

## DIRECTORS' REMUNERATION POLICY

**This document details the Directors' Remuneration Policy that will govern the Company's future remuneration payments, which was approved by shareholders at the Company's AGM on 4 December 2015. The policy is intended to apply for three years from the start of the 2016 Financial Year.**

The Committee has established the policy on the remuneration of the Executive Directors and the Chairman. The Board has established the policy on the remuneration of the other Non-Executive Directors.

### 1. Executive director remuneration policy

#### *Remuneration strategy*

The Company's remuneration strategy is to provide a remuneration framework based on the following five principles:



We believe that the remuneration structure in place will continue to support and motivate our Executive Directors, in furthering the Company's long-term strategic objectives including the creation of sustainable shareholder returns.

Furthermore, the Committee are satisfied that the composition and structure of the remuneration package is appropriate and does not incentivise undue risk-taking or reward underperformance. The table below sets out the key elements of the policy for Executive Directors:

#### *Remuneration policy table*

Element, purpose & link to strategy	Operation	Maximum opportunity	Performance measures and assessment
<b>Base Salary</b>			
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.	Salaries are reviewed annually, and any changes normally take effect from 1 August.  When determining the salary of the Executives the Committee takes into consideration: <ul style="list-style-type: none"> <li>the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity;</li> </ul>	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.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.

Element, purpose & link to strategy	Operation	Maximum opportunity	Performance measures and assessment
	<ul style="list-style-type: none"> <li>the performance of the individual Executive Director;</li> <li>the individual Executive Director's experience and responsibilities;</li> <li>pay and conditions throughout the Group, including the level of salary increases awarded to other employees.</li> </ul>		

### Benefits

To provide competitive benefits and to attract and retain high calibre employees.	<p>Reviewed periodically to ensure benefits remain market competitive.</p> <p>Benefits currently include:</p> <ul style="list-style-type: none"> <li>Car and fuel allowance;</li> <li>Life insurance;</li> <li>Directors' &amp; Officers' liability insurance;</li> <li>Private medical insurance (including cover for spouses and dependants);</li> <li>Reimbursement of home telephone line and telephone expenses;</li> <li>Professional subscriptions;</li> <li>Critical illness cover;</li> <li>Staff discounts;</li> <li>Other minor benefits as provided from time to time, including seasonal gifts</li> </ul>	Benefit values vary year on year depending on premiums and the maximum potential value is the cost of the provision of these benefits.	No performance or recovery provisions apply.
---	--	--	--

### Pension

To provide a competitive company contribution that enables effective retirement planning.	<p>Pension is provided by way of a contribution to a personal pension scheme or cash allowance in lieu of pension benefits.</p> <p>No recovery provisions apply.</p>	The maximum contribution to a personal pension scheme or cash in lieu is equal to £50,000.	No performance or recovery provisions apply.
---	--	--	--

### Annual Bonus

Incentivises achievement of annual objectives which support the Group's short-term performance goals.	<p>Bonus awards are granted annually following the signing of the Report and Accounts, usually in October.</p> <p>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.</p> <p>Malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate such as a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud or other reason as determined by the Committee.</p>	<p>Maximum awards under the Annual Bonus are equal to 100% of salary.</p> <p>Threshold performance: 0% of maximum.</p>	<p>Performance targets will be set by the Committee annually based on a range of financial and non-financial measures. Financial targets govern the majority of bonus payments, which may include those related to profit, cash flow and sales. Non-financial measures may include customer satisfaction targets and individual personal objectives.</p> <p>The Committee has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year.</p> <p>As well as determining the measures and targets, the Committee will also determine the weighting of the various measures to ensure that they support the business strategy and objectives for the relevant year.</p>
---	--	--	---

Element, purpose & link to strategy	Operation	Maximum opportunity	Performance measures and assessment
<b>LTIP</b>			
The DFS Furniture plc 2015 Long-Term Incentive Plan (LTIP) incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders.	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 (apart from initial awards, which were granted shortly after Admission and will vest after the financial year ending July 2017) subject to the achievement of the performance measures. Malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate such as a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud or other reason as determined by the Committee.	Maximum LTIP Awards are equal to 150% of base salary.  In exceptional circumstances, the Committee retains the discretion to increase this to 300% of salary.  Participants may be entitled to dividend equivalents representing the dividends paid during the performance period on LTIP awards that have vested.	Awards vest based performance against challenging targets, aligned with the delivery of the Company's long-term strategy.  Adjusted EPS and Relative Total Shareholder Return measures will determine the vesting of awards granted in any year (50% weighting for each measure).  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.  The Committee will review performance measures annually, in terms of the range of targets, the measures themselves and weightings applied to each element of the LTIP. Any revisions to the metrics and/or weightings will only take place if it is necessary because of developments in the Group's strategy and, where these are material, following dialogue with the major shareholders.
<b>All-employee incentives</b>			
Encourage all employees to become shareholders and thereby align their interests with shareholders.	Eligible employees may participate in the Sharesave and Share Incentive Plan or country equivalent. Executive Directors will be entitled to participate on those same terms.	Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.	Not applicable.
<b>Shareholding guidelines</b>			
To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.	The Executive Directors are required to build or maintain (as relevant) a minimum shareholding in the Company.  Shares included in this calculation are those held beneficially by the Executive Director and their spouse/life partner.	The shareholding requirement is up to 200% of salary for Executive Directors.	Not applicable.

#### *Legacy awards*

The Committee reserves the right to honour any remuneration payments or awards, notwithstanding that they are not in line with the policy set out above where the terms of the payment or award were agreed before the policy came into effect (as set out in the IPO document).

Such payments or awards will be set out in the Annual Report on Remuneration for the relevant year. This includes the release of awards under the Management Equity Plan made prior to listing of the Company.

### *Performance measures and targets*

The table below sets out the rationale for performance measures chosen in respect of the Annual Bonus and LTIP:

Element	Performance measures	Rationale	How targets are set
Annual Bonus	A range of financial and non-financial performance measures.	The Committee selected the financial measures based on the Group's Key Performance Indicators (KPIs) and personal objectives are individually set and based on key strategic goals.	The performance targets are determined annually by the Committee taking into account market conditions and forecasts.
LTIP	<ul style="list-style-type: none"><li>• EPS</li><li>• Relative Total Shareholder Return.</li></ul>	<p>EPS is an important measure of shareholder value over which Executive Directors have clear line of sight.</p> <p>Relative Total Shareholder Return reflects DFS performance relative to other companies in which investors could choose to invest.</p>	<p>EPS targets are set in reference to analyst forecasts and business plans.</p> <p>Relative Total Shareholder Return targets are determined taking into account the comparative market returns and the expected level of returns for DFS shareholders.</p>

The Committee is of the opinion that, given the commercial sensitivity of the Company's operations, disclosing precise targets for the Annual Bonus in advance would not be in shareholders' interests. Except in circumstances where elements remain commercially sensitive, actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any payouts.

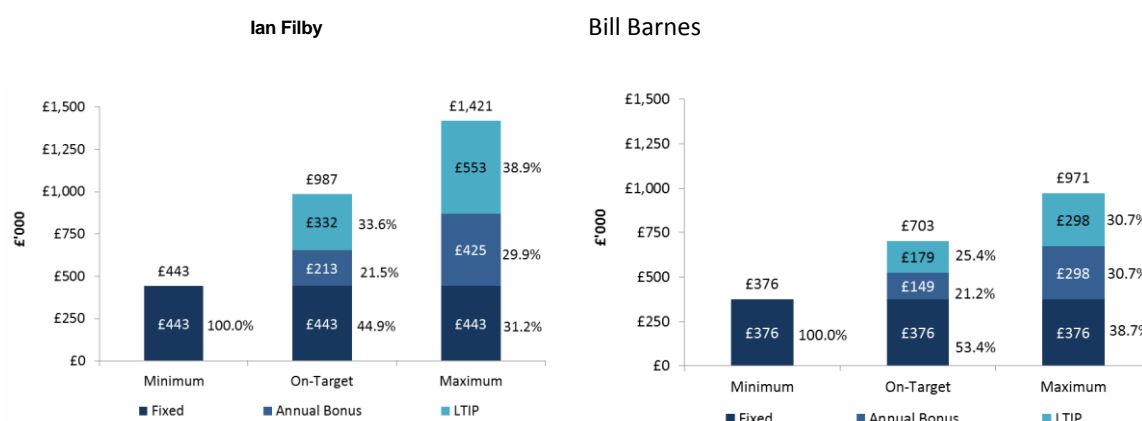
### *Discretion with the Directors' Remuneration Policy*

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 with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

## 2. Illustrations of application of remuneration 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.



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

Element	Minimum	On-Target	Maximum
Fixed Elements	<ul style="list-style-type: none"> <li>Base salary of £425,000 for Ian Filby and £300,169 for Bill Barnes.</li> <li>Pension £45,000 (less employers NI) for Bill Barnes. Historically and for 2016 Ian Filby has waived his entitlement to a pension contribution from the Group and a charitable donation will be made as an alternative. Therefore £0 is shown for Ian Filby in the scenarios above.</li> <li>Estimated value of benefits provided under the policy.</li> </ul>		
Annual Bonus	Nil	50% of maximum	100% of salary for both Executive Directors
LTIP	Nil	60% of maximum	Ian Filby: 130% of salary Bill Barnes: 100% of salary

### Notes

- 1 In accordance with the Regulations, no allowance has been made for share price appreciation.
- 2 For both the Annual Bonus and LTIP on-target assumptions, the mid-point between threshold and maximum has been selected.

### 3. Approach to recruitment and promotions

The Company will pay total remuneration for new Executive Directors that enables the Company to attract appropriately skilled and experienced individuals, but is not, in the opinion of the Committee, excessive. The remuneration package for any new recruit would be assessed following the same principles as for the Executive Directors, as 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 the internal appointment 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. The table below summarises our key policies with respect to recruitment remuneration:

Element	Policy description
Base salary and benefits	<ul style="list-style-type: none"> <li>The salary level will be set taking into account a number of factors including market factors, the individual's experience and responsibilities and other pay structures within the Company and will be consistent with the salary policy for existing Executive Directors.</li> <li>This may mean that the Executive Director is recruited on a salary below the market rate with a view that it would be increased subject to performance over a number of years.</li> <li>Benefits may be provided in line with DFS' benefits policy as set out in the remuneration policy table.</li> </ul>
Pension	<ul style="list-style-type: none"> <li>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.</li> </ul>
Annual Bonus	<ul style="list-style-type: none"> <li>An Executive Director will be eligible to participate in the Annual Bonus as set out in the remuneration policy table.</li> <li>Awards may be granted up to the maximum opportunity allowable in the remuneration policy table at the Committee's discretion.</li> </ul>
Long-term incentives	<ul style="list-style-type: none"> <li>An Executive Director will be eligible to participate in the Long-Term Incentive Plan as set out in the remuneration policy table.</li> <li>Awards may be granted up to the maximum opportunity allowable under scheme rules at the Committee's discretion.</li> </ul>
Maximum Variable Remuneration	<ul style="list-style-type: none"> <li>The maximum annual variable remuneration that an Executive Director can receive may be up to 450% of salary (i.e. Annual Bonus and LTIP Awards).</li> </ul>
Share buy-outs/ replacement awards	<ul style="list-style-type: none"> <li>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.</li> <li>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 take into account 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.</li> <li>The value of the buy-out awards will broadly be the equivalent of, or less than, the value of the award being bought out.</li> </ul>
Relocation policies	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>

## 4. Executive Director service contracts and payment for loss of office

### Service contracts

When setting notice periods, the Committee has regard to market practice and corporate governance best practice. Executive Directors' service agreements can be terminated by not less than six months' prior written notice given by the Executive or by not less than 12 months' prior written notice given by the employer. The table below summarises the service contracts and letters of appointments for our Executive Directors.

	Date of contract	Notice period
Ian Filby	13 July 2010	6 months (Executive) or 12 months (Company)
Bill Barnes	6 July 2010	

All service contracts are available for viewing at the Company's registered office and at the AGM.

### 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.

The table below sets out, for each element of total remuneration, the Company's policy on payment for loss of office in respect of Executive Directors and any discretion available:

Element	Approach	Discretion
Base salary	The Company is entitled to terminate an Executive Director's employment without notice and without compensation for resignation or in the event of termination by the Company due to gross misconduct, wilful neglect or certain other specified circumstances. In other circumstances the Company may determine that an Executive Director will be entitled to receive payment in lieu of notice equivalent to the salary payments that he would have been entitled to receive during any required period of notice or unexpired part thereof.	None.
Annual Bonus	Where an Executive Director's employment is terminated after the end of a financial year but before the bonus payment is made, the Executive Director may be eligible for a bonus award for that financial year subject to an assessment based on financial and personal performance achieved over the period. Where an Executive Director's employment is terminated during a financial year, a pro-rata bonus award for the period worked in that financial year may be payable subject to an assessment based on financial and personal performance. In respect of the current Executive Directors (but not part of the Company's policy for any future Executive Directors, where the Company decides to invoke the contractual payment in lieu of notice clause, he will be entitled to receive a bonus equivalent to 75% of his maximum bonus opportunity based on financial performance, pro-rated for any required period of notice or unexpired part thereof. Any such payment shall be made promptly following the Board's	In respect of the current Executive Directors (but not part of the Company's policy for any future Executive Directors) the Committee has discretion to increase the payment in respect of any pro-rata bonus by the amount of bonus based on personal performance that the Committee determines would have been payable had the Executive Director's employment not been terminated. Further, and for the present Executive Directors only, where a payment is made in lieu of notice, the Committee has discretion to increase the bonus payment in respect of financial performance to an amount equivalent to 100% of the maximum bonus opportunity. The Committee also retains discretion to increase the payment in respect of bonus based on personal performance that the Committee determines would have been payable had

Element	Approach	Discretion
	<p>approval and signing of the audited accounts for the year concerned.</p> <p>However, there may be no payment in the event of gross misconduct, wilful neglect or certain other specified circumstances.</p>	<p>the Executive Director's employment not been terminated.</p> <p>The Committee confirms that it will explain the reasons should it ever have to invoke these discretions.</p>
<p>LTIP</p>	<p>If a participant in the LTIP ceases employment as a result of:</p> <ul style="list-style-type: none"> <li>• death;</li> <li>• ill-health, injury or disability;</li> <li>• the participant's employing company ceasing to be a Group member or the transfer of an undertaking or part of an undertaking (in which the participant is employed) to a person who is not a Group member; or</li> <li>• or any other reason, permitted by the Committee in its absolute discretion except where the participant is summarily dismissed;</li> </ul> <p>Unless the Committee determines that an LTIP Award will vest as soon as practicable after the date of cessation, an LTIP Award which has not yet vested as at the date of cessation will continue and vest on the normal vesting date subject to earlier vesting on certain corporate events taking place.</p> <p>If a participant in the LTIP ceases employment for any other reason, his awards will lapse in full (whether vested or not) on the date of such cessation.</p> <p>Unless otherwise determined by the Committee in its absolute discretion the number of shares in respect of which an award shall vest will be calculated on a pro rata basis, taking into account the extent to which any performance conditions have been satisfied at the end of the performance period (or at the date of cessation, if vesting following cessation is permitted) and the period of time that has elapsed from the grant date to the date of cessation.</p> <p>All vested LTIP Awards in the form of nil-cost options may be exercised following cessation for such period as set out in the rules of the LTIP or otherwise determined by the Committee.</p>	<p>Under the rules of the LTIP the Committee has discretion to determine whether the reason for termination of employment is "any other reason" (as described in the previous column) – such classification effectively governs the treatment of awards post-cessation of employment.</p> <p>The Committee has discretion to determine that vesting will take place as soon as practicable following the date of cessation.</p> <p>The Committee has discretion to determine whether or not vesting of an award shall be reduced on a pro rata basis to take account of the extent to which any performance conditions have been satisfied and the period of time that has elapsed from the grant date to the date of cessation.</p> <p>It should be noted that it is the Committee's policy only to apply its discretion if the circumstances at the time are, in its opinion, sufficiently exceptional, and to provide a full explanation to shareholders where discretion is exercised.</p>
	<p>In the event of a takeover or scheme of arrangement awards will automatically vest on the date of such event (subject to provisions in the LTIP rules which allow for exchanges of awards). On a voluntary/compulsory winding-up of the Company (other than in the nature of an internal reorganisation), demerger or other events deemed appropriate by the Committee awards will vest at the discretion of the Committee on the date of such event.</p> <p>Unless otherwise determined by the Board, the number of shares in respect of which an award shall vest will be calculated on a pro-rata basis taking into account the extent any performance conditions have been satisfied at the date of the relevant event and the period of time that has elapsed from the grant date to the date of the relevant event. To the extent awards do not vest or are exchanged (in the case of a takeover or scheme of arrangement only) they shall lapse in full immediately.</p>	<p>The Committee has discretion to determine that awards vest on a date prior to the date of the corporate event taking place.</p> <p>The Committee has discretion to determine whether or not vesting of an award shall be reduced on a pro rata basis to take account of the extent to which any performance conditions have been satisfied and the period of time that has elapsed from the grant date to the date of the relevant event.</p> <p>It should be noted that it is the Committee's policy only to apply its discretion if the circumstances at the time are, in its opinion, sufficiently exceptional, and to provide a full explanation to shareholders where discretion is exercised.</p> <p>The Committee has discretion for existing unvested awards to be exchanged in the event of a takeover.</p>



## 5. Consideration of employee remuneration and shareholders

### *Consideration of shareholder views*

As a newly listed company, there has been limited opportunity to discuss and seek feedback on the Directors' Remuneration Policy with new shareholders. If changes are deemed appropriate the Committee will consult with key shareholders prior to making any changes to policy.

### *All-employee remuneration*

In setting the remuneration policy for directors, the pay and conditions of other employees of DFS 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 of approach throughout the Company.

Formal consultation on the remuneration of Executive Directors is not undertaken with employees. However, a survey on employee engagement is undertaken annually and includes discussion on parts of the Group's remuneration approach.

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

Level	Employees numbers	Fixed remuneration	Annual bonus or incentive / commission plans	Restricted Share Plan	Long-Term Incentive Plan	All employee HMRC plans	Shareholding guidelines
Senior management	9	✓	✓		✓	✓	✓
Heads of divisions and or functions	c.35	✓	✓	✓		✓	
Managers	c.180	✓	✓	✓		✓	
All employees	3000+	✓	✓			✓	

In addition to the above, at the time of IPO we provided employees with the opportunity to buy shares in the Company. We were delighted with the take up response and the enthusiasm of those that took part to become shareholders of the Company.

## 6. Non-executive director remuneration policy and letters of appointment

### Remuneration policy table

The Board as a whole is 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	Operation	Maximum opportunity	Performance measures and assessment
To provide compensation that attracts high calibre individuals and reflects their experience and knowledge.	<p>Fee levels are reviewed periodically taking into account independent advice and the time commitment required of Non-Executive Directors.</p> <p>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.</p> <p>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.</p> <p>Non-Executive Directors also receive reimbursement of reasonable expenses (and any tax thereon) incurred undertaking their duties and or Company business.</p> <p>Non-Executive Directors do not receive any variable remuneration element.</p> <p>Non-Executive Directors are entitled to staff discount on Group merchandise on the same basis as other employees, and may also receive seasonal gifts.</p>	<p>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.</p> <p>The Company will pay reasonable expenses incurred by the Chairman and Non-Executive Directors.</p>	Non-Executive Director fees are not performance related.

### 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 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 (all Directors were subsequently appointed to the current parent company, DFS Furniture plc on 2 February 2015 as part of the IPO process).

	Date of appointment
Richard Baker	27 July 2010
Luke Mayhew	1 October 2014
Gwyn Burr	1 December 2014
Julie Southern	2 February 2015
Andy Dawson	23 June 2010

No compensation is payable in the event of early termination apart from the notice period. All letters of appointment are available for viewing at the Company's registered office and at the AGM.