally and integrate into business plan	• Pro-actively lead for and champion the ESG agenda. • Activities scoped, resourced and embedded within the business to enable ongoing delivery. • Strategy launched externally in Q1. • Year 1 ESG targets achieved (as described in ESG target document).	Achieved
	People & Culture – Develop a safe, engaging & inclusive workplace	• Lead for a strong health & safety culture as measured by HSE reports or investigations and severity of any incidents. • Establish new diversity and inclusion programme to support BAME colleagues. • All management new appointments will be a minimum of a 50/50 gender split.	Achieved
	Growth – Execute the growth agenda focusing on DFS 3.0 and Sofology store roll out	• New growth strategy developed by H1. • 5 new Sofology stores in FY21. • Execution of DFS 3.0 strategy.	Achieved
	Innovation – Develop a pipeline of new products & services for the Group	• A minimum of 3 distinct initiatives piloted and rolled out into the business. • Successful roll out of the extended general insurance product Sofacare.	Achieved

Executive Director	Performance area	Measures of achievement	Level of performance
CFO – Mike Schmidt	**Delivery of the Transformation Strategy** – Executing the agreed business strategic initiatives	• Ensure strong finance support for the rollout of The Sofa Delivery Company, Dwell Integration and disposal of Sofa Workshop, new Sofology showrooms and other ongoing strategic development. • Drive the business in adapting an agile approach to the post-Covid-19 environment – with flexible cost and capital commitments.	Achieved
	Leading the Finance Agenda – Ensure the Group maintains a robust financial position and good relationships with its financial stakeholders	• Lead the Group in achieving a successful refinancing, including equity if required, and in establishing a revised post-Covid-19 liquidity strategy.	Achieved
	Finance Transformation – Make material progress on developing finance support and operations in the Group	• Continue to strengthen forward visibility, insight and reporting. Maintain our journey of improvement of the effectiveness of transactional activities through simplifying operational processes.	Achieved
	People & Culture – Reinforce a safe, engaging & inclusive workplace that operates with the right approach and values	• Lead for a strong health & safety culture as measured by HSE reports or investigations and severity of any incidents. • Drive the agenda for inclusion (in its broadest sense) amongst the finance team and the broader business. • Support the launch and establishment of the Group's ESG strategy externally.	Achieved
	Property – Lead the delivery of the agreed property strategy	• Deliver planned FY21 showroom openings and secure future sites for FY22 in line with the four-year plan. • Deliver the expected property cost savings delivered for FY21 and pathway for £1m of FY22.	Achieved

Directors' remuneration report continued

LTIP AWARDS VESTING IN RELATION TO PERFORMANCE IN FY21 – AUDITED

The 2018 award was granted on 30 November 2018 and was assessed against the performance targets at the end of FY21 (i.e., to 27 June 2021).

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Actual performance	Vesting %
2018 LTIP	EPS growth	50%	Reporting underlying EPS	23.0p	28.5p	36.0p	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	12.83%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	12.34%	100%
	Total vesting						**100%**

For threshold performance 20% of awards vest. For Maximum performance 100% of awards vest. Vesting is on a straight-line basis between these points.

The final level of vesting of these awards was 100%. No discretion was exercised in respect of award vesting levels.

SCHEME INTERESTS AWARDED IN FY21 (2020 AWARDS) – AUDITED

Details of LTIP awards and Deferred Bonus Awards granted during FY21 are set out in the table below.

Director	Scheme	Type of award	Number of shares awarded	Value of award at date of grant (£)	Value of award as % of salary
CEO – Tim Stacey	LTIP	Nil cost option	337,711	£600,000	150%
CFO – Mike Schmidt	LTIP	Nil cost option	202, 626	£360,000	120%

The number of shares granted was based on a share price of £1.77 (which was the average of the closing share price on the three days prior to the grant). The performance period for the 2020 award is from 28 June 2020 and will end 25 June 2023. The performance measures and targets are set out below.

Adjusted EPS (50%)

Percentage of this portion of the Award vesting			
Nil	20%	100%	Between 20% and 100% on a straight-line basis
Less than 18.7p	18.7p	24.7p or more	Between 18.7p and 24.7p

Relative TSR (50%)

	Percentage of this portion of the Award vesting			
Weighting	**Nil**	**20%**	**100%**	**Between 20% and 100% on a straight line basis**
15% (FTSE 250 Index) Excluding Investment Trusts	Below FTSE 250 Index	Equal to FTSE 250 Index	10% p.a. above the FTSE 250 Index return	Between FTSE 250 Index return and 10% p.a.
35% (FTSE 350 General Retailers Index)	Below FTSE 350 General Retailers Index	Equal to FTSE 350 General Retailers Index	10% p.a. above the FTSE 350 General Retailers Index return	Between FTSE 350 General Retailers Index return and 10% p.a.

Directors' remuneration report continued

SAYE AWARDS – AUDITED

The CFO was granted 11,111 SAYE options on 27 November 2020.

DETAILS OF LTIP AWARD PERFORMANCE CONDITIONS (WHERE NOT DISCLOSED ELSEWHERE IN REPORT)

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Threshold level vesting	Maximum vesting
2019 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%

DILUTION

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.

PAYMENT TO PAST DIRECTORS – AUDITED

As disclosed in the 2019 Directors' Remuneration Report, our former CFO Nicola Bancroft was treated as a good leaver upon her retirement from the Board. As such, Nicola's 2018 LTIP award continued and vested at the normal date, subject to achievement of the performance conditions. As set out on page 106, 100% of the performance conditions were met for the 2018 LTIP awards. Nicola's awards were pro-rated for time from the date of grant until 10 July 2019 to reflect Nicola's period of employment. A total of 34,357 shares vested which were valued at £95,076.

PAYMENT FOR LOSS OF OFFICE – AUDITED

None

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	Other	Total
Ian Durant	**2021**	**185**	**1**	**186**
	2020	177	1	178
Alison Hutchinson	**2021**	**62**	**–**	**62**
	2020	61	–	61
Jo Boydell	**2021**	**58**	**–**	**58**
	2020	56	–	56
Steve Johnson	**2021**	**58**	**–**	**58**
	2020	52	–	52
Jane Bednall	**2021**	**51**	**–**	**51**
	2020	24	–	24
Luke Mayhew	**2021**	**–**	**–**	**–**
	2020	21	–	21

Notes:
1. The NEDs all took a 20% reduction in their fees in May and June 2020 to support the business through the pandemic.
2. Luke Mayhew stepped down from the Board on 15 November 2019.
3. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019.
4. Jane Bednall was appointed to the Board on 1 January 2020.
5. Steve Johnson was appointed as Chair of the Remuneration Committee on 17 January 2020.
6. Ian Durant other remuneration relates to health insurance benefit in kind.
7. Loraine Martins was appointed to the Board after the end of the financial year and therefore received no remuneration for her services as a Non-Executive Director during FY21.

Directors' remuneration report continued

SHAREHOLDING AND OTHER INTERESTS AT 27 JUNE 2021 – 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 which for FY21 was equal to 250% of their base salary in the Company (for existing Executive Directors only) over a five-year period from appointment.

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 27 June 2021
Tim Stacey	517,804	334%	Yes	867,676	–	–	–	1,385,480
Mike Schmidt	38,343	33%	No	383,633	18,309	–	11,111	451,396
Ian Durant	44,666	n/a	n/a	–	–	–	–	44,666
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
Total	**667,478**			**1,251,309**	**18,309**	**–**	**11,111**	**1,948,207**

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 (£2.84 at 27 June 2021).
3. Mike Schmidt's interests in shares, not subject to conditions, refer to his outstanding 2018 RSP award. The RSP awards was granted prior to him becoming Executive Director and have no performance conditions attached

At 23 September 2021 there had been no movement in Directors' shareholdings and share interests from 27 June 2021.

OUTSTANDING SHARE AWARDS

The following share awards remain outstanding as at 27 June 2021 for the Executive Directors:

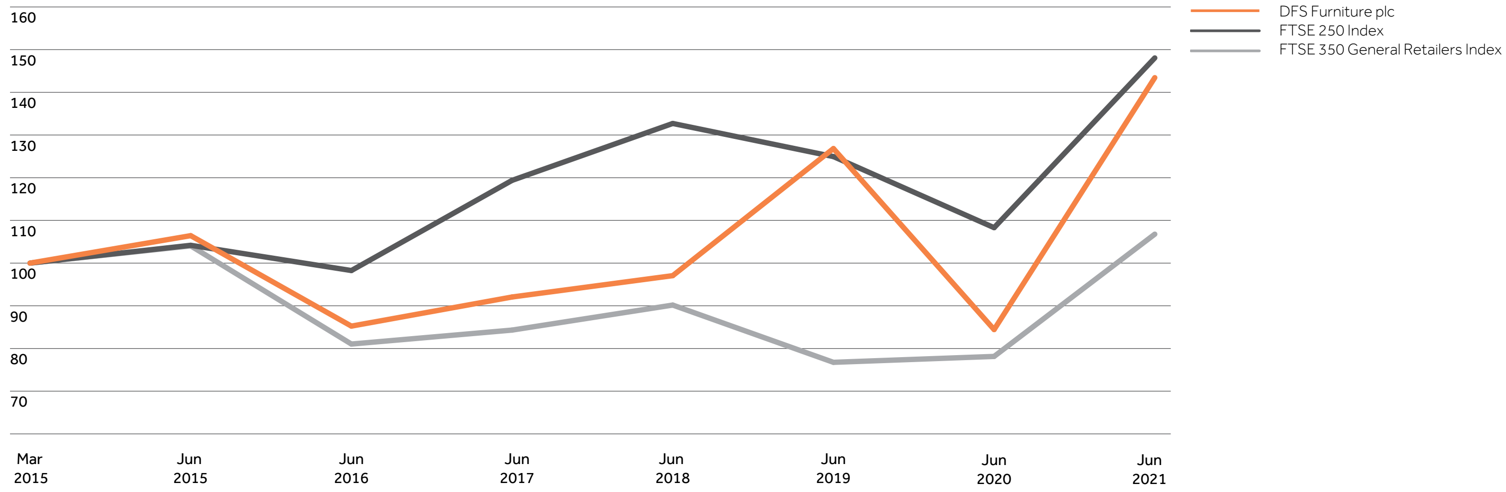
Director	Type of award	Date of grant	Number of awards	Award vested	Awards lapsed	Outstanding awards	Share price[2]	Normal vesting date
Tim Stacey	2018 LTIP	30/11/18	281,690	–	–	281,690	£2.13	30/11/21
	2019 LTIP	25/10/19	248,275	–	–	248,275	£2.42	25/10/22
	2020 LTIP	06/10/20	337,711	–	–	337,711	£1.77	06/10/23
Mike Schmidt	2018 RSP	30/11/18	18,309	–	–	18,309	£2.13	30/11/21
	2018 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
	2020 LTIP	06/10/20	202, 626	–	–	202, 626	£1.77	06/10/23

Notes:
1. Mike Schmidt's 2018 RSP award was granted prior to him becoming an Executive Director.
2. The share price for calculation is the average of the closing share price on the three days prior to the grant.

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 FY21 (27 June 2021). The peer groups here represent the Company's key markets for investment capital.



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.

	FY21	FY20	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	Tim Stacey	Tim Stacey	Ian Filby	Ian Filby	Ian Filby	Ian Filby	Ian Filby
Single Figure	**2,007**	568	464	374	673	666	804	790
Annual Bonus (% of max)	**100%**	0%	26.2%	32.2%	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**100%**	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.
4. Tim Stacey's single figure for FY21 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 £243k and vested on 16 November 2020

Directors' remuneration report continued

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. The Executive Directors received a salary increase of 10% for FY21.

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.

		FY19-FY20			FY20-FY21		
Annual % change		**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus**
CEO	Tim Stacey	2%	41%	-100%	10%	-6%	100%
CFO	Mike Schmidt	39%	0%	-100%	10%	10%	100%
Non-Executive Directors	Ian Durant	5%	n/a	n/a	2%	n/a	n/a
	Alison Hutchinson	17%	n/a	n/a	2%	n/a	n/a
	Jo Boydell	81%	n/a	n/a	2%	n/a	n/a
	Steve Johnson	79%	n/a	n/a	2%	n/a	n/a
	Jane Bednall	n/a	n/a	n/a	2%	n/a	n/a
Employee pay		0%	n/a	n/a	2%	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 Schmidt 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 NEDs all took a 20% reduction in their fees in May and June 2020 to support the business through the pandemic (see single figure remuneration table for Non-Executive Directors on page 107 for further details), the changes in fees above also represent a number of changes to roles:
   a. Luke Mayhew stepped down from the Board in FY20 (on 15 November 2019) and therefore has been excluded from this table from FY21
   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) were withheld until the first half of FY21 and were subject to achievement of a financial underpin.

Directors' remuneration report continued

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	2021	2020	% change
Employee remuneration	**£197.7m**	£186.5m	+6.0%
Distributions to shareholders (dividends and share buybacks)	**–**	£17.0m	n/a

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

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN FY22

Base salary

The base salaries of the Executive Directors will be reviewed in April 2022 along with the wider workforce. The expectation is that any increases would be in line with the wider workforce.

Pension and benefits

The pension contribution for Tim Stacey for FY22 will be £50,000 and for Mike Schmidt will be £29,250 for the same period (less employers NI cost).

Benefits provided will be in line with the Policy.

Annual bonus

The operation of the bonus for FY22 will be in line with the new Policy. The bonus opportunity for the CEO will be 120% of salary and for the CFO 110% of salary.

For FY22, bonus performance will be based 70% on financial measures: 20% Revenue, 30% Profit before tax, 20% Free Cash Flow and 30% on non-financial measures: 15% Strategic ESC objectives (Environmental 5%, Social – Inclusion 5%, Customer – Average NPS 5%) and 15% Personal objectives.

Targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP

The operation of the LTIP for FY22 will be in line with the new Policy. The maximum LTIP award level will be 175% of salary for the CEO and 140% of salary for the CFO. In its ordinary course of determining LTIP targets the Committee took into account the latest available analyst forecasts, business plans and projections. In doing so the Committee observed variance in long-term analyst forecasts, reflecting the ongoing uncertainty as retailers emerge from Covid-19. Taking these points of reference into account, and the increased level of opportunity for FY22, the Committee purposefully set the threshold EPS target at a level broadly aligned with long-term analyst consensus but the maximum EPS target at a level that would require significant outperformance of analyst consensus, plan and historic (pre Covid-19) levels of EPS. In determining the stretch associated with the TSR targets, the Committee took into account recent TSR performance relative to other retailers and indices more generally as well as long-term analyst forecasts and the current share price relative to historic levels. The Committee concluded that a maximum target of 10% p.a. growth in TSR continued to represent a stretching target for the TSR element. Performance targets and weightings are set out below.

Adjusted EPS (50%)

Percentage of this portion of the Award vesting

Nil	20%	60%	100%	Between 20% and 60% on a straight-line basis	Between 60% and 100% on a straight-line basis
Less than 24.8p	24.8p	26.1p	28.7p or more	Between 24.8p and 26.1p	Between 26.1p and 28.7p

Relative TSR (50%)

Percentage of this portion of the Award vesting

Weighting	Nil	20%	100%	Between 20% and 100% on a straight line basis
15% (FTSE 250 Index) Excluding Investment Trusts	Below FTSE 250 Index	Equal to FTSE 250 Index	10% p.a. above the FTSE 250 Index return	Between FTSE 250 Index return and 10% p.a.
35% (FTSE 350 General Retailers Index)	Below FTSE 350 General Retailers Index	Equal to FTSE 350 General Retailers Index	10% p.a. above the FTSE 350 General Retailers Index return	Between FTSE 350 General Retailers Index return and 10% p.a.

Non-Executive Director fees

The intention is to carry out a review of fees in readiness to make any increases from April 2022 at the same time as the wider workforce.

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 2020 in September 2021 and it is available online: https://dfscorporate.co.uk/

We recognise that there continues to be a gender pay gap in the business, although the mean and median gaps fell 3.0% and 1.2% 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 11.8% mean and 8.9% 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.

Directors' remuneration report continued

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 Responsibility and sustainability Report on pages 51 to 70 of this Annual Report.

INCLUSIVITY AND DIVERSITY

Across the Group, we are committed to our ambition to reflect the customers we serve and the communities we live and work in, and to building a workplace where everyone is welcome. We have made good progress over the last 6-12 months in building a culture-first strategy, kick starting the conversation around inclusion with internal education and engagement activity, alongside the creation of longer-term plans by brand and function to make a measurable difference to the diversity of our workforce.

Activity to date in FY21 has included:

- The creation and implementation of an Inclusive Leaders workshop with an external partner, to be rolled out across out entire leadership community.
- Beginning a partnership with LGBTQ+ charity Stonewall, to support with education, policy reviews and the launch of an LGBTQ+ Allyship network.
- Implementing an Inclusion Impact Assessment to be applied to all Capital projects, ensuring careful consideration of the effect on all protected characteristics.
- Active involvement in Pride Month, to include our first external show of support in the DFS Tottenham Court showroom with an affiliation to a local LGBTQ+ Charity supporting education in schools.
- The formal creation of an Inclusion Council made up of representatives from minority groups across the business, to act as a sounding board for our plans and to act as the voice of our colleagues.
- Development of governance around Inclusion as a Transformational project, including monthly steering groups with executive sponsorship and a Programme Board responsible for delivery for change by brand and function.

CEO pay ratio

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

As for last year, the Company has adopted Option B: Gender Pay Gap data, this approach was considered to remain appropriate due to data availability and to allow consistency with prior year comparison. 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 for each year were identified in April (2021 and 2020) using our Gender Pay Gap data. 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) and June 2021 (financial year FY21). 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 FY21 and 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.

FY21 AND FY20 PAY RATIO DATA

Year	Method	Measure	CEO	25th percentile	50th percentile	75th percentile
2021	**Option B**	**Pay Ratio**		**76:1**	**66:1**	**61:1**
		Salary	**£410,000**	**£23,864**	**£28,470**	**£31,000**
		Total pay and benefits	**£2,027,809**	**£26,691**	**£30,905**	**£33,110**
2020	Option B	Pay Ratio		24:1	20:1	16:1
		Salary	£386,667	£21,850	£25,648	£30,367
		Total pay and benefits	£568,399	£23,644	£28,740	£35,048

The change in pay ratio is primarily due to 100% of maximum vesting outcome on both the FY21 annual bonus and 2018 LTIP Award.

It is also reflective of the increase to the CEO's salary from 1 April 2021 which the Committee initially envisaged as being a stepped increase over two years but was delayed in relation to the pandemic and so a larger increase occurred in a single year.

MATTERS COVERED DURING THE COMMITTEE'S MEETINGS IN FY21

As at 27 June 2021, the Committee consisted of the following members:

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

Directors' remuneration report continued

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

Matter	July 20	Sep 20	Feb 21	April 21
Reviewed base salaries for FY21	●			
Approved bonus outcomes for 2020	●			
Approved bonus scorecard for FY21 and monitored interim performance	●		●	●
Signed-off LTIP performance outcomes for 2018 LTIP	●			
Reviewed Covid-19 impact pay report	●		●	
Appointed Willis Towers Watson		●		
Approved LTIP performance targets for 2021 LTIP		●	●	
Signed-off Directors Remuneration Report		●		
Reviewed pay and conditions for wider workforce		●		
Review of people and reward calendar		●		
Review of Remuneration Committee calendar			●	
Review of corporate governance code changes and market practice update			●	●
FY21 annual pay review			●	
Gender pay reporting and diversity and inclusiveness initiatives				●
Remuneration policy review updates		●	●	●

Note:
Details of meeting attendance by Committee members can be found on page 79 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 during FY21 from PwC and Willis Towers Watson. PwC were the Committee's independent advisors until October 2020 when further to a competitive tender process, Willis Towers Watson were appointed as the Committees independent advisors.

Both Willis Towers Watson and PWC are considered by the Committee to be objective and independent, both 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 Willis Towers Watson 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 £22,250. The total fees paid to Willis Towers Watson in respect of services to the Committee during the year were £51,000. All fees were determined based on the scope and nature of the projects undertaken for the Committee.

Steve Johnson

Chair of the Remuneration Committee
23 September 2021

Directors' report

The Directors' Report includes information required to be disclosed under the Companies Act 2006 ("the Act"), the UK Corporate Governance Code ("the Code"), the Financial Conduct Authorities Listing Rules ("Listing Rules") and the Disclosure and Transparency Rules ("DTRs").

DFS Furniture plc	
Registered office address:	1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA
Company Number:	07236769
Date of Incorporation:	27 April 2010
Telephone Number:	01302 573 200

DFS Furniture PLC (the " Company") 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 27 June 2021.

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 27 June 2021, in accordance with section 415 of the Companies Act 2006.

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.

The Strategic report and this Directors' report together with sections of the Corporate Governance report incorporated by reference, together form the Management Report for the purpose of DTR 4.1.8R. The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R.

The table below makes reference to the relevant sections of the Annual Report:

Disclosure	Page
Audit Committee Report	83-88
Colleague Engagement	63-67
Corporate Governance Report	75-82
Community	69
Diversity & Inclusion	63
Directors' Interests	108
Directors' Remuneration Report	91-113
Executive Share Plans	108
Health & Safety	66
Modern Slavery	57
Independent Auditors	118-124
Internal Controls / Risk Management	36-45
Nomination Committee Report	89-90
S.172 & Stakeholder Engagement	46-50

ANNUAL GENERAL MEETING ("AGM")

The Company's next AGM will take place on 12 November 2021 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA at 3:30pm.

Due to the uncertainty around the Covid-19 pandemic, the Board took the difficult decision to hold a closed AGM on 13 November 2020, with shareholders not permitted to attend.

Throughout the year the Board has followed the evolution of hybrid meetings and reviewed best practice adopted by listed companies, as well as monitoring the ongoing restrictions imposed by the Government. The Company will seek the approval of shareholders at the 2021 AGM to allow hybrid meetings for the future.

Restrictions related to the pandemic were substantively lifted on 19 July therefore the intention of the Company is to host the AGM with no restrictions. All shareholders are therefore welcome, and actively encouraged to attend the AGM. Further information on this, including resolutions to be tabled at the meeting, will be found in the Notice of AGM to be received in September.

Shareholders should continue to monitor the Company's website for the most up to date information on the arrangements for the AGM.

To encourage shareholders to participate in the AGM process, the Company offers 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.

DIRECTORS

The membership of the Board and biographical details of the Directors are provided on pages 72 to and 74. 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 108. Options granted to directors under the Save As You Earn ("SAYE"), and Executive Share Option Schemes are shown on page 106. Further information regarding employee share option schemes is provided in note 25 to the financial statements.

Director	Position	Service in the year ended 27 June 2021
Ian Durant	Chair	Served throughout the year
Tim Stacey	Chief Executive Officer	Served throughout the year
Mike Schmidt	Chief Financial 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	Served throughout the year
Loraine Martins	Independent Non-Executive Director	Appointed 28 June 2021

Directors' report continued

Appointment & Removal of Directors
Directors are appointed or replaced in accordance with the Company's Articles of Association (the "Articles"), the Act and the Code. The Articles 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 Directors stand for re-election on an annual basis at the Company's AGM in accordance with the recommendations of the Code. The business of the Company will be managed by the Board in accordance with the Articles, the Act and any directions given by special resolution.

Executive Directors' Contracts
The Executive Directors serve under rolling contracts. Details of which are set out on page 102 of the Directors' Remuneration Report. Non-Executive Directors have letters of appointment. The term is for an initial period of two three-year terms with a provision for termination on three months' notice from either party, or six months' notice from either party in the case of the Chairman. Letters are then renewed annually.

The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM. The Directors' service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office 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' indemnities and insurance
In accordance with the Companies Act 2006 and the Company's Articles, the Company has purchased and has maintained throughout the year, directors' and officers' liability insurance cover. This cover has been renewed during the period and remains in force at the date of this report. An annual review is carried out to ensure that the Board remains satisfied that an appropriate level of cover is in place.

Each Director and Officer also has the benefit of a qualifying indemnity, as defined by the Act, and as permitted by the Articles, providing cover for any liabilities incurred in the performance of their duties. Neither arrangement provides cover should it be proven that the Director acted fraudulently or dishonestly. No amount was paid under these arrangements in the period other than the applicable insurance premiums.

Conflicts of interest
The company has robust procedures in place to identify, authorise and manage potential or actual conflicts of interest, and these procedures have operated effectively during the year. Where potential conflicts arise, they are reviewed, and if appropriate, approved by the Board. Processes for managing such conflicts are put in place to ensure no conflicted Director is involved in any decision related to his or her conflict. Directors' other key appointments are set out in the Directors' biographies on pages 73 and 74.

Dividends
On 10 March 2021 the Board announced its interim results, however in order to preserve liquidity in the continued uncertainty of the pandemic, no interim dividend was paid. The Board recognises the importance of dividend payments to shareholders and proposes a final dividend payment of 7.5p per share to be paid in respect of the 52 weeks ended 27 June 2021. The final dividend will be paid on 23 December to all shareholders on the register at 26 November 2021. The Company's shares will trade ex-dividend from 25 November 2021. The dividend is subject to approval by shareholders at the AGM on 12 November 2021.

No interim dividend	(last year 0.0p per share)
7.5p proposed final dividend	(last year 0.0p per share)
Total dividend of 7.5p per share for 2020/21	(last year 0.0p per share)

Substantial Shareholders
As at 10 September 2021, 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 Ordinary Shares	% voting rights	Date of notification
Liontrust Sustainable Investments	24,294,528	9.40	25 Nov 2019
Aviva Investors	21,818,822	8.44	30 Apr 2020
Franklin Templeton Fund Mgt	19,524,928	7.56	13 Apr 2020
Jupiter Asset Mgt	16,856,645	6.52	20 Oct 2020
JO Hambro Capital Mgt	15,540,459	6.01	17 Feb 2021
Pelham Capital Mgt	15,498,121	6.00	12 Dec 2019
Stadium Capital Mgt	13,898,874	5.38	26 Sep 2017
Aberforth Partners	13,176,711	5.10	24 May 2021
Aberdeen Standard Investments (Standard Life)	12,768,091	4.94	7 June 2021
Janus Henderson Investors	11,442,840	4.43	

Takeover directive information
Following the implementation of the European Directive on Takeover Bids by certain provisions of the Companies Act 2006, the Company is required to disclose certain additional information in the Directors' Report. This information is set out below:

Share capital & Treasury Shares
The Company has only one class of shares, Ordinary Shares of £0.10 pence each.

As at 23 September, the Company had an issued share capital of 258,636,720 ordinary shares of £0.10p each.

On 27 June 2021, the Company held 250,332 Ordinary Shares in treasury (2020:266,473).

Treasury shares are held in the expectation that they will be utilised to satisfy future share-based employee-awards.

Details of the Company's share capital are set out in note 22 to the consolidated financial statements.

The rights and obligations attached to these shares are governed by Companies Act 2006 and the Company's Articles. At a general meeting of the Company, on a show of hands, every shareholder present in person or by proxy has one vote only and, in the case of a poll, every shareholder present in person or by proxy has one vote for every share in the capital of the Company held by him or her.

Under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company.

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.

Directors' report continued

Authority to purchase own shares
At the last AGM of the Company on 13 November 2020, 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 12 November 2021 unless revoked, varied, or renewed prior to that meeting.

A resolution will be proposed at the 2021 AGM to renew this authority.

Authority to allot shares
At the last AGM of the Company on 13 November 2020, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £127,685,124 (or up to £255,370,247 in connection with an offer by way of a rights issue).

During the year, the Company allotted 3,000,000 new ordinary shares of £0.10 pence each for the purposes of satisfying the vesting of outstanding awards granted between 2017 and 2019 under the DFS Furniture plc 2015 Long Term Incentive Plan, the DFS Furniture plc 2015 Restricted Share Plan and the DFS Furniture plc Share save Scheme. The shares were purchased at nominal value by the DFS Furniture plc Equity Plan Employee Trust (the "EBT") – the Company's employee benefit trust.

A resolution will be proposed at the 2021 AGM to renew this authority.

Change of control
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 change of control provisions. Outstanding options and awards may vest on a change of control.

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.

Articles of Association
The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders.

The Company proposes to adopt revised articles of association at the 2021 AGM. Due to the pandemic the 2020 AGM was a closed meeting with the minimum shareholders present to achieve a quorum and the Company appreciates that shareholders may not have been able to express their views appropriately. The proposed amendment to the articles will allow for hybrid physical and online meetings to be held in the future and will ensure adequate measures are in place to facilitate engagement with shareholders.

TREASURY AND RISK MANAGEMENT
The Company's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Risks and Uncertainties section on page 44 and note 24 to the annual financial statements.

INDEPENDENT AUDITORS
In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit and Risk Committee, a resolution is to be proposed at the AGM for the reappointment of KPMG LLP as auditor of the Group.

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.

Subsequent events
Between 27 June 2021 and the date of this report, Loraine Martins was appointed to the Board as an Independent Non-Executive Director and the Board established the Responsible and Sustainable Business Committee. There were no further reportable events.

DISCLAIMER
This Directors' Report, Strategic Report and the financial statements contain certain forward-looking statements with respect to the financial condition, results, operations, and business of DFS Furniture plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Directors' Report and Strategic Report or in these financial statements should be construed as a profit forecast.

Donations
The Group does not make any political donations. The Group has a policy of not making donations to political organisations or independent election candidates.

The Group made charitable donations of £138,000 during the year.

Going concern
The performance of the Group throughout the pandemic has been resilient. The Group remains highly cash generative and currently has sufficient medium and long-term facilities in place, including a £225.0m senior revolving credit facility, extended during the year until December 2023 with two further one-year extension options.

Out of this £225.0m, £8.0m is currently utilised at the date of this report. Further details of the facilities and the Group's financial management objectives are detailed in note 24 to the financial statements on pages 154 to 157.

On the basis of their assessment of the Group's financial position, forecasts and projections, the Company's Directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence as detailed in the Viability Statement on page 45. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

This report has been approved by the Board of Directors and has been signed on its behalf by:

Elizabeth McDonald

Group General Counsel & Company Secretary
23 September 2021

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 are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework. In addition, the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

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 the Group's 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, reliable, and prudent.
- For the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("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 parent company 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Each of the Directors whose names and functions are set out on pages 73 and 74 confirms that, to the best of their 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 strategic report/directors' 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.

We consider the annual report and accounts, 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 Directors' Report was approved by a duly authorised committee of the Board of Directors on 23 September 2021 and signed on its behalf by:

Elizabeth McDonald

Group General Counsel & Company Secretary
23 September 2021

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 year ended 27 June 2021 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 the 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 27 June 2021 and of the Group's profit for the year then ended;
– The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
– 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 to the extent applicable.

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 7 financial years ended 27 June 2021. A competitive tender process was run in 2021 for the FY22 year end audit. 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	£3.0m (2020:£1.8m) 4.2% (2020: 3.6%) of three financial year average absolute Group profit/loss before tax excluding non-underlying items
Coverage	91% (2020:72%) of Group profit before tax (2020: Group loss before tax)
Key audit matters	vs 2020
Recurring risks	↓ Going concern
	↓ Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies

Independent auditor's report continued

2. KEY AUDIT MATTERS: 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 decreasing order of audit significance, 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.

	The risk	Our response
Going concern	**Disclosure quality:**	**Our procedures included:**
Refer to page 36 (Principal Risks), page 45 (Viability reporting), page 85 (Audit Committee Report), page 116 (Director's report) and page 131 (accounting policy).	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 to operate 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 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; – Reduced customer demand for furniture as we exit the Covid-19 pandemic; and – Regulatory changes to the sale of financial products, including extended warranties. 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 the fact would have been required to be disclosed.	– **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 forecast accuracy versus actual cash flow 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 sensitivity of 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 scenarios, including various Covid-19 lockdown scenarios, and a reduction in sales due to a decrease in customer confidence; – **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, and reduction in bonuses; and – **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 (2020: acceptable).

Independent auditor's report continued

2. KEY AUDIT MATTERS: 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; 2020 £509.3m; impairment expense £0m (2020: £5.3m) parent Company's investment in subsidiaries £250.1m; 2020: £246.5m; parent Company's receivables £355.7m; 2020 £356.7m) Refer to page 85 (Audit Committee Report), page 133 (accounting policy), note 10 on page 147 (financial disclosures), notes 2 and 3 to parent Company financial statements on page 163.	**Forecast based assessment:** There is a risk 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 FY20 financial 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. In conducting our final audit work we concluded that reasonably possible changes to the value in use would not be expected to result in material impairment.	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 and discount factor in order to determine their impact on the value in use calculations; – **Our sector experience:** Engaged our internal valuation specialists to asses and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculation, benchmarking 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 and receivables. **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 (2020: acceptable).

For each of the key audit matters reported, we performed the detailed tests above rather than seeking to rely on any of the Group's controls. This is because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and impairment tests however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

We continue to perform procedures over the DFS Trading Guarantee Provision. However, due to its size relative to materiality, the consistency in approach taken by management in previous years, and the availability of corroborating data supporting the assumptions within the model, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over IFRS 16. However, as the key audit matter recognised in the previous year was specifically over the transition, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent auditor's report continued

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 £3.0m (2020: £1.8m), 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 4.2% (2020: 3.6%).

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 £1.6m (2020: £1.0m), determined with reference to a benchmark of the parent Company total assets, of which it represents 0.26% (2020: 0.17%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

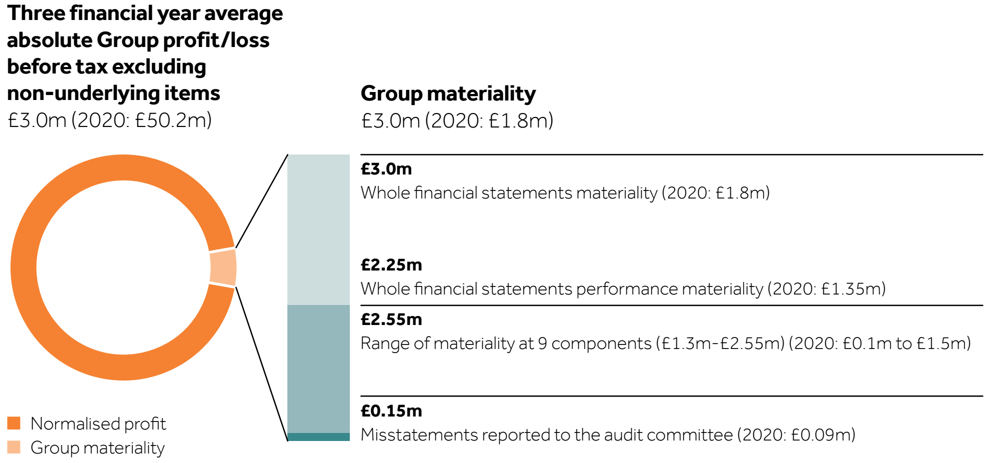
Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £2.25m (2020: £1.35m) for the group and £1.2m (2020: £0.75m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

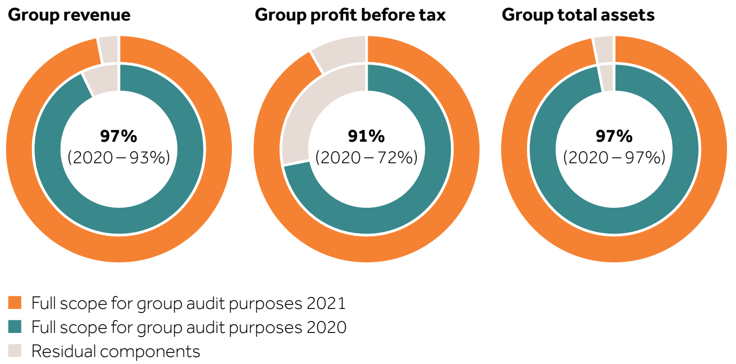
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.15m (2020: £0.09m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 9 (2020: 9) reporting components, we subjected 3 (2020: 3) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite. The work on all components, including the audit of the parent company, was performed by the Group audit team.

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.





Independent auditor's report continued

4. GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- We have nothing 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 Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- The related statement under the Listing Rules set out on page 116 is materially consistent with the financial statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. FRAUD AND BREACHES OF LAWS AND REGULATIONS –ABILITY TO DETECT

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and general counsel and company secretary as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and the unusually high trading and order book during the financial year, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as provisions.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation of some of the Group-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unexpected accounts combinations, and unusual cash journals.
- Evaluated the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements, in particular the current FCA focus on consumer duty with regards to the provision of Sofacare.

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. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Independent auditor's report continued

5. FRAUD AND BREACHES OF LAWS AND REGULATIONS –ABILITY TO DETECT CONTINUED

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

– The directors' confirmation within the Viability Reporting (page 45) that they have carried out a robust assessment of the emerging and 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 how emerging risks are identified, 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

We are also required to review the Viability Reporting (page 45) under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

– 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;
– The section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
– The section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

Independent auditor's report continued

7. 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.

8. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 117, 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 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 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.

9. 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

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23 September 2021