Governance report

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

CONTENTS

DIRECTORS AND OFFICERS

STEVE JOHNSON
Non-Executive Chair

R N

Date of joining DFS: December 2018

Experience: Steve has over 25 years' experience in the retail sector, in both public and private equity businesses.

Steve previously served as CEO of Focus Wickes DIY Group and Woolworths, as well as working with several other retailers. Prior to this Steve spent 8 years at ASDA having started his career with Bain & Company.

Steve is an experienced Independent Non-Executive Director, was on the Board of Big Yellow PLC until 2020 and was the Senior Independent Director of Lenta Limited until March 2022. Steve has significant retail and M&A experience. Most recently he held the position of Executive Chairman at the Matalan Group before stepping down in July 2022.

Qualifications:

– BA (Engineering) MEng (University of Cambridge)

External appointments:

– No external appointments

Independent:

– Yes

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, he was responsible for the showrooms, supply chain 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 the 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 Customer Services & Marketing.

Qualifications:

– BA (Hons) Accounting and Finance (Nottingham Trent University)

– Member of the Institute of Chartered Accountants in England and Wales

External appointments:

– No external appointments

Independent:

– Not applicable

JOHN FALLON
Chief Financial Officer

–

Date of joining DFS: November 2022

Experience: Prior to joining DFS, John spent more than 20 years at ASDA, most recently as Group CFO, and played a key role in the recent change of ownership. During his time at ASDA John has gained extensive retail experience across a broad range of roles, including Commercial Finance Director, Group Financial Controller and Internal Audit Director.

Qualifications:

– BA (Hons) in Accounting & Finance (Manchester Metropolitan University)

– Member of the Charted Institute of Management Accountants

External appointments:

– No external appointments

Independent:

– Not applicable

ALISON HUTCHINSON CBE
Senior Independent Non-Executive Director

A R N 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. Over the last 12 years Alison, as the CEO of The Pennies Foundation charity has worked with the retail industry to establish the fintech charity the Pennies.

Until March 2022, Alison was a Non-Executive Director of Liverpool Victoria Friendly Society Ltd. She previously held several 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:

– B.Sc. Technology & Business Studies (Strathclyde University)

External appointments:

– Chief Executive of The Pennies Foundation charity

– 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

DIRECTORS AND OFFICERS

JO BOYDELL
Non-Executive Director

A R N

Date of joining DFS: December 2018

Experience: Jo has been the Chief Executive Officer of Travelodge since May 2022, having previously served as the Chief Financial Officer since 2013 and has broad based finance experience in hospitality, leisure and retail. Prior to joining Travelodge, Jo held senior finance roles across a number of consumer-facing companies including Mothercare, Jessops, Ladbrokes PLC, Hilton Group plc and EMI Group.

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

Qualifications:
- BA (Hons) Physics (University of Oxford)
- Associate of the Institute of Chartered Accountants in England and Wales
- ICAEW Business & Finance Professional

External appointments:
- Director and Chief Executive 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

LORAINE MARTINS OBE
Non-Executive Director
Designated Non-Executive Director for Workforce Engagement

A R N S

Date of joining DFS: June 2021

Experience: Loraine is the Global lead for diversity and inclusion at the Nichols Group having previously been the Director of Diversity and Inclusion at Network Rail between 2012 and February 2022. 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, for which she was awarded an MBE. And In 2021 Loraine was awarded the OBE for her services to diversity and inclusion in the railway.

Loraine is a recognized expert in her field and brings a wealth of experience of organisational transformation, culture change and a strong commitment to responsible business.

Qualifications:
- BA Comparative American Studies (University of Warwick)
- Fellow of Royal Society of Arts

External appointments:
- No external appointments

Independent:
- Yes

GILL BARR
Non-Executive Director

A R N S

Date of joining DFS: March 2023

Experience: Gill was a Non-Executive Director of Morgan Sindall from 2004-2012, McCarthy & Stone from 2019 until it delisted in 2021 and N Brown from 2017–2023. She is an experienced Remuneration Committee Chair (Morgan Sindall, N Brown, and McCarthy & Stone), skilled at reflecting investor perspectives in remuneration plans that motivate growth and shareholder value.

Gill's executive career focus has been on strategy and customer centric business development. She was Group Marketing Director of The Co-operative Group from 2011 to 2014 and was previously Marketing Director of John Lewis. She spent seven years at Kingfisher PLC where she held variety of senior marketing and business development roles.

Qualifications:
- B.Sc. Psychology (Aberdeen University)
- MBA London Business School

External appointments:
- Non-executive director of Wincanton PLC
- Non-executive director of Paypoint PLC

Independent:
- Yes

LIZ MCDONALD
Group General Counsel and Company Secretary

Date of joining DFS: August 2018

Experience: Liz joined DFS in 2018 as the General Counsel & Company Secretary. She is responsible for the Corporate affairs of the Group and leads a team of specialists focused on Legal, Regulatory Compliance, Risk and Health & Safety.

Liz has over 25 years experience as an in-house lawyer and Company Secretary, having started her legal career with Halifax. Liz has held leadership roles at Poundworld, My Dentist, the Peel Airports Group, KCOM Group PLC and Yorkshire Electricity.

Qualifications:
- LLB (Hons) in Law (Manchester Metropolitan University)
- Admitted by the Law Society as a Solicitor in 1996

External appointments:
- No external appointments

Independent:
- Not applicable

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

"Ensuring that we are an agile organisation that is able to respond to changing market conditions and stakeholder needs is a key focus of the Board."

STEVE JOHNSON
Chair of the Board
Bio on **page 63**

Board activities in 2023 at a glance

- Assessing the operating and long term financial planning, budgeting and the performance and strategy of the Group, in the context of the challenging trading environment and market expectations
- Designing the new Capital allocation and Distribution policy
- Overseeing stakeholder communications
- Internal Board Evaluation and a review of Board composition and skills
- Overseeing the strategic changes in our manufacturing operations
- The induction of the new Chief Financial Officer, John Fallon, and a new Non-Executive Director, Gill Barr

Welcome to the Governance section of our 2023 annual report. Our governance structure is designed to ensure that the right decisions are taken at the right time and underpins our purpose. This report describes our structure, culture and values and sets out how our Group is run to serve our customers, to look after our colleagues as a responsible employer, to work with our suppliers and to support the communities in which we operate. A key part of being able to deliver on our purpose and our strategy is ensuring that we, as a Board, continue to be effective in how we discharge our duties and to ensure that the Group's activities are underpinned by high standards of corporate governance.

Ensuring that we are an agile organisation that is able to respond to changing market conditions and stakeholder needs is a key focus of the Board. Read more about how we engage with our colleagues and our other stakeholders and respond to their views on pages 36 to 38. Finally, I want to thank my fellow directors for all of their efforts in supporting the Group Leadership team and our strategy for the future. Despite the challenging external backdrop, we are confident that we have the right strategy in place, supported by a robust governance framework, that will deliver value for all of our stakeholders over the long term and allow us to respond with agility in the face of emerging challenges.

Our Board in 2023

There have been a number of changes to the Board during this financial year, both among the executive and non-executive team. In November 2022 Ian Durant stepped down from his role and I transitioned to the role of Chair and am looking forward to building on the strong foundations laid by Ian. John Fallon was appointed as Chief Financial Officer in November 2022, and Gill Barr joined as a Non-executive Director and Chair of the Remuneration Committee in March 2023. Jane Bednall stepped down from the Board on 23 June 2023. Loraine Martins has been appointed our Designated Non-Executive Director, the voice of all our colleagues at the Board. Biographies for John and Gill can be found on pages 63 and 64, demonstrating the wealth of experience they bring to the Group.

Our commitment to good governance

We continue to keep a watching brief on the corporate governance and audit reform and are focused on developing our internal controls to ensure we have a thorough and orderly approach to corporate governance. Additionally, Environmental, Social and Governance ('ESG') remains a key area of focus for our stakeholders and we continue to carefully assess our ESG metrics, targets, and reporting. Full details of how we consider our responsibilities to our wider stakeholders are shown in the Section 172 statement on pages 36 to 38 and the Responsibility and sustainability report on pages 39 to 61.

2023 AGM

This year our AGM will be held on 10 November 2023 at 2:30pm at our Group Support Centre in Doncaster. Full details of the meeting arrangements and the resolutions to be proposed to Shareholders can be found in the Notice of AGM which will be made available on our website: www.dfscorporate.co.uk.

STEVE JOHNSON
Chairman
21 September 2023

CORPORATE GOVERNANCE REPORT CONTINUED

Governance at a glance

Governance framework

The Board is responsible for providing leadership to the Group's business, including setting the Group's purpose, strategy and values and promoting its long-term sustainable success. The Board has adopted a formal schedule of matters reserved for its approval.

The terms of reference for each Committee are documented and agreed by the Board. These terms of reference are reviewed annually and are available on our website www.dfscorporate.co.uk.

DFS Furniture plc Board

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

See committee report on **pages 71 to 75**

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

See committee report on **pages 78 to 99**

Nomination Committee
Oversees the composition of the Board and succession planning.

See committee report on **pages 76 to 77**

Responsible & Sustainable Business Committee
Oversees the delivery of our ESG strategy.

See committee report on **pages 39 to 61**

Chief Executive
Responsible for the day-to-day running of the Group's business and performance, the development and implementation of strategy and promoting our culture and standards.

Group Leadership Team
Led by the Chief Executive, the members of the Group Leadership Team are collectively responsible for overseeing and driving the overarching Group financial and operational performance and executing on the strategic initiatives required to deliver the Group's strategy set by the Board.

Governance, Risk & Compliance Committee
Led by the General Counsel & Company Secretary, the Committee is responsible for internal controls relating to Legal & Regulatory risks.

Brand ESG Committees
Led by the CEOs of the brands, the Committees are responsible for overseeing the implementation of the People, Planet, Customer and Communities strategy.

A key element of our business success is having good corporate governance so we have implemented effective frameworks and practices to ensure that high standards of governance, as well as good values and behaviours, are consistently applied throughout the Group.

Role of the Chair and Chief Executive Officer

As Chair, Steve 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. There are clear divisions of accountability and responsibility that have been agreed and documented by the Board.

Role of the Chair

- Leading the Board and ensuring its effectiveness.
- 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.
- 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 promoting a culture of openness and debate.
- Acting on the results of the Board's annual review of its Committees' and individual Directors' performance.

Role of the Chief Executive Officer

- Leading the senior management in managing the 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 the climate change and sustainability objectives of the Group.
- 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.
- Managing the Group's relations with all of its stakeholders, the public and the media.

Role of the Senior Independent Director ('SID')

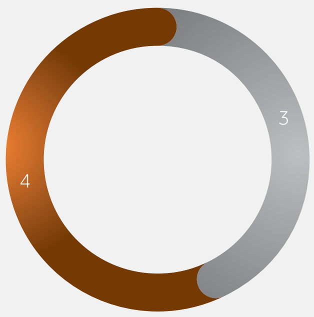
- Acting as a sounding board for the Chair.
- Meeting with the Non-Executive Directors annually, without the Chair being present and collating feedback on the Chair's performance as part of the annual Board evaluation process.
- Meeting with the Company's shareholders to consider matters where it may be inappropriate to have those discussions with the Chair and Executive Directors.

Role of the Company Secretary

- Advising the Board and its Committees on corporate governance policies and procedure and for the management of Board and Committee meetings.
- Managing the provision of timely, accurate and considered information.
- Advising the Board and representing the Company in legal matters.
- Ensuring that the Directors receive accurate, timely and clear information.

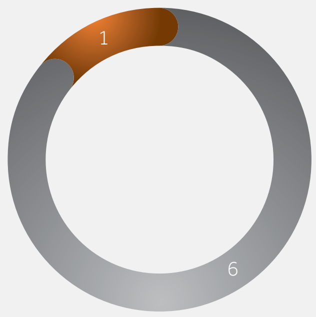
Governance at a glance

Gender Diversity



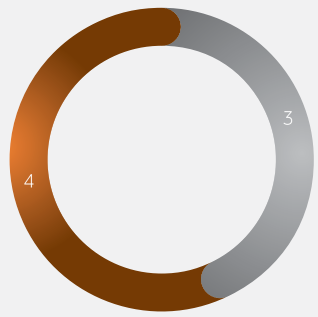
Male
Female

Ethnicity



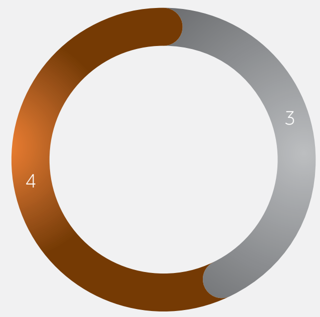
White
B.A.M.E.

Board Tenure



0-2 years
3-5 years

Age



46-55 years
56-65 years

Director' skills matrix

Skills and experience	Retail	Customer Services/ Marketing	People, Diversity & Inclusivity	Operations	International	Governance & Regulatory	Finance	Digital	M&A	Environmental	Logistics	Manufacturing
Steve Johnson	✓	✓	✓	✓		✓		✓	✓		✓	✓
Tim Stacey	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓
John Fallon	✓		✓	✓	✓		✓		✓	✓		
Alison Hutchinson	✓	✓	✓	✓		✓	✓			✓		
Jo Boydell	✓		✓				✓	✓	✓			
Loraine Martins		✓	✓			✓	✓			✓		
Gill Barr	✓	✓	✓			✓	✓	✓		✓	✓	

Appointment, election and re-election

The Board may appoint any person to be a Director, and any Director so appointed shall then be eligible for election by shareholders at the next AGM. Non-Executive Directors' appointments are for an initial period of three years. All Directors stand for annual re-election in compliance with the UK Corporate Governance Code ('the Code'). Neither the Chair nor any Non-Executive Director have been in their position for more than nine years in accordance with the recommendations of the Code.

Independence

The Board reviews the independence of its Non-Executive Directors annually. The Board considers that the Chair was independent on appointment and that all of the Non-Executive Directors are independent. The Company maintains clear records of the terms of service of the Chairman and Non-Executive Directors to ensure that they continue to meet the requirements of the Code. 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 Board considers that each of the Non-Executive Directors have sufficient time to devote to their role and that each Director's contribution is important to the long-term sustainable success of the Company. The Directors' biographies can be found on pages 63 and 64.

Directors' skills and experience

The Board regularly reviews the skills matrix to ensure it aligns with the evolution in the strategy. The competencies highlighted in the matrix will be considered in relation to the appointment of any new Directors to the Board.

CORPORATE GOVERNANCE REPORT CONTINUED

Governance at a glance

Name	Meetings attended	Maximum meetings	Independent	Responsibility and role during 21/22	Date of appointment
CHAIRMAN					
Ian Durant **Chairman**	3	3	✓	Leading the Board and ensuring its effectiveness in relation to board governance, performance, and shareholder engagement.	2 May 2017
Steve Johnson **Chairman**	8	8	✓		6 December 2018
EXECUTIVE DIRECTORS – At each Board meeting, the Board receives and discusses reports from each of the Executive Directors.					
Tim Stacey **CEO**	8	8	–	Leading and managing Group performance and strategy to ensure the long-term profitable operation of the Group.	1 November 2018
Mike Schmidt **CFO**	2	2	–	Leading, managing, and maximising Group financial performance, investor relations, legal and risk functions.	11 July 2019
John Fallon **CFO**	4	4	–		14 November 2022
NON-EXECUTIVE DIRECTORS					
Alison Hutchinson **(SID)**	8	8	✓	Overseeing the implementation of the strategy and development of the Group whilst maintaining a system of internal control and risk management. 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.	1 May 2018
Jo Boydell	8	8	✓		6 December 2018
Jane Bednall	8	8	✓		1 January 2020
Loraine Martins	8	8	✓		28 June 2021
Gill Barr	3	3	✓		1 March 2023
STANDING ATTENDEES					
Liz McDonald **Company Secretary**	8			Advising the Board on all legal, corporate governance and compliance 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	3			The Group Leadership Team is led by the CEO, and is responsible for executing strategy and the day-to-day management of the business. Their attendance at Board meetings assists the Directors in gaining a clearer insight into the Group's operations. This process also affords the team the opportunity to bring matters to the attention of the Board.	
Matt Nicholls	2				
Emma Dinnis	2				
Alex Salden	2				
Russ Harte	3				
Jo Shawcroft	3				

Committee meetings

Name	Audit Committee	Remuneration Committee	Nomination Committee	Responsible & Sustainable Business Committee*
Ian Durant	2	3	3	1
Steve Johnson	3	4	4	3
Tim Stacey	3	4	4	3
Alison Hutchinson	3	4	4	3
Mike Schmidt	2	2	1	2
John Fallon	1	1	1	1
Jo Boydell	3	4	4	2
Jane Bednall	3	4	4	3
Loraine Martins	3	4	4	3
Gill Barr	1	1	1	1

Board meeting attendance

The Board held eight scheduled meetings during the year, with additional ad hoc meetings held as required. Meetings took place at a number of operational locations to provide an opportunity to promote colleague engagement. During the year the Chair and the Non-Executive Directors met on three occasions without the Executive Directors present, and the Non-Executive Directors met privately with the CEO on two occasions.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet eight times, with additional meetings being held to review important trading periods or strategic matters, as required. All Directors have the right to have their concerns over, or opposition to, any Board decision noted in the minutes. All Directors have access to the Company Secretary and may take independent legal advice.

External appointments

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.

* The Responsible & Sustainable Business Committee comprised Alison Hutchinson, Tim Stacey, Jane Bednall and Loraine Martins.

** All Directors are invited to Audit Committee meetings and the Responsible and Sustainable Business Committee meetings, and the Chair of the Board is invited to attend the Remuneration Committee. The Chief Executive Officer and Chief Financial Officer are invited to attend both the Remuneration and Nomination committee meetings where appropriate to do so.

How the Board operates

The following section provides an overview of the content and structure of Board meetings. Agenda planning is undertaken in advance of every meeting to ensure there is appropriate allocation of time to strike the right balance between regular standing items, such as reports on current trading, financial performance & budgets, the strategic plan, regulatory and health and safety matters, with two or three detailed 'deep dives' provided by members of the Group Leadership Team. 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. If any 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. All Board decisions are recorded and any Board decision made outside of a meeting is made by written resolution. All meetings are structured to allow open discussion. The Board has a formal schedule of matters specifically reserved for its decision and approval, a copy of which is available from the Company Secretary, Liz McDonald.

UK Corporate Governance Code 2018

Compliance statement

This Corporate governance report, which incorporates reports from the Audit and Nomination Committees on pages 71 to 77 together with the Strategic Report on pages 1 to 61, the Directors' Remuneration Report on pages 78 to 99 and the Directors' Report on pages 100 to 102, describes and explains how the Company has applied the relevant provisions and principles of the Code, The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations) and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules during the year ended 25 June 2023. A copy of the Code is available on the Financial Reporting Council's website, www.frc.org.uk.

As detailed in the FY22 annual report, in December 2022 the pension provision for the Executive Directors was brought in line with that of the wider workforce to comply with the Code. The Board confirms that all other provisions of the Code were complied with throughout the entire year.

Directors' indemnities and conflicts

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law, in respect of losses arising out of, or in connection with, the execution of their duties, powers or responsibilities as Directors of the Company. The indemnities do not apply in situations where the relevant Director has been guilty of fraud or wilful misconduct. Under the authority granted to them in the Company's articles of association, the Board has considered carefully any situation declared by any Director pursuant to which they have or might have a conflict of interest and, where it considers it appropriate to do so, has authorised the continuation of that situation.

In exercising their authority, the Directors have had regard to their statutory and other duties to the Company. 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. The Company maintains a related party register to record any conflicts, which is updated annually. Additionally the Group has purchased Directors' and Officers' liability insurance.

Board Evaluation

As required by the Code, the Board undertakes an annual evaluation of its activities and those of its committees. To perform the effectiveness review this year the Board carried out an internal review based once again on the same questionnaire provided by our external consultant, Gould Consulting, to maintain consistency so that we continue to build upon the work the Board has done.

In April, a three-stage process was followed, as depicted to the right:

Stages of our Board evaluation

Stage 1	Stage 2	Stage 3
Formal online questionnaire provided by Gould Consulting to provide a clear read across from the findings of the FY23 review. One to one session with the SID.	Results collated and shared with all the Directors. SID fed back to the Chairman. Discussion around the key learnings.	Action plan for FY24.

Results overview

The consensus was that the Board, and its Committees, had performed effectively and had addressed those areas previously identified as requiring further attention. The review found that whilst Board dynamics remain strong, given the changes to the composition of the Board, renewed focus should be on developing the relationships between the Directors and how the Board operates collectively. The conclusion overall was that the Board is operating effectively and that all Board members can contribute freely and play an active role in Board meetings.

Board action plan for FY24

- Ensure regular feedback is provided to the Non-Executive Directors on ongoing discussions with management.
- Elevated focus on Risk & Internal Audit reconfiguring how these two functions report regularly into the Board.
- Overseeing the strategic changes and the continued progression and development of each of the Group's brands, with a particular emphasis on The Sofa Delivery Company.
- Further enhance reporting of Strategic KPIs.

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

New Directors induction

Following their appointment to the Board, John Fallon and Gill Barr both went through the Group's formal induction plan. All new Directors undergo a detailed, tailored induction programme. Including meetings with the Company's external advisors and with colleagues from across Group to familiarise the Director with all operations, including those in showrooms, manufacturing sites and distribution centres and our Group Support Centre.

Understand their duties	– One-to-one meeting with the Company Secretary to understand the Governance issues which apply to the business – One-to-one meetings with the rest of the Board, including the Chairman, Executive Directors and other Non-Executive Directors – Review previous Board & Committee papers, Committee terms of reference and Investor presentations etc – Meeting with External Advisors
Meet the colleagues	– One-to-one meetings with the members of Group Leadership Team and the wider workforce – Presentations from key functions within the Group
Visit the business	– Visiting operational locations including showrooms, factories, support offices and customer distribution centres and meeting with our colleagues from these areas

CORPORATE GOVERNANCE REPORT CONTINUED

Shareholder engagement

The Board actively seeks and encourages engagement with major institutional shareholders and other stakeholders. The Chief Executive Officer and Chief Financial Officer 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.

The Chairman and Senior Independent Non-Executive Director also make themselves available to shareholders so that any issues and concerns can be communicated to the Board. In addition to the extensive engagement carried out by the CEO and CFO, the Chairman, and other members of the Board met with major shareholders several times throughout the year. Following any engagement with investors, details of the discussions are provided to the Board. Following the half-year and full-year results, more detailed feedback sessions were held with the Board to discuss shareholder views on the results and the Company's strategy.

Interaction with all shareholders

- Presentations of full-year and interim results to analysts and shareholders; these are 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.

External auditor

Our external auditor is KPMG LLP and our engagement partner is Frances Simpson. Our auditor was appointed following a comprehensive tender process, and we continually assess the independence and expertise of KPMG LLP. Our non-audit services policy can be found on our website and further details on page 125.

Internal audit

Further details relating to the internal audit function are contained within the Audit Committee report on pages 71 to 75.

Remuneration

The remuneration policy is designed to support strategy and promote the long-term success of the Company. Details of the procedures used to determine remuneration, including separate performance-related elements, in relation to the Board and wider workforce are contained in the Remuneration Committee report on pages 78 to 99.

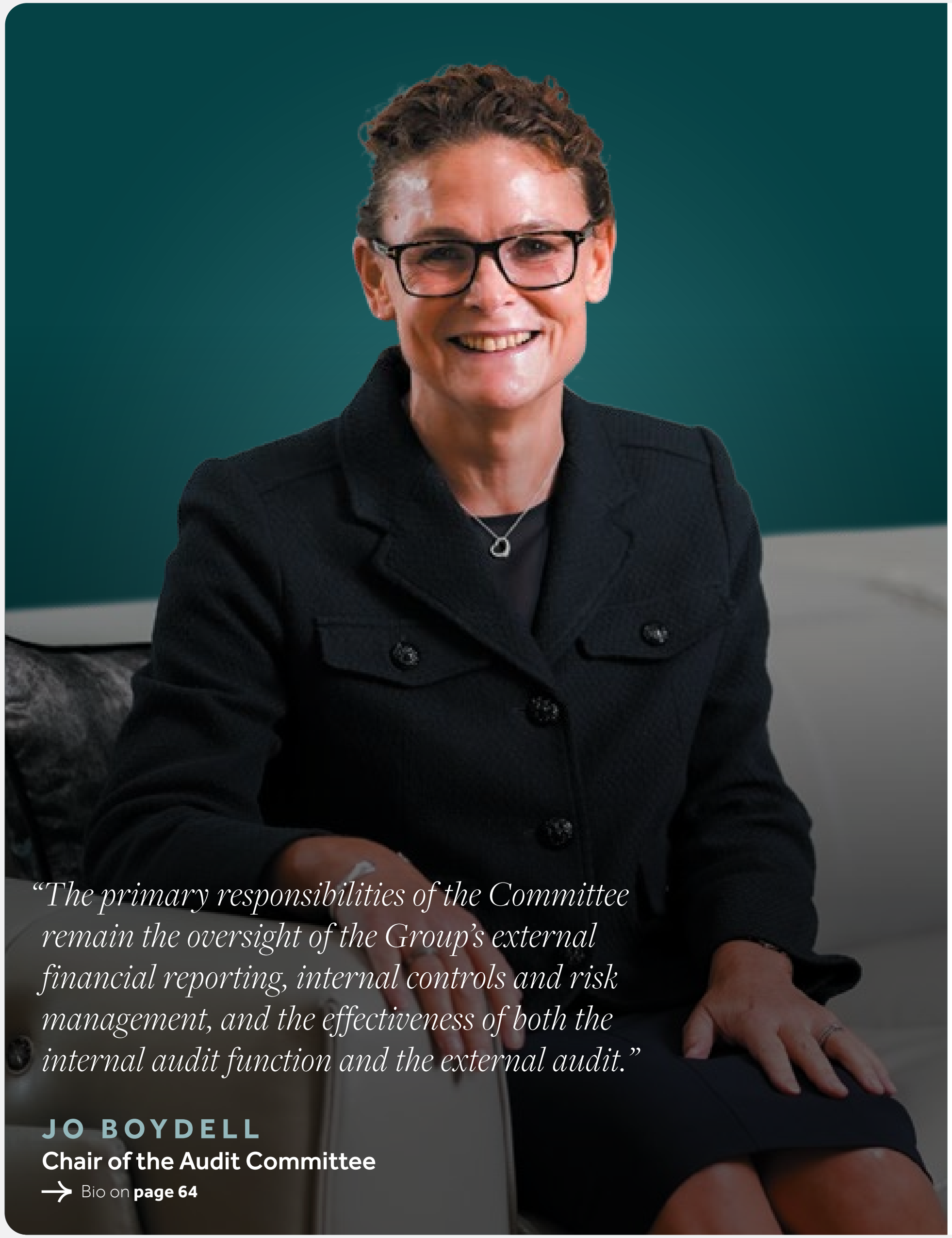
DTR Disclosure

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee Reports, except for information required under DTR 7.2.6 which is contained in the Directors' Report on pages 100 to 102.

Signed on behalf of the Board of Directors.

ELIZABETH MCDONALD
General Counsel & Company Secretary
21 September 2023

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 64**

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

As we move beyond the more direct disruption of the Covid-19 pandemic, our internal audit programme has focused on higher risk operational areas and targeted risk control reviews, drawing out key themes and risk findings.

Our internal audit team continues to embed the new risk management technology platform implemented last year, including consideration of ESG impacts.

The Committee has overseen progression of the Group's approach to the UK's audit and corporate governance reform and this will continue to be an area of focus throughout FY24 as further guidance emerges.

The Committee continues to conduct regular assessments of the effectiveness of the external audit process, which was this year supplemented by a satisfactory Audit Quality Review of the Group's audit by the FRC.

While no significant new financial reporting matters arose in FY23, viability reporting and goodwill impairment assessments have continued to be important focus areas given the impact of rising interest rates and other pressures on the macroeconomic environment.

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

Key activities during FY23

- Embedding of new risk management technology introduced in FY22
- Continued focus on the Group's approach to UK audit and corporate governance reform

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, Loraine Martins and Gill Barr. Steve Johnson stepped down from the Audit Committee upon his appointment as Chairman in November 2022, and Jane Bednall stepped down from the Committee and the Board in June 2023.

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 and recent executive roles, details of which are set out on page 64, 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 63 and 64 and a summary of their principal skills and experience is shown on page 67.

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 Group Audit & Risk Director provides comprehensive updates at each meeting. The Company Secretary also attends by invitation in order to maintain a record of the meetings.

AUDIT COMMITTEE REPORT CONTINUED

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 69. 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 financial and non-financial 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 68. 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 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 Task Force on Climate-related Financial Disclosures ('TCFD'), the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

In addition to existing requirements, the Committee monitors and considers future corporate reporting developments in order to develop the Group's approach to meet any new requirements. During the year the Group has continued to monitor developments and to work towards anticipated requirements on UK corporate governance reform and this will be an ongoing area of focus for FY24.

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 25 June 2023, 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.
Going concern and viability reporting	Page 35
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 continuing macroeconomic uncertainty.	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 25 June 2023, 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 impacts of high inflation, rising interest rates and a weak market environment, and concluded that the going concern assumption remains appropriate and the Board is able to make the viability statement on page 35 of the Strategic Report.
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.

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 25 June 2023 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 again 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 identified key strengths in regard to objectivity and robustness of challenge, alongside opportunities for enhancing communication flows and seeking efficiencies on fees. These results supported the Committee in its conclusion that KPMG LLP continues to be effective in its role as external auditor.

In performing this assessment, the Committee has already incorporated a number of the considerations noted in the FRC's Audit Committees and the External Audit: Minimum Standard, published in May 2023. During the course of FY24 the Committee will seek to enhance its processes where required to address all elements of the guidance.

During the year, the audit of the Group's FY22 annual report was selected by the FRC for an Audit Quality Review as part of their routine review process. The Committee discussed the outcome of this review with the auditors, with no significant findings noted.

Appointment of the external auditor

The Group's external auditors were appointed in FY22 following a tender process as detailed in previous annual reports. Under current UK corporate governance requirements the external audit provision will be subject to another tender no more than ten years later, ahead of the start of the FY32 audit.

Safeguarding objectivity and independence relative to non-audit services

The Committee regularly reviews the Group's policy on non-audit services, which 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; and

– **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 25 June 2023, during which the only non-audit services provided by the Group's external auditor were an interim review, which is closely related to the audit, and a comfort letter in connection with an investment circular for the Company's EGM held on 4 November 2022, which constituted permissible assurance work under the policy.

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
At its July 2022 meeting, the Committee reviewed and approved the Group's internal audit plan for FY23 which was organised across the following categories:

- Regulatory;
- Company Risk, including cyber and ESG;
- Group Retail Estate;
- Sofa Delivery Company (CDC's);
- Manufacturing; and
- Central Operations.

Within these categories, specific topics and sites were selected based on review of principal and strategic risks, response to stakeholder focus areas and changes in business operations. The audit plan also provided for additional activity in support of group initiatives and specific-scope reviews of emerging risk areas. The Committee also considered the areas not included in the FY23 audit plan in order to confirm the rationale for their exclusion.

Internal audit services continue to be delivered through a combination of traditional full audits and lighter touch assurance reviews. This is supplemented by engagement with third party specialists in key areas such as cyber, ESG and regulatory compliance. Data analytics also plays a key role in the identification and tracking of risk areas, including live metrics on key assurance areas for operational sites. This allows the internal audit team to conduct more focused sample testing and data analysis to identify potential non-compliance or fraud.

While some modifications to the original plan were made during the year, due to changes in business organisation or to facilitate additional requests from the business for advice or investigation, the Committee retained oversight of these modifications to ensure that a broad-range of coverage was maintained. Areas covered by the plan in FY23 included:

- Retail audits, including omnichannel/online sales;
- Stock management;
- Regulatory compliance monitoring programmes for retail brands;
- Site audits for The Sofa Delivery Company;
- ESG;
- Foreign exchange hedging;
- Customer services;
- Recruitment; and
- Colleague expenses.

In addition, Internal Audit performed a number of specific risk control reviews to particular business activities, including reviews of foreign exchange and customer refunds, as well as providing support and advisory work for process improvement in retail and supply chain operations.

The scope of internal audit work for manufacturing as well as other operational areas also includes key elements of health and safety compliance with both internal requirements and external regulations.

During the year the Group also enhanced its methodology for internal audit reporting to create clearer linkage to related risk documentation in order to directly highlight the effectiveness assessment of controls within the area being audited. Consideration of ESG related impacts remains a central part of the internal audit process, and was supplemented in FY23 by a review of the quality of ESG KPI data provided by suppliers.

The management of cyber risk remains a high priority for the Group. A programme of rigorous self-assessment covering all key threat areas is followed in order to identify potential enhancements to the Group's processes and systems. Further information on activities and developments in this are discussed in the Risks and Uncertainties section on page 31.

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. Common themes emerging from internal audit work are also fed back to operational leadership teams to support controls and process improvements.

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

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

Internal control and risk management
As detailed in its terms of reference the Committee bears delegated responsibility from the Board 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 Committee receives an update at each meeting, highlighting new and emerging risks, and progress and changes in rating of principal risks. Horizon scanning for emerging macro and internal risks is updated on a quarterly basis, with prioritisation based on likely severity and timing of the risks identified. During FY23 the Group undertook a benchmarking exercise of its principal risks against the broader UK retail sector and was satisfied that all critical areas had been appropriately addressed. The Group has also continued to develop and embed the new specialist risk management tool introduced last year.

The Committee also maintains oversight of key process and controls developments in the Group. During FY23 inventory master data and reporting has continued to be an area of focus, alongside the analysis and reconciliation of the freight component of standard costs. The Committee received regular updates to support appropriate challenge and review of progress.

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, information technology (including cyber security) regulatory requirements, ESG, 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 and Risk 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.

Sub-committees for each brand 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 and Risk 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.

The Audit Committee and Board also receive recommendations from the Responsible and Sustainable Business Committee with regard to climate-related risk assessments.

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;

AUDIT COMMITTEE REPORT CONTINUED

- Ensuring there is a clear organisational structure with defined responsibilities and levels of authority, including defined delegations of responsibility in the terms of reference for Board committees;
- 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 i

n 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.

There have been no failings in the operation of 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.

All identified risks are assessed for ESG impacts and linked to a specific ESG risk register within the Group's risk management system, ensuring strong focus on key ESG risks while embedding them within the Group's broader risk management framework.

The Committee has continued to consider the Group's response to developments in UK audit and corporate governance reform. Following the financial reporting risk assessment undertaken last year, a programme of work was initiated during FY23 to review and enhance the Group's documentation and testing of its financial reporting controls in anticipation of the new requirements. During FY24 this programme will be developed as further guidance and draft legislation emerges following the recent publication of the draft revised Code. The Group's goal remains a thorough and orderly approach to compliance.

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 28 to 34.

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.

During FY23 the Group has continued to report and analyse 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 29 (FY22: 23) 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;
- Human rights;
- Gifts and entertainment; and
- Share dealing.

The Group is authorised and regulated by the Financial Conduct Authority in connection with the provision of interest-free credit to its customers, including requirements under the Senior Managers Certification Regime. An established governance framework is in place to implement and monitor appropriate processes, controls and training in support of the Group's regulatory compliance. The Group also commissions reviews by independent third party compliance experts to assess the controls in place and advise on best practice.

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.

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, is published on the Group's website (www.dfscorporate.co.uk).

The Group updates its Tax Strategy Statement each year, 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 103 and 111. 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 35.

JO BOYDELL
Chair of the Audit Committee
21 September 2023

NOMINATION COMMITTEE REPORT

"This year, the Nomination Committee focused on the appointment of the new CFO, and strengthening the Board with the appointment of an additional Non-Executive to continue to support the long term strategy of the Group."

STEVE JOHNSON
Chair of the Nomination Committee

Bio on **page 63**

Welcome to the report from the Nomination Committee.

This is my first report as Nomination Committee Chair. It has been a remarkably busy year for the Committee with the focus primarily on the appointment of a new Chair, CFO, and an additional Non-Executive Director. Appointments to the Board, as with other positions within the Group, are made on merit according to the balance of skills, experience, diversity, and inclusion offered by prospective candidates.

Chair Succession

The Senior Independent Non-Executive Director, Alison Hutchinson, led the appointment sub-committee to conduct the search for a new Chair to take over from Ian Durant who stepped down at the end of the AGM in November 2022. The appointment sub-committee along with the external executive search and talent recruitment firm MBS Group worked to identify the blend of skills and experience required to lead the Group. The sub-committee drew up a role specification for approval by the Nomination Committee after consultation across the wider Board. A shortlist of external candidates was prepared and after a rigorous process I was delighted to be invited to become the Chair of the Board of Directors. I would like to thank Alison, and the other Committee members for their work on this and on the other Board appointments throughout the year.

Key activities during FY23

- Conducted the search for, consideration of, and recommendation to the Board of the appointment of the new Chair
- Recommending the appointment of the Chief Financial Officer
- Recommending the appointment of the new Non-Executive Director and Chair of the Remuneration Committee
- Recommending the appointment of Loraine Martins as the Designated Non-Executive Director
- Reviewing the pipeline of talent within the Group Leadership Team and assessing their development needs

CFO Succession

Mike Schmidt advised the Committee in July 2022 that he intended to step down from the Board, to take up a new opportunity. Mike made a significant contribution as CFO during his tenure, and on behalf of the Board I thank him, and we wish him well in his new role. We started the search for Mike's successor immediately and I was incredibly pleased that in November we were able to announce that John Fallon would join us as CFO. John is an accomplished finance leader who brings a wealth of retail experience having previously been the CFO at ASDA. John is already making a significant contribution to the Group; he successfully led the refinancing of the Group over the summer and is working with the Group's Leadership Team to manage the Group's cost base and build back margin.

NED Appointment

Gill Barr joined the Board in March 2023 as a new Independent Non-Executive Director, and Chair of the Remuneration Committee, bringing significant retail and logistics expertise as well as being a seasoned Remuneration Chair. Following the decision by Jane Bednall to step down from her role as a Non-Executive Director, the Committee asked Loraine Martins to fulfil the role of Designated Non-Executive Director representing colleagues on the Board. Loraine has considerable experience in Equality, Inclusivity and Diversity and will represent the 'Colleague Voice' at the Board.

New Board members are always welcomed into the business through a comprehensive induction, co-ordinated by the Company Secretary.

NOMINATION COMMITTEE REPORT CONTINUED

Composition
During the year, the Committee was chaired by Ian Durant until November 2022 and then subsequently by me following my appointment as Chair of the Board of Directors. Each of the Non-Executive Directors is a member of the Nomination Committee. The Board considers that each of the Non-Executive Directors are independent and the Chair was independent upon appointment. The Code required that Committee members should be independent in character and judgement and free from any relationship or circumstance which, could or would be likely to affect their judgement and as such the membership of the Committee complies with the UK Corporate Governance Code. The Committee's terms of reference are available on the Company's corporate website at www.dfscorporate.co.uk. Although only members of the Committee have the right to attend Committee meetings, the Chief Executive Officer and the Chief Financial Officer are invited to attend meetings where appropriate. The Nomination Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least twice a year.

Principle Duties
The purpose of the Committee is to assist the Board by keeping the composition of the Board under review; to make recommendations to the Board, on the appointment of Executive and Non-Executive Directors ensuring the Board is sufficiently diverse and has the blend of skills, knowledge and experience to support the Company; to oversee the succession plans for the Board and senior management; and to ensure that there are processes in place to secure a diverse pipeline of potential candidates for succession to key management positions and to the Board. 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 67.

'Everyone Welcome'
DFS is a Group that lives its values and is committed to having a diverse and inclusive workforce and culture throughout the organisation. Our objective of driving the benefits of a diverse Board, senior management team and wider workforce is underpinned by our Board Equity, Diversity & Inclusion Policy, which can be viewed on our corporate website. The Board and Group Leadership Team believe a diverse and inclusive workforce and a culture where everyone is welcome, is crucial to the long-term success of the Group. I can report we currently have four female directors out of our Board of seven directors. The biographies of the Board of Directors can be found at page 63 and 64 of the report. The Committee continues to take an active interest in the quality and development of talent and capabilities of the Group Leadership Team ensuring that appropriate opportunities are in place to develop high-performing individuals within the Group Leadership Forum and to build diversity and inclusivity in senior roles across the business.

Board Evaluation
As required by the Code, the Board undertakes an annual evaluation of its activities and those of its committees. This year the Board carried out an internal review of its effectiveness. Between March and May 2023, a three-stage process was followed. More information on the process and outcomes is detailed at page 69 of this Corporate Governance report.
The performance of the Nomination Committee was reviewed as part of the evaluation process, and I am pleased to report that the evaluation concluded that the Committee continues to operate effectively.

What we will do in 2024
- Continue to assess the Board skills and composition of the Board.
- Carry out an externally led review of the Board's performance.
- Review the frequency and terms of reference of the Committee.
- Group Leadership Team succession planning and talent management update will be provided to the Committee.
- Oversee the external Board Evaluation in accordance with the principles of the UK Corporate Governance Code.
- Conduct 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.

STEVE JOHNSON
Chair of the Nomination Committee
21 September 2023

"The Committee seeks to ensure a clear link between Executive Directors' pay, the delivery of our strategy and enhancement of shareholder value."

GILL BARR
Chair of the Remuneration Committee

Bio on **page 64**

Contents of this report

Key activities during FY23

- Approving the recruitment arrangements for our new Chief Financial Officer, John Fallon, and the termination arrangements of his predecessor
- Determining outturns for incentives in respect of FY23, taking into consideration the experience of key stakeholders over the period
- Assessing the competitiveness of executive director remuneration arrangements
- Setting performance targets for FY24 incentives
- Consideration of market trends and governance updates
- Consideration of pay and conditions across the wider workforce

Part A: Annual statement by the Remuneration Committee Chair

On behalf of the Board, I am pleased to present the Remuneration Committee report for the financial year ended 25 June 2023, my first as Chair of the Remuneration Committee having joined the Board and the Committee in March 2023. I would like to thank my predecessor, Steve Johnson, for his guidance and support as I transitioned into the role.

The Remuneration Report provides a comprehensive picture of the structure of our remuneration framework, its implementation and its alignment with the business strategy. In addition, we explain the impact on the rest of the workforce, and the decisions made by the Committee as a result of the Group's performance in FY23. Finally, we share the intended arrangements for FY24.

As this was not a policy renewal year, we have included a summarised version of directors' remuneration policy. The full report as approved by shareholders at the 2021 AGM can be accessed online: https://www.dfscorporate.co.uk/investors/annual-report-2021.

Remuneration in context

The Committee were delighted by the positive voting outcome for the annual report on remuneration at the 2022 AGM which received 91.8% votes in favour. We would like to thank our shareholders for their continued support, and we look forward to engaging with our shareholders during FY24 as part of the triennial review of directors' remuneration policy ahead of it being put to vote at the 2024 AGM.

FY23 has been another challenging year. The well-publicised global macroeconomic challenges impacted overall market volumes, which were down c.15% compared to pre-pandemic levels, but the Group achieved record market share of 38%. The Group benefited from the its leading brands,

DIRECTORS' REMUNERATION REPORT CONTINUED

significant scale and compelling retail propositions. Those strengths were the result of the hard work of our people led by our Chief Executive Officer and his Group Leadership Team. The Group delivered underlying profit before tax in line with guidance with an improved gross margin.

The Remuneration Committee carefully considered the experiences of all key stakeholders, as well as overall Group performance, when making decisions on executive remuneration. We have outlined below the key drivers of our decisions

Group performance

- Group profit before tax (PBT) from continuing operations for the year of £29.7m (FY22: £58.5m) in line with guidance set at the interims.
- Despite market volumes reducing c.15% by volume, Group Revenue from continuing operations for FY23 was only 5.3% below prior year at £1,088.9m (FY22: £1,149.8m)
- Gross Margin continued to improve, supported by freight costs returning to pre-pandemic levels and effective cost control by management.

Shareholder experience

An interim dividend of 1.5p was paid to shareholders in May and the Board is recommending a final dividend of 3.0p giving a total ordinary dividend for FY23 of 4.5p (FY22: 7.4p). In September 2022 the Company announced its intention to buyback a further £10.0m of shares, which was completed in January 2023.

Colleague experience

The Committee is extremely mindful of the current cost-of-living challenge and its impact on the financial and emotional wellbeing of our employees. The Committee was pleased to note that during the year the Group decided to increase the average workforce salary by 5% across the Group. In December 2022 all colleagues were also awarded a £100 'Thank You' voucher for their continued hard work and commitment.

Throughout the year the Group continued its strategy of supporting its people through the introduction of several new employee benefits:

- the SmartTech programme, a scheme to help with the cost of living by giving colleagues the opportunity to purchase new technology whilst spreading the cost over 12 months directly from their net pay, interest free.
- a Health Cash Plan, which benefits colleagues at entry to intermediate management grades who are not eligible for private medical/health cash plan as part of their remuneration package.
- a Holiday Buying (salary sacrifice) scheme giving colleagues the opportunity to purchase up to 5 days additional holiday.
- the final part of our partnership with Peppy, which provides wide support for colleagues. Baby & Fertility group launched in October 2022 joining Men's Health and Menopause support.

In addition, I am pleased to announce that the FY23 management bonus scheme will provide a median payment to participants of 33.5% of maximum.

Pay outcomes in FY23

Base salary increases in FY23

In FY23 there was no increase in base salary for the Executive Directors or the wider work force with the exception of increases in the National Living Wage. During the year the Committee did agree that the Executive Directors should receive an increase of 4.5% (below that of the wider workforce), effective from 1 July 2023 (FY24).

Annual Bonus in FY23

The bonus for FY23 was based on 30% Profit before tax, 20% Revenue, 20% Cash Flow, and 15% 'ESC' made up of 5% Environmental, 5% Social and 5% Established Customer NPS and 15% on Personal Objectives. Payment of any bonus for the Executive Directors was subject to achievement of a Group PBTa[1] threshold of £30.3m. The stretching Cash Flow threshold was not met and so no bonus was paid in respect of this portion. Despite market volumes reducing c.15% across FY23, Group revenues of £1,088.9m were close to budget and so 41.1% of this element paid out and Group underlying PBTa[1] of £30.6m was just above threshold resulting in 2.8% of this element paying out.

Each Executive Director also performed well against their balanced scorecard of personal objectives which included developing a credible carbon reduction roadmap that was subsequently submitted to SBTI and strong progress improving the Customer NPS score. Under the formulaic assessment, the bonus delivered 31.1% of the maximum opportunity for the Chief Executive and Chief Financial Officer. The Committee considered this a fair reflection of management performance during the year. The bonus for John Fallon will be pro-rated to reflect that he joined the Group during FY23. In addition, 25% of the bonus for both Executive Directors will be paid in shares subject to a two-year holding period.

LTIP vesting in respect of FY23

The 2020 LTIP award was based 50% on Adjusted EPS[2] and 50% on relative TSR growth against two peer groups, the FTSE 250 Index (excluding investment trusts) and the FTSE 350 General Retailers Index. Adjusted EPS[2] for FY23 was 9.6p versus a thresh old level of 18.7p and so this element did not vest. The relative TSR performance against both peer groups was also below the threshold and therefore the entirety 2020 LTIP award did not vest.

Committee consideration of incentive outturns in the context of stakeholder experiences and overall Group performance

The Committee considered whether the bonus and LTIP outcome should be adjusted in light of overarching business performance and the experience of shareholders. After due consideration the Committee is of the view that the formulaic outcomes are fair and appropriate. No discretion was exercised in relation to these awards.

Base salary for FY24

As noted above, base salaries for the wider workforce and the Executive Directors were increased by 5% and 4.5% respectively effective 1 July 2023.

In the five years since his appointment, the Committee believes the Chief Executive Officer has provided exceptional leadership during what has been, and continues to be, an extremely challenging trading environment. Under his leadership, DFS has achieved record market share. The Board is aware that DFS is operating in a highly competitive market for capable senior leaders. This was recently highlighted by the departure of the previous Chief Financial Officer to another retail organisation who could offer a significantly larger remuneration package. The Board considers the Chief Executive Officer critical to DFS being able to deliver its transformational agenda.

1. Refer to pages 25 to 27 for definitions of Alternative Performance Measures.
2. Underlying basic earnings per share from continuing operations.

DIRECTORS' REMUNERATION REPORT CONTINUED

In light of these issues, the base salaries of the Executive Directors were reviewed during 2023 along with those of the wider workforce. During this review the Committee noted that the Chief Executive Officer's base salary was below the level paid to Chief Executive Officers in companies with similar revenues, market capitalisation and number of employees, particularly retailers who are also constituents of the FTSE SmallCap.

Given this context, the Committee increased the Chief Executive Officer's base salary by 10.3% from £453,200 to £500,000 effective 1 September 2023. This increase included the annual increase of 4.5% which is below the workforce average of 5%, plus an additional 5.8%. The Committee is mindful that the total salary increase is above the wider workforce average but believes the increase is fair and necessary to motivate and retain our Chief Executive Officer who is critical to the delivery of the transformation.

Annual Bonus for FY24

The bonus opportunity for the Chief Executive Officer will remain at 120% of salary and for the Chief Finance Officer 110% of salary. For FY24, bonus performance will be based 70% on financial measures (50% Profit Before Tax, 20% Cash flow) and 30% on strategic non-financial measures: 10% Environmental; 10% Social – Inclusivity; 10% Customer NPS.

Revenue will not feature as a separate measure on the basis that it is an input to PBT and there will also be no personal objectives. The precise targets applying to the awards are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP awards for FY24

The operation of the LTIP for FY24 will be in line with the remuneration policy. The maximum LTIP award level will remain at 175% of salary for the Chief Executive Officer and 140% of salary for the Chief Finance Officer, the Committee having considered share price since the FY22 LTIP award was made.

Performance targets will remain majority weighted on EPS and relative TSR although the weighting of each will reduce to 45% to accommodate a new ESG target weighted 10%. During the course of the year the Committee reviewed and agreed that, in line with growing market practice, performance measures for the FY24 grant would include ESG targets aligned to the Group's ESG strategy. In this first year, the Committee have approved two targets with equal weighting: 1) Scope 1 Carbon Intensity Reduction, aligned to the Net Zero Roadmap and 2) Reduction in the use of virgin content in plastic packaging used by the Group.

More details can be found on page 81.

Management changes

As announced in July 2022, and described in the report last year, Mike Schmidt, the previous Chief Financial Officer stepped down from the Board effective 14 October 2022 and between serving notice and departure received only salary, pension allowance and contractual benefits. Under the rules of the LTIP and Deferred Bonus Plan, and in line with remuneration policy, Mike's 2020 and 2021 LTIP awards and 2021 deferred bonus award lapsed and Mike was not eligible to receive a bonus for any period served during FY22 or FY23.

We were delighted to welcome John Fallon as Executive Director and Chief Financial Officer of the Group on 14 November 2022 on a salary of £380,000 reflecting his twenty years' experience from ASDA, where he most recently served as Group Chief Finance Officer and his strong retail experience. To enable John to join the business at the earliest opportunity, the Committee agreed an additional payment of £26,559 which was the equivalent of 26 days salary from his previous employment.

Looking ahead

In line with the normal three-year cycle, our Directors' Remuneration Policy will be subject to shareholder vote at the 2024 AGM. In advance of this, the Committee will spend significant time rigorously reviewing the remuneration policy to ensure that it is effective in motivating delivery of the strategy and that it remains fit for purpose as DFS looks to the future. This review will consider DFS's strategic aims and the views and expectations of our shareholders and other stakeholders. I look forward to engaging with you as part of the consultation process.

GILL BARR
Chair of the Remuneration Committee
21 September 2023

Part B: Remuneration at a glance

Overview of remuneration policy

Element	Policy
Pension	4% of salary
Post-cessation shareholding	2-year post-cessation of 200% of salary
Annual bonus opportunity and deferral	CEO: 120% of salary CFO: 110% of salary 25% of bonus deferred for 2 years
LTIP opportunity and timeframes	CEO: 175% of salary CFO: 140% of salary 3-year performance period with 2-year hold
Shareholding guidelines	200% of salary

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

Key Element of the 2018 Code	How is this considered within DFS's remuneration framework?
Five-year period between the date of grant and realisation for equity incentives	The LTIP has a five-year period including the performance and holding period.
Phased release of equity awards	The LTIP ensures the phased release of equity awards through 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 were aligned to the workforce from the end of December 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 (Loraine Martins) who will attend the Employee Voice Forums and engage with the workforce. Loraine succeeded Jane Bednall in this role following Jane's decision to step down from the Board at the end of FY23

Key implementation decisions for FY23

Neither the CEO nor the CFO received any salary increases during FY23, in line with the wider workforce.

Annual bonus

Performance measure	Weighting	Achievement (% max)
Group Revenue	20%	41.1%
Group PBTa[1]	30%	2.8%
Group free cash flow	20%	0%
Environmental	5%	100%
Social -Inclusion	5%	3.0%
Customer – Average NPS	5%	100%
Personal objectives	15%	80% for both EDs

Payment of the FY23 bonus was subject to the achievement of threshold Group PBTa[1]; as this was achieved a bonus was payable for FY23 at 31.1% of maximum.

FY23 Bonus opportunity for the CEO: 120% of salary and for the CFO:110% of salary

LTIP

Performance measure	Weighting	Achievement
TSR vs FTSE 250	15%	0%
TSR vs FTSE 350 Retailers	35%	0%
EPS growth	50%	0%

FY20 LTIP award opportunity: CEO: 150% of salary

No discretion was used in determining the incentive plan outturns.

Implementation of policy for FY24

Element	Implementation
Base salary	CEO and CFO: 4.5% increase from 1 July 2023 In addition, CEO: further 5.8% increase from 1 September 2023
Pension	CEO: 4% of salary, CFO: 4% of salary
Annual bonus maximum	CEO: 120% of salary. CFO: 110% of salary
Annual Bonus metrics	– 70% Financial (Profit before tax: 50%, Free Cash Flow: 20%) – 30% Non-Financial Strategic 'ESC' objectives (Environmental: 10%, Social – Inclusion: 10%, Customer – Average NPS: 10%)
LTIP maximum	CEO: 175% of salary, CFO: 140% of salary
LTIP metrics	– ESG (10%) – EPS (underlying) (45%) – TSR relative to FTSE 250 excl. investment trusts (13.5%) – TSR relative to FTSE 350 General Retailers Index (31.5%)

1. Refer to pages 25 to 27 for definitions of Alternative Performance Measures.

Part C: Our Remuneration Philosophy and Workforce Reward

Our remuneration philosophy & Principles

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

THINK CUSTOMER · BE REAL · AIM HIGH

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

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 an inclusive and diverse working environment and promote the right behaviours through fairness, equity of treatment and in doing the right things in the right way. Our incentive plans are designed to reward and promote delivery of the Group's business plan and key strategic goals, within the risk appetite of the Group.	Our pay and reward programmes 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 5,300 people across the UK and Republic of Ireland. 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 'Your 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 arrangements for fairness and market competitiveness. – Employees in the UK can participate in the Sharesave scheme.
Aligned to our business strategy and culture	– Employees can share in our success via bonus schemes. – Company-wide groups generate positive engagement more broadly with activities such as the Employee Assistance Programme (EAP) which provides a free and confidential support network designed to help our colleagues and their families with any issues that could be affecting their home life or work life, health, and general wellbeing. – We have a wellbeing offering that supports our inclusion agenda. We launched the final part of our partnership with Peppy: Baby & Fertility group-wide support for colleagues in October 2022 (started with Menopause support in July 2021 and Men's health in June 2022). – The 'Your Deal' Portal provides employees with access to savings across a large number of retailers and we continually review our benefit offering to ensure we're supporting our employees in a variety of ways. In the last year we have introduced three new benefits that will help our employees time and/or money go further: (1) SmartTech programme giving employees the opportunity to purchase technology whilst spreading the cost over twelve months directly from their net pay, interest free, (2) a Health Cash Plan (giving employees access to a 7-day a week private GP and the ability to reclaim certain health costs (this benefits our colleagues at entry to intermediate management grades who are not eligible for private healthcare as part of their remuneration package), and (3) a Holiday Buying (salary sacrifice) scheme giving employees the opportunity to buy up to five days additional holiday per annum.
Supports a high- performance sales and service culture	– We have delivered more than 9,000 training hours focused on sales and service skills within our Sofology brand, and delivered over 200 virtual training sessions focusing on sales and service across DFS. – 40 of our Retail team are currently completing Retail Apprenticeships to develop their skills further. – Around 40 more colleagues are undertaking other apprenticeships across different parts of the business. – We have supported our leaders extensively with over 2,000 hours of learning completed by 'middle' managers across the Group.

Cascade of remuneration across the group

The table below illustrates the remuneration framework across the Group:

Level	Employee numbers	Fixed remuneration	Annual bonus or incentive / commission plans	Restricted share plan	Long-term incentive plan	All employee HMRC plans
Group Leadership Team	5	✓	✓	✓	✓	✓
Heads of divisions and functions	94	✓	✓	✓		✓
Managers	377	✓	✓	✓		✓
All employees	4,808	✓	✓			✓

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

	Base salary	Pension & benefits	Annual bonus and recognition awards	LTIP, RSP & SAYE
Group Leadership Team	Base salary is set by reference to the wider workforce and market practice.	Taxable benefits include car, private medical insurance, and reimbursement of business-related expenses. Pension policy aligned to workforce rate of 4% of salary.	The annual bonus for our management 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.	Our Group Leadership Team are eligible to participate in the LTIP which rewards achievement of stretching strategic goals which align their interests with investors over the long-term.
Heads of divisions and functions				The next level of management is eligible to participate in the RSP.
Managers				All employees in the UK may participate in the Group's Sharesave plan.
All employees		Average employer pension contribution is 4% of salary.	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.	

Part D: Remuneration Policy

The following section sets out a summary of the Directors' Remuneration Policy for the Board which was approved by binding shareholder vote at the AGM in November 2021, taking effect 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 Company'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 Company's strategic goals and business outputs.
- Encourage and support a high-performance sales and service culture ensuring good customer outcomes.
- Reward delivery of the Company'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.

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.

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.

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 Executive Directors are aligned to the pension provision for the wider workforce which is currently 4% of base salary.
- 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.

DIRECTORS' REMUNERATION REPORT CONTINUED

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 participants 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 budgeted performance. 100% of maximum will be paid for stretch 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.

Long-term incentive plan

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.

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.
- 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 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 Company'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.

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.

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

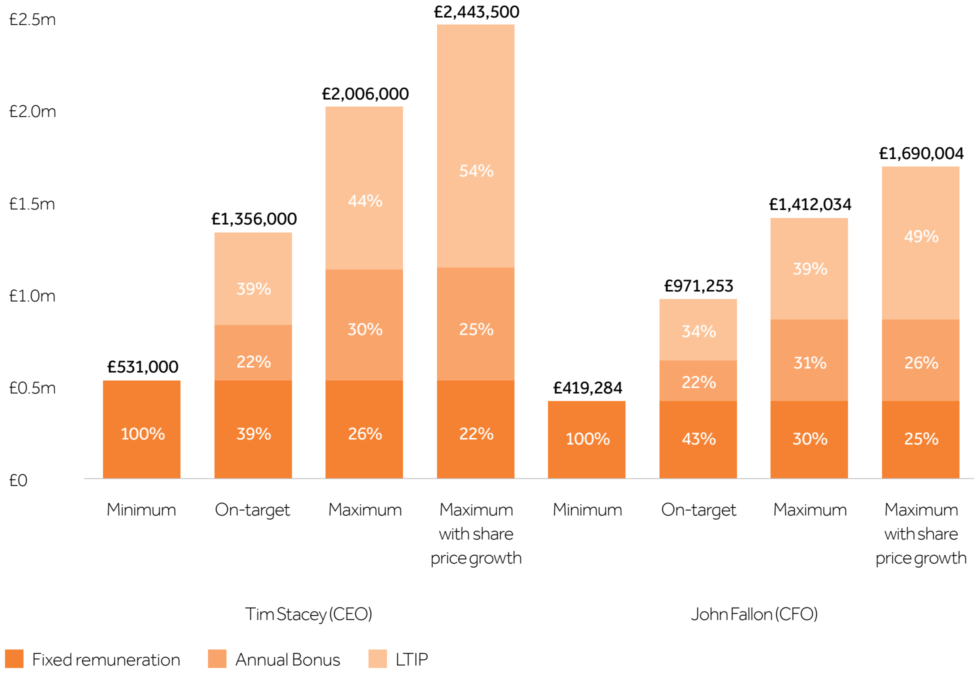
- Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.

Performance measures/assessment and recovery provisions

- Not applicable.

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.



DIRECTORS' REMUNERATION REPORT CONTINUED

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

Element	Minimum	On-target	Maximum
Base salary (fixed)	CEO = £500,000 CFO = £397,100		
Pension (fixed)	4% of salary		
Benefits (fixed)	Estimate based on FY23 figures		
Annual bonus	Nil	50% 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's 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's 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. – Bonus will be pro-rated from the date of employment. – Awards may be granted up to the maximum opportunity allowable in the remuneration Policy table at the Committee's discretion.
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	24 May 2022	6 months (Executive) or 12 months (Company)
John Fallon[1]	14 November 2022	6 months (Executive) or 6 months (Company)

1. After one year's service, both Executive and Company notice periods for John Fallon increase to 12 months.

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

Consideration of employee views and employment conditions elsewhere in the Group
In setting the remuneration 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 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. 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 at DFS should be linked to DFS'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 compensation that attracts high calibre individuals and reflects their experience and knowledge.

Operation

– Fee levels are reviewed periodically taking into account 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	£201,500
Senior Independent Director fee	£66,720
Chair of Board Committee fee	£66,000
Basic Non-Executive Director fee	£56,000

The figures in the table above reflect an increase in Non-Executive Director fees (including the Chair's) of 4.5%, effective 1 July 2023, which is slightly below that of the wider workforce (5.0%). 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 terminable by either the Non-Executive Director or the Company with three months' prior written notice from either party or six months' notice from either party in the case of the Chairman. 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
Steve Johnson	6 December 2018
Alison Hutchinson	1 May 2018
Jo Boydell	6 December 2018
Gill Barr	1 March 2023
Loraine Martins	28 June 2021
Jane Bednall	1 January 2020

Ian Durant and Jane Bednall stepped down from the board effective 4 November 2022 and 23 June 2023 respectively.

Part E: Annual Report on Remuneration for the Financial Year ended 25 June 2023

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]	Pension[3]	Other[4]	Total Fixed	Total Variable	Total
Tim Stacey	**2023**	**453**	**11**	**170**	**–**	**30**	**1**	**495**	**170**	**665**
	2022	443	7	–	–	44	2	496	–	496
John Fallon	**2023**	**240**	**–**	**80**	**–**	**8**	**38**	**286**	**80**	**366**
	2022	–	–	–	–	–	–	–	–	–
Mike Schmidt	**2023**	**110**	**6**	**–**	**–**	**7**	**1**	**124**	**–**	**124**
	2022	332	14	–	–	26	4	376	–	376

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 LTIP awards due to vest in respect of FY23, being the FY21 (2020) Plan lapsed based on performance to the end of FY23.
3. 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.
4. Represents a fuel card payment for Tim Stacey and a car allowance supplement for Mike Schmidt. In respect of John Fallon, a payment of £26,559 was made which was the equivalent of 26 days of employment at his previous employer which was agreed as part of John's joining arrangements. The remaining £10,719 is a car allowance supplement.

Annual Bonus outturn for FY23 – Audited

As disclosed in last year's report, the FY23 bonus was based 70% on financial measures: 20% Revenue, 30% Profit before tax, 20% Cash Flow and 30% on non-financial measures: 15% Strategic 'ESC' objectives (Environmental 5%, Social – Inclusion 5%, Customer – Average NPS 5%) and 15% Personal.

The profit threshold for FY23 was achieved, as a result, the bonus awarded to Tim Stacey is £169,750 (31.1% of maximum opportunity) and John Fallon is £79,713 (31.1% of maximum opportunity).

Performance against objectives

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% of max)
Group revenue	20%	£951.0m	£1,118.9m	£1,286.7m	41.1%
Group profit before tax and brand amortisation	30%	£30.3m	£35.7m	£41.1m	2.8%
Group free cash flow (net cash flow before dividends and RCF movement)	20%	£13.1m	£15.4m	£17.7m	0%
Environmental	5%	Create a roadmap and targets			100%
Social (inclusion) – Increase the number of females in management positions in the Group	5%	36.0%	37.5%	39.0%	3.0%
Customer – Group Customer Average Established Net Promoter Score (DFS/Sofology)	2.5%	55%	55%	75%	100%
	2.5%	55%	65%	75%	100%
Personal objectives	15%	See notes below			
				Tim Stacey	80%
				John Fallon	80%
Bonus outcome (% maximum)				Tim Stacey	31.1%
				John Fallon	31.1%
Total bonus outcome (£)				Tim Stacey	£169,750
				John Fallon	£79,713

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 below.

As part of its assessment, the Committee also considered 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 instances.

Director	Performance area	Measures of achievement	Level achieved
CEO – Tim Stacey	– Develop the Group strategy focused on the medium term sourcing and manufacturing platform, the Home growth pillar in the context of the wider sustainability ambition to get to Net Zero by 2040.	– Significant progress made on the medium term sourcing and manufacturing strategy over the last 12 months. ESG targets achieved and a clear roadmap setting out the Group's journey to net zero approved. LTIP targets for FY24 to include ESG targets.	– Achieved
	– To improve operational efficiency and effectiveness, materially reducing the operational inefficiencies and costs experienced post Covid. Improve operational grip and reduce customer and supply chain disruption.	– Lead times for customers at pre-pandemic levels and customer NPS scores have improved across the Group. Detailed review of the Group's cost base carried out; cost management is strong and operational efficiencies have been achieved, evidenced by improvements in gross margin.	– Achieved
	– Lead the culture change in our Group and continue to grow and become a more responsible and sustainable organisation for our people, our planet, our customers, and our communities.	– The Group continues to make significant progress on its People, Planet, Customer and Communities strategy as detailed in the Responsibility and Sustainability report. Tim is a member of the RSC Committee and leads the Group's Diversity and Inclusivity Council.	– Achieved

Director	Performance area	Measures of achievement	Level achieved
CFO – John Fallon	– Develop the Group's strategic finance agenda, targeting sustainable growth including a full review of the Group's cost base.	– New 4 year financial plan and strategy approved by the Board, supported by improvements in gross margin, externally supported review of cost base leading to establishment of cost efficiency programmes to lower our cost to operate, and strategic growth initiatives that enhance return on capital.	– Achieved
	– Improve the efficiency and effectiveness of the Group's finance operating model.	– Finance transformation plans developed and underway with full engagement. Specific changes scoped and on track. Recruited external finance leader to lead change.	– Achieved
	– Continue to strengthen the Group's risk management and controls framework, alongside developing our sustainability plans and reporting to get to Net Zero by 2040.	– Risk management process improving and embedded across the business, Clear action plans and targets in place to deliver efficient and effective responses to new Corporate Governance code requirements and SBTI targets.	– Achieved

DIRECTORS' REMUNERATION REPORT CONTINUED

LTIP awards vesting in relation to performance in FY23 – audited

The 2020 award was granted on 6 October 2020 and was assessed against the performance targets at the end of FY23.

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Actual performance	Vesting %
2020 LTIP	EPS	50%	Reporting underlying EPS	18.7p	24.7p	9.6p	0%
	TSR	15%	TSR (FTSE 250 excl Investment Trusts)	Index	Index + 10% p.a.	Below Index	0%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	Below Index	0%
	Total vesting						**0%**

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 0%. No discretion was exercised in respect of award vesting levels.

Scheme interests awarded in FY23 (2022 awards) – audited

Details of LTIP awards granted during FY23 are set out in the table below. No Deferred Bonus Awards were granted during FY23.

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[1]	Nil cost option	733,446	792,122	175%
CFO – John Fallon	LTIP[2]	Nil cost option	348,689	516,060	135%

1. The number of shares granted was based on a share price of £1.08. This was the average of the closing share price on the three days prior to the date of grant (12 October 2022). Award will vest on 12 October 2025.
2. LTIP grant date was 14 December 2023 and the award will vest on 12 October 2025. The number of shares granted was based on a share price of £1.48 which was the average of the closing share price on the three days prior to the grant. The award was prorated to reflect John Fallon being in the role for 35 months out of the 36 month vesting period.

Performance conditions for FY23 (2022 award) LTIP

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 17.7p	17.7p	23.7p or more	Between 17.7p and 23.7p

Relative TSR (50%)

Percentage of this portion of the Award vesting

Weighting	Nil	20%	100%	Between 0% 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	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	Between FTSE 350 General Retailers Index return and 10% p.a.

DIRECTORS' REMUNERATION REPORT CONTINUED

SAYE awards – audited
No Directors were granted SAYE options during FY23.

Details of LTIP award performance conditions (where not disclosed elsewhere in report)

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Target performance	Max performance	Threshold level vesting	Target vesting	Maximum vesting
2021 LTIP	EPS	50%	Reporting underlying EPS	24.8p	26.1p	28.7p	20%	60%	100%
	TSR	15%	Relative TSR (FTSE 250 Index)	Index	–	Index + 10% p.a.	20%	–	100%
		35%	Relative 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
None

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
Gill Barr[1]	**2023**	**21**	**–**	**21**
	2022	–	–	–
Ian Durant[2]	**2023**	**96**	**1**	**97**
	2022	190	1	191
Alison Hutchinson	**2023**	**74**	**–**	**74**
	2022	65	–	65
Jo Boydell	**2023**	**64**	**–**	**64**
	2022	60	–	60
Steve Johnson[3]	**2023**	**148**	**–**	**148**
	2022	60	–	60
Jane Bednall[4]	**2023**	**54**	**–**	**54**
	2022	52	–	52
Loraine Martins	**2023**	**54**	**–**	**54**
	2022	52	–	52

Notes:
1. Gill Barr was appointed to the Board on 1 March 2023.
2. Ian Durant other remuneration relates to health insurance benefit in kind. Ian stepped down from the Board on 4 November 2022
3. Steve Johnson was appointed as Chair of the Board on 4 November 2022.
4. Jane Bednall stepped down from the Board on 23 June 2023.

Shareholding and other interests at 25 June 2023 – 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 FY23 was equal to 200% 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]	Number of shares under the Deferred Bonus Plan[2]	% of salary held[3]	Shareholding requirement met[3]	Subject to conditions[4]	Not subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 25 June 2023
Tim Stacey	684,173	35,961	165%	No	1,024,523	–	–	–	1,744,657
John Fallon	–	–	0%	No	348,689	–	–	–	348,689
Mike Schmidt[5]	68,077	–	–	–	–	–	–	–	68,077
Steve Johnson	52,666	–	–	–	–	–	–	–	52,666
Ian Durant[5]	44,666	–	–	–	–	–	–	–	44,666
Gill Barr	15,557	–	–	–	–	–	–	–	15,557
Jane Bednall[5]	13,333	–	–	–	–	–	–	–	13,333
Jo Boydell	13,333	–	–	–	–	–	–	–	13,333
Alison Hutchinson	48,056	–	–	–	–	–	–	–	48,056
Loraine Martins	6,023	–	–	–	–	–	–	–	6,023
Total	**945,884**	**35,961**	**–**	**–**	**1,373,212**	**–**	**–**	**–**	**2,355,057**

Notes:
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Deferred shares and dividend equivalents are subject to a 47% tax rate.
3. Shareholding requirement calculation (Executive Directors only) is based on the share price at the end of the year (£1.09 at 25 June 2023).
4. Shareholdings subject to conditions relate to the outstanding share awards under the 2021 and 2022 LTIP awards (excludes the 2020 LTIP award due which lapsed due to threshold performance not being achieved).
5. Mike Schmidt, Ian Durant and Jane Bednall are no longer directors, having stepped down from the Board on 3 October 2022, 7 November 2022 and 25 June 2023 respectively. Reported shareholdings for these former directors reflects information available independently to the Group.

At 21 September 2023 there had been no movement in Directors' shareholdings and share interests from 25 June 2023.

Outstanding share awards

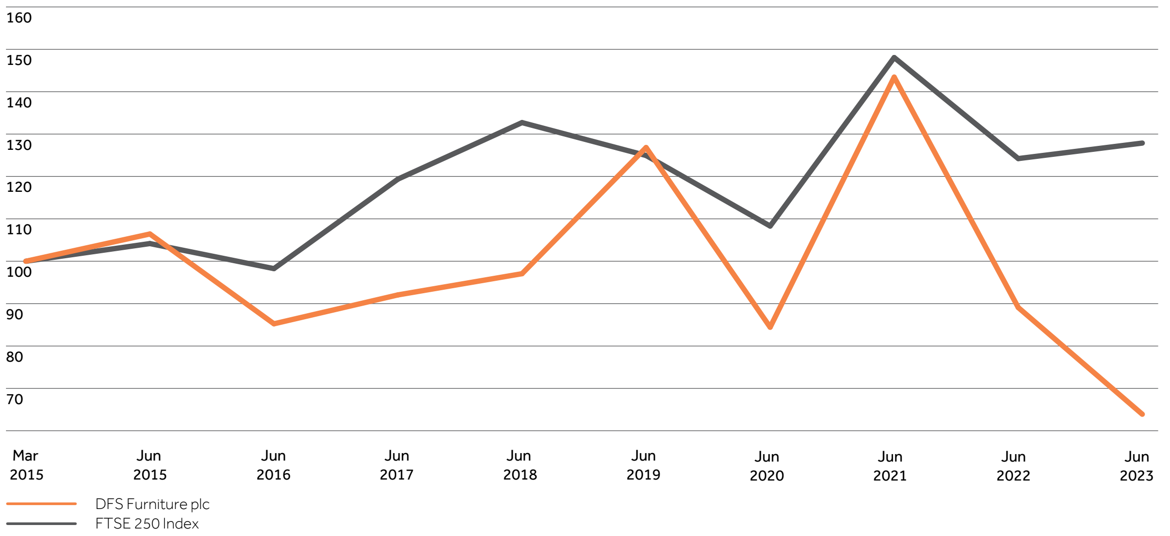
The following share awards remain outstanding as at 25 June 2023 for the Executive Directors:

Director	Type of award	Date of grant	Number of awards	Award vested	Awards lapsed	Outstanding awards	Market price on date of grant[1]	Normal vesting date
Tim Stacey	2021 LTIP	11/10/21	251,908	–	–	251,908	£2.62	11/10/24
	2021 LTIP	12/11/21	39,169	–	–	39,169	£2.81	12/11/24
	2022 LTIP	12/10/22	733,446	–	–	733,446	£1.08	12/10/25
	2021 DBP	21/10/21	31,911	–	–	31,911	£2.69	21/10/24
	2021 DBP	20/12/21	28,300	–	–	28,300	£2.69	21/12/24
John Fallon	2022 LTIP	14/12/22	348,689	–	–	348,689	£1.48	12/10/25

1. The share price for calculation is the average of the closing share price on the three days prior to the grant.
2. Figures exclude the 2020 LTIP award due which lapsed due to threshold performance not being achieved.

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 FY23 (25 June 2023). 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.

	FY 23	FY22	FY21	FY20	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	Tim Stacey	Tim Stacey	Tim Stacey	Tim Stacey[1]	Ian Filby	Ian Filby	Ian Filby	Ian Filby	Ian Filby
Single Figure	**665**	496	1,999	568[3]	464	374	673	666	804	790
Annual Bonus (% of max)	**31.1%**	0%	100%	0%[2]	26.2%	32.2%	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**0%**	0%	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 FY20 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.

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.

		FY19–FY20			FY20–FY21			FY21–FY22			FY22–FY23		
Annual % change		**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus[1]**
CEO	Tim Stacey	2%	41%	-100%	10%	-6%	100%	3%	-82%	-100%	0%	61%	100%
CFO	John Fallon[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-Executive Directors	Gill Barr[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0%	n/a	n/a
	Alison Hutchinson	17%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Jo Boydell	81%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Steve Johnson	79%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Jane Bednall	n/a	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Loraine Martins	n/a	n/a	n/a	n/a	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
Employee pay		0%	n/a	n/a	2%	n/a	n/a	3%	n/a	-100%	0%	n/a	100%

In line with the regulations, this analysis will be extended up to a five year period. Notes on the percentage change in remuneration for previous years are provided in prior years' annual reports.

1. Annual bonus was paid to Executive Directors and wider employee population for FY23.
2. John Fallon and Gill Barr were appointed to the Board on 14 November 2022 and 1 March 2023 respectively.

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	2023	2022	% change
Employee remuneration	**£202.5m**	£206.5m	-1.9%
Distributions to shareholders (dividends and share buybacks)	**£43.0m**	£58.2m	-26.1%

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

Statement of implementation of remuneration policy in FY24

Base salary

During FY23 the Committee approved a base salary increase for Executive Directors of 4.5% effective 1 July 2023 taking the CEO and CFO salaries to £473,600 and £397,100 respectively. The increase was slightly lower than the 5.0% increase awarded to the wider workforce. In addition, as noted in the Committee Chair's statement on pages 78 to 80, an additional increase of 5.8% was approved for the CEO effective 1 September 2023, taking his salary to £500,000 from that date.

Pension and benefits

The company pension contribution for Executive Directors be the same as the rate available to the wider workforce of 4%.

Benefits provided will be in line with the policy.

Annual bonus

The bonus opportunity for the CEO will be 120% of salary and for the CFO 110% of salary. For FY24, bonus performance will be based 70% on financial measures (50% Profit Before Tax, 20% Cash flow): and 30% on strategic non-financial measures: 10% Environmental; 10% Social – Inclusivity and 10% Customer NPS. Revenue will not feature as a separate measure on the basis that it is an input to PBT and there will be no personal objectives. The precise targets applying to the awards are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP

The operation of the LTIP for FY24 will be in line with the remuneration policy. The maximum LTIP award level will be 175% of salary for the CEO and 140% of salary for the CFO. Performance targets and weightings are set out to the right.

ESG (10% of the award)

During the course of the year the Committee reviewed and agreed that in line with growing market practice the FY24 LTIP grant should include material and quantifiable ESG performance metrics aligned to the Group's ESG strategy. In this first year, the Committee have approved the following targets with a 5% weighting each:

		Percentage of this portion of the Award vesting			
Measure	**Weighting**	**Nil**	**20%**	**100%**	**Between 20% and 100% on a straight line basis**
Scope 1 Carbon intensity reduction, aligned to the Net Zero Roadmap -infrastructure and investment (intensity per £m Gross sales)	5%	More than 7.5	7.5	7 or less	Between 7.5 and 7
Reduction in use of virgin content in plastic packaging (supplier engagement)	5%	Less than 30%	30%	50%	Between 30% and 50%

Underlying EPS (45% of the award)

For the EPS component of the LTIP award, performance will be measured by reference to the reported Underlying EPS figure for the Financial Year ending in 2026. EPS targets will be set on an absolute basis to provide a clear line of sight for management and shareholders with targets aligned to our strategic plan and analyst consensus.

In line with the approved remuneration policy, in response to the inherent uncertainty in the market and past volatility in performance, the Committee has widened the target range for FY24. This includes the adoption of a more stretching maximum target compared to historical practice, in addition to reduction in the threshold vesting percentage from 20% to zero. The Committee believes that the wider target range, combined with the reduction in threshold vesting, ensures that the plan remains motivating for participants and the later ensures that participants are not rewarded materially until the legacy threshold performance has been achieved.

	Percentage of this portion of the Award vesting						
Measure	**Nil**	**20%**	**60%**	**100%**	**Above Nil and up to 20% on a straight-line basis**	**Between 20% and 60% on a straight-line basis**	**Between 60% and 100% on a straight-line basis**
Underlying EPS	17.8p	19.2p	22.2p	26.7p or more	Between 17.9p and 19.1p	Between 19.2p and 22.1p	Between 22.2p and 26.7p

Relative TSR (45%)

Percentage of this portion of the Award vesting

Measure and weighting	Nil	20%	100%	Between 20% and 100% on a straight -line basis
13.5% (FTSE 250 Index)	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.
31.5% (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

Non-Executive Director fees

Non-Executive Directors' fees including the Chair fee were increased by 4.5% in July 2023 which is below the average base salary increase for the wider workforce (5%).

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 2022 in April 2023 and it is available online at dfscorporate.co.uk.

Our analysis for 2022 shows Group level reductions in both the mean and median gender pay gap figures. The mean gender pay gap was 6.8%, a fall of 1.4% against last year's figure; the median gender pay gap was 5.1%, a reduction of 2.0% against the 2021 number. This in part reflects improvements made in female representation across our leadership positions. As we continue to address this imbalance, we believe this will further reduce our gender pay gap.

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.

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 39 to 61 of this Annual Report.

Inclusivity and diversity

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

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

CEO pay ratio

This is the fourth year that we have disclosed the Group's CEO pay ratio.

As in prior years, 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 (2023 and 2022) 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 2022 (financial year FY22) and June 2023 (Financial year FY23). 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 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.

CEO Pay Ratio Data

Year	Method	Measure	CEO	25th percentile	50th percentile	75th percentile
2023	**Option B**	**Pay Ratio**		**27:1**	**18:1**	**18:1**
		Salary	**£453,200**	**£22,907**	**£32,606**	**£33,032**
		Total pay and benefits	**£665,037**	**£24,377**	**£36,407**	**£37,032**
2022	Option B	Pay Ratio		20:1	15:1	12:1
		Salary	£443,300	£22,467	£30,830	£39,307
		Total pay and benefits	£495,432	£24,203	£32,704	£40,345
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 31.1% of maximum vesting outcome on the FY23 annual bonus.

In line with the regulations, this analysis will be extended up to ten years in the future. The Committee considers pay ratios as one of many reference points when considering remuneration. Throughout DFS, pay is positioned to be fair and market competitive in the context of the relevant talent market for each role.

DIRECTORS' REMUNERATION REPORT CONTINUED

Matters covered during the Committee's meetings in FY23

As at 25 June 2023, the Committee consisted of the following members:

- Gill Barr (Chair)
- Alison Hutchinson
- Jo Boydell
- Loraine Martins

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

Matter	July 2022	Sep 2022	Oct 2022	Mar 2023
FY22 Bonus Update	•			
FY23 Bonus Construct	•			
2022 Directors' Remuneration Report	•	•		
2022 Equity Awards Outturn		•		
FY22 Bonus Outturn		•		
Remuneration Committee Terms of Reference			•	
2023 Remuneration Committee calendar of approval			•	
FY23 Bonus Targets Sign off			•	
FY22 Workforce Report	•			
Inflight LTIP Awards – TSR performance updates	•			•
2022 Gender Pay Gap				•
FY23 Annual Pay Review				•

Note:
Details of meeting attendance by Committee members can be found on page 68 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 Secretarial functions.

The Committee received external advice during FY23 from Willis Towers Watson, the Committee's independent advisors. Willis Towers Watson is considered by the Committee to be objective and independent, is a member of the Remuneration Consultants Group and, as such, voluntarily operates 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 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 Willis Towers Watson in respect of services to the Committee during the year were £71,610. All fees were determined based on the scope and nature of the projects undertaken for the Committee.

GILL BARR
Chair of the Remuneration Committee
21 September 2023

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 ('the Company') is the holding company of the DFS Group of companies ('the Group'). The Company has no overseas subsidiaries but operates branches in the Republic of Ireland.
The Directors present their Annual Report and audited financial statements for the 52 weeks ended 25 June 2023, 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	71
Colleague Engagement	36
Conclusion and Outlook	12
Corporate governance report	65
Directors' interests	94
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Section 172 statement	36
Task Force on Climate Related Financial Disclosures	54

Annual General Meeting ('AGM')
The Company's next AGM will take place on 10 November 2023 at the DFS Group Support Centre, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA at 2:30pm. The Annual Report and Accounts and Notice of the AGM, including the resolutions to be proposed, will be sent to shareholders at least 21 clear days prior to the date of the meeting. Shareholders are invited to submit questions prior to the meeting by emailing the Company Secretary Liz McDonald liz.mcdonald@dfs.co.uk.

Shareholder and voting rights
All members who hold ordinary shares are entitled to attend and vote at the AGM. Voting on all resolutions at the 2023 AGM will be by way of a poll. On a poll, every member present in person or by proxy has one vote for every ordinary share held or represented. The Notice of Meeting specifies the deadlines for exercising voting rights. 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. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights. There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods) and requirements of internal rules and procedures whereby directors and certain employees of the Company require prior approval to deal in the Company's securities. The Company's Articles may only be amended by a special resolution at a General Meeting.

Directors
The membership of the Board and biographical details of the Directors are provided on pages 63 and 64. Details of Directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 94.

Director	Position	Service in the year ended 25 June 2023
Steve Johnson[1]	Chair	Served throughout the year
Ian Durant	Chair	Resigned 7 November 2022
Tim Stacey	Chief Executive Officer	Served throughout the year
John Fallon	Chief Financial Officer	Appointed 14 November 2022
Mike Schmidt	Chief Financial Officer	Resigned 3 October 2022
Alison Hutchinson	Senior Independent Non-Executive Director	Served throughout the year
Jo Boydell	Independent Non-Executive Director	Served throughout the year
Jane Bednall	Independent Non-Executive Director	Resigned 23 June 2023
Loraine Martins	Independent Non-Executive Director	Served throughout the year
Gill Barr	Independent Non-Executive Director	Appointed 1 March 2023

1. Served as a Director throughout the year, appointed as Chair 4 November 2022

DIRECTORS' REPORT CONTINUED

Articles of Association

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. Under the Articles, Directors retire and may offer themselves for re-election at a general meeting at least every three years. However, in line with the provisions of the UK Corporate Governance Code, all directors stand for re-election annually. The Articles set out the powers of the Directors. The business of the Company is to be managed by the Directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or the Articles required to be exercised or done by the Company in general meeting, subject to the provisions of any relevant statutes and the Articles and to such regulations as may be prescribed by the Company by special resolution. The Articles can only be amended by special resolution at a general meeting of the shareholders.

Directors' service contracts

The Executive Directors serve under rolling contracts, details of which are set out on page 88 of the Directors' remuneration report. Non-Executive Directors have letters of appointment. The letter of appointment is for an initial period of a three-year term 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. Thereafter, the letter of appointment may be extended for a further three year period and then annually by agreement.

The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM. The Directors' service contracts 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 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. 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.

Dividends

On 16 March 2023 the Board announced its FY23 interim results and an interim dividend of 1.5p. The Board proposes a final dividend payment of 3.0p to be paid in respect of the 52 weeks ended 25 June 2023. The dividend is subject to approval by shareholders at the AGM on 10 November 2023. The final dividend will be paid on 29 December 2023 to all shareholders on the register at 1 December 2023. The Company's shares will trade ex-dividend from 30 November 2023.

1.5p interim dividend	(last year 3.7 per share)
No special dividend	(last year 10.0p per share)
3.0p proposed final dividend	(last year 3.7p per share)
Total dividend of 4.5p per share for FY23	(last year 17.4p per share)

Substantial Shareholders

As at 15 September 2023, 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. The information provided below was correct at the date of notification. These holdings are likely to have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed.

Investor	Number of Ordinary Shares	% voting rights	Date of notification
J O Hambro Capital Management Limited	23,745,591	10.14	31 October 2022
Adriana S.A.	21,960,922	9.38	15 September 2022
Janus Henderson Group plc	13,579,229	5.80	9 December 2022
ABRDN plc	12,245,559	5.23	6 February 2023
Stadium Capital Management LLC	12,004,028	5.13	6 June 2023
Pelham Capital Ltd	11,665,096	4.98	2 May 2023
Allianz Global Investors GMBH	11,523,797	4.92	16 January 2022

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:

Shares

The Company has only one class of shares, Ordinary Shares of £0.10 pence each. The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 52 weeks ended 25 June 2023. The Company has an issued share capital of 240,678,120 ordinary shares of £0.10p each. On 25 June 2023, the Company held 6,533,700 Ordinary Shares in treasury (2022: 2,775,840). As at 15 September 2023 the Company held 6,533,700 shares in Treasury. The rights and obligations attached to these shares are governed by Companies Act 2006 and the Articles. Holders of Ordinary Shares of the Company are entitled to participate in authorised dividends and to receive notice and to attend and speak at general meetings.

Under the Company's Share Dealing code, persons discharging managerial responsibilities and 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.

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

Share Buyback

On 15 September 2022, together with the FY22 Preliminary Results, the Company announced an extension to its share buyback programme. The programme, to purchase for cancellation up to a maximum value of £10m Ordinary Shares (within the limits of approval given by Shareholders at the 2022 AGM), was completed in January 2023. All shares bought through the programme are currently held in the Company's treasury with no voting or dividend rights. Further details on the Company's share capital are set out in note 22 to the financial statements.

Authority to purchase own shares

At the last AGM of the Company on 4 November 2022, 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 10 November 2023 unless revoked, varied, or renewed prior to that meeting.

Authority to allot shares

At the last AGM of the Company on 4 November 2022, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £8,111,739.87 (or up to £16,223,479.73 in connection with an offer by way

DIRECTORS' REPORT CONTINUED

of a rights issue). The Company did not allot any further shares during the year. (2022: nil). A resolution will be proposed at the 2023 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.

Significant relationships

The Company does not have any contractual or other relationships with any single party which are essential to the business of the Group and, therefore, no such relationships have been disclosed.

Donations

The Group does not make donations to political organisations or independent election candidates.

Public Policy

We are members of the British Retail Consortium and support relevant campaigning activity by that body. During the year we have not taken part in any direct lobbying or public policy activity.

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 30 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

On 1 September 2023 we completed the refinancing of our debt facilities. The new facility consists of £200m from our established banking syndicate which runs to September 2027 (with a 16 month extension option) and £50m from the addition of US private placement notes with redemption dates split equally between September 2028 and September 2030.

On 11 September 2023 a consultation process was commenced on the potential closure of the smallest of the Group's UK factories.

There have been no other important events affecting the Company or any subsidiary since 25 June 2023.

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. This document also contains non-financial information and data. While reasonable steps have been taken to ensure that this is correct, it has not been externally audited or verified unless specifically stated in this document.

Going concern

On 1 September 2023 the Group refinanced its borrowing facilities, replacing the previous £215.0m facility with a combination of a new £200.0m revolving credit facility with a consortium of lending banks maturing in September 2027 and £50.0m of private placement debt, £25.0m of which matures in September 2028 and £25.0m in September 2030. At 18 September 2022, £65.2m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £2.4m.

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 35. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors' Report was approved by the Board of Directors on 21 September 2023 and signed on its behalf by:

ELIZABETH MCDONALD
Group General Counsel & Company Secretary
21 September 2023

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 UK-adopted international accounting standards 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.

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 UK-adopted international accounting standards;
- 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.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the 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.

TIM STACEY
Chief Executive Officer

JOHN FALLON
Chief Financial Officer

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' and 'the Group') for the 52 week period ended 25 June 2023 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, 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 25 June 2023 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international 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.

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 directors on 27 April 2010, prior to the Company becoming a public interest entity. The period of total uninterrupted engagement is for the 9 financial periods ended 25 June 2023 as a public interest entity and 13 financial periods in total. 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	£2.5m (2022:£2.5m) 3.8% of profit before tax from continuing operations normalised to exclude non-underlying items and averaged over a period of three years (2022: 4.2% of profit before tax from continuing operations excluding non-underlying items)	
Coverage	98% of group profit before tax from continuing operations excluding non-underlying items (2022: 92% of Group profit before tax from continuing operations excluding non underlying items)	
Key audit matters		vs 2022
Recurring risks	Impairment of Goodwill	↑
	Going Concern	↑
	Recoverability of the parent's investment in subsidiaries and receivables from other group companies	↔

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
Impairment of goodwill	**Forecast-based assessment**	
£508.3 million; 2022: £508.3 million Refer to page 73 (Audit Committee Report), page 120 (accounting policy) and page 135 (financial disclosures).	There is a risk that the business may not meet expected growth projections in order to support the carrying value of goodwill held relating to the DFS Trading and Sofology cash generating units ('CGUs'). Goodwill is significant and at risk of irrecoverability due to continuing weak demand in the furniture retail market. The directors considered the recoverability of the goodwill balance 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, and possibly many times that amount. 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.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Historical comparisons:** Compared the previous forecasts for each CGU against actual outcomes to assess the historical reliability of the forecasting; – **Benchmarking assumptions:** Compared each CGU's trading forecasts against current trading performance and anticipated growth in the furniture retail sector and applied our knowledge of the Group and retail sector, investigating any significant deviations in order to challenge assumptions included in the forecasts; – **Sensitivity analysis:** Performed sensitivity analysis over revenue, profit margins, terminal growth rate and discount factor in order to determine their impact on the value in use calculations; – **Our sector experience:** Engaged our internal valuation specialists to assess and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculations, 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 to the Group's debt adjusted market capitalisation to assess the reasonableness of those cashflows 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. **Our results** We found the Group's conclusion that there is no impairment of goodwill to be acceptable (2022 result: acceptable).

INDEPENDENT AUDITOR'S REPORT CONTINUED

	The risk	Our response
Going Concern	**Disclosure quality**	
Refer to page 32 (Principal Risks), page 35 (Viability Reporting), page 73 (Audit Committee Report), page 102 (Director's report) and pages 118 and 153 (accounting policies).	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. The judgement is based on 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 parent Company's financial resources or ability to continue to operate over a period of at least a year from the date of the 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 are: – The current macro-economic climate impacting the demand for the Group's products including reduced customer demand for furniture, increases in the cost of living and rising inflation; 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.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's and parent Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures included: – **Funding assessment:** Assessed the committed level of finance, and its expiry, to determine the level of finance available to the Group and its associated covenants. Considered covenant compliance, both in the financial period, in the going concern forecast period and the history of covenant compliance in prior periods; – **Historical comparisons:** Critically assessed historical results in order to consider the directors' track record of forecast accuracy against actual cash flows achieved in the current financial period and previously; – **Benchmarking assumptions:** Benchmarked the key assumptions behind the cash flow forecasts to third party evidence, including analyst reports and market data where available; – **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 included evaluating management's plausible downside scenarios, a combination of those scenarios and stress tests; – **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 reductions in non-essential capital expenditure, variable cost savings including reduced marketing costs, reductions in dividends and reductions in bonuses; and – **Assessing transparency:** Considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities. 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 (2022: acceptable).

INDEPENDENT AUDITOR'S REPORT CONTINUED

	The risk	Our response
Recoverability of the parent's investment in subsidiaries and receivables from other group companies Parent Company's investment in subsidiaries: £254.5 million; 2022: £252.7 million. Parent Company's receivables: £275.0 million; 2022: £205.1 million. Refer to page 73 (Audit Committee Report), page 153 (accounting policy) and page 154 (financial disclosures).	**Low risk, high value** The carrying amount of the parent Company's investments in subsidiaries and the intra-group receivables balance represents 48% (2022: 55%) and 52% (2022: 45%) of the Parent Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Tests of detail:** Compared the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessed whether those subsidiaries have historically been profit-making. – Compared the debt adjusted market capitalisation to the investment and intra-group receivables balance to assess impairment indicators. – Assessed 100% of the total group debtors balance to identify, with reference to the relevant debtors' draft balance sheets, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. – **Assessing subsidiary audits:** Assessed the work performed by the subsidiary audit teams of those subsidiaries and considered the results of that work, on those subsidiaries' profits and net assets. Assessed the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results** We found the Company's conclusion that there is no impairment of the investments in subsidiaries and the intra-group receivables balance to be acceptable (2022: acceptable).

We continue to perform procedures over the presentation of discontinued operations. However, following the progress of the discontinued operations, we have not assessed this as one of the most significant risks in our current period 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 £2.5m, (2022: £2.5m), determined with reference to a benchmark of Group profit before tax from continuing operations normalised to exclude non-underlying items and averaged over a period of three years, of which it represents 3.8% (2022:4.2% of profit before tax from continuing operations excluding non-underlying items).

Materiality for the parent Company financial statements as a whole was set at £1.6m (2022: £1.6m), determined with reference to a benchmark of Company total assets, of which it represents 0.30% (2022: 0.35%).

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% (2022: 75%) of materiality for the financial statements as a whole, which equates to £1.88m (2022: £1.88m) for the Group and £1.2m (2022: £1.2m) 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 £0.125m (2022: £0.125m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2022: 9) reporting components, we subjected 4 (2022: 3) to full scope audits for group purposes. We conducted reviews of financial information (including enquiry) at a further 5 (2022: 6) non-significant components.

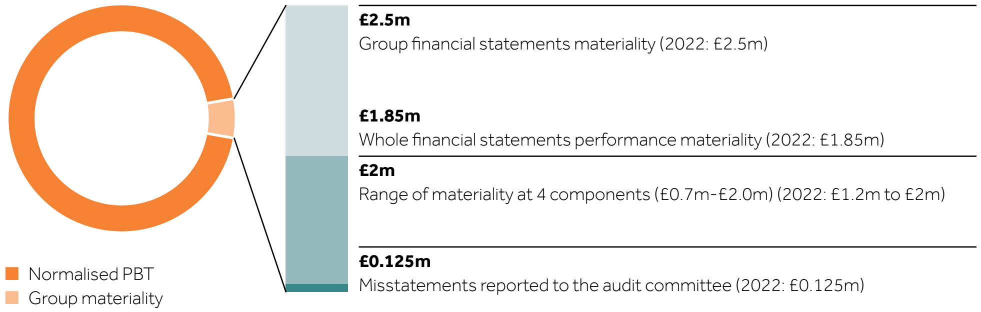
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 1% (2022: 1%) of Group revenue from continuing operations, 2% (2022: 8%) of Group profit before tax from continuing operations excluding non-underlying items and 9% (2022: 6%) of total Group assets is represented by 5 (2022: 6) of reporting components, none of which individually represented more than 4% (2022: 4%) of any of total Group revenue, Group profit before tax or total Group assets. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

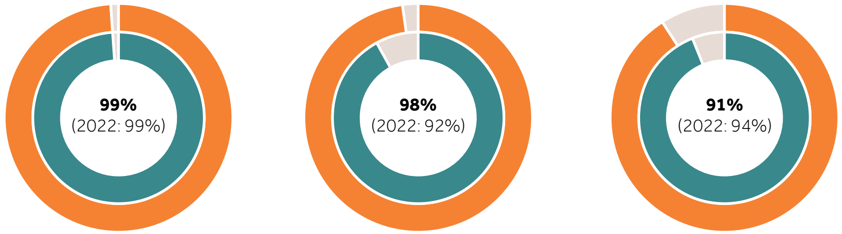
The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

Normalised Group profit before tax
£29.2m (2022: £58.9m)

Group materiality
£2.5m (2022: £2.5m)



Group revenue from continuing operations | **Group profit before tax from continuing operations excluding non-underlying items** | **Group total assets from continuing operations**



Full scope for group audit purposes 2023
Full scope for group audit purposes 2022
Residual components

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 12 months 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 1.1 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 1.1 to be acceptable; and
- the related statement under the Listing Rules set out on page 102 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 and 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, 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 its sub-committee minutes.
- Considering the Long Term Inventive Plan, Deferred Bonus Scheme, Restricted Share Plan and Save As You Earn remuneration incentive schemes and performance targets for management.
- 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 our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group and component management may be in a position to make inappropriate accounting entries;
- the risk of bias in accounting estimates such as impairment assumptions and provisions assumptions; and
- the risk that revenue is misstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

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

We also 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; unusual cash journals; manual journal entries posted by users with less than five postings in the period; manual entries posted in period thirteen; round sum provision and accruals postings within period twelve; and unusual postings to borrowings.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential 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 regulatory focus on Consumer Duty with regards to the provision of interest-free credit and product aftercare insurance.

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.

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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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 period 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 on page 35 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, set out on page 35 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.

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 103, 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.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

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

1 Sovereign Square
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LS1 4DA
21 September 2023