dfs

making everyday more comfortable

Annual report and accounts 2015

We are the sofa experts

Design • Manufacture • Retail • Service

Contents

Highlights

DFS has continued its strong performance since becoming a listed public company with gross sales up 7% for the year. Our dedication to creating and making quality sofas that every home loves and can afford, combined with the culture of a family business, continues to be at the heart of this success.

Financial

- Group gross sales up 7.0% to £913.1m (FY14: £853.4m)
- Group revenue up 7.5% to £706.1m (FY14: £656.8m)
- Group adjusted EBITDA up 8.4% to £89.2m (FY14: £82.3m)
- Group profit before tax £10.7m (FY14: £3.6m)
- Continued strong cash generation: 1.8x net debt / adjusted EBITDA
- Adjusted underlying EPS of 18.5p
- Successful IPO and refinancing significantly reduced debt and future interest costs
- Total dividend of 9.3p per share proposed, twice covered by adjusted underlying EPS

Operational

- Proven growth strategy on track:
  - UK stores
    - Five new 10-15,000 sq.ft. DFS stores opened in UK and ROI
    - DFS small store format successfully trialled in London: two more planned
  - Broadening our appeal
    - 75% growth in branded upholstery orders through DFS
    - Sofa Workshop and Dwell store base expanded
  - International
    - First Continental European store opened in The Netherlands in November 2014
    - Opened Rotterdam store in September 2015, with one further store to be opened in FY16
  - Full utilisation of retail space
    - Six Customer Distribution Centres now operating successfully, releasing circa 70,000 sq.ft. of additional selling space
  - Online
    - Strong 17% growth in web sales
    - New in-store and at home technology increasing customer engagement
- Continued strong increases in customer satisfaction scores; post-purchase NPS now above 80%
- Partnership with Team GB for Rio 2016 Olympics

Our business

DFS is the leading upholstery retailer in the UK – passionate about making and selling high quality, great looking sofas since 1969.

Heritage
DFS was founded in 1969 with a single store and manufacturing workshop near Doncaster. Over our 45 year history we have grown profitably to be the UK market leading upholstery retailer with a 25.7% share of the estimated £3 billion upholstered furniture sector in 2014, according to Verdict.

Distinctive customer proposition
At DFS, we design, manufacture, sell, deliver and install an extensive range of upholstered and other furniture products for our customers. Our product offering is complemented by our market-leading consumer financing options, best-in-class customer service, comprehensive after-sales service, a long-term guarantee and ongoing product support.

We engage with our customers through our stores, live chat service, telephone call centres and websites to offer a convenient, omnichannel customer experience.

In store, our customers are able to benefit from our knowledgeable and well-trained sales employees and the inspiration of our accessorised roomsets, with typically 60 to 70 ranges on display in each store. Our online sales advisers are available to speak to customers 24 hours a day, 365 days a year and our live chat video service allows us to engage with our customers face-to-face.

Extensive product range
We aim to offer our customers the broadest range of upholstery products with a wide variety of styles, brands and price points, all of which are exclusive to DFS. Typically, we have over 200 upholstery ranges on sale at any one time.

To further enhance our premium product proposition, we have established exclusive partnerships with Country Living, House Beautiful, French Connection and G-Plan and acquired Sofa Workshop and Dwell.

Dedication to quality
DFS products are designed and manufactured to exacting standards and our confidence in our quality is backed by an industry-leading free 10 year structural guarantee across all our upholstery products.

All our products are handmade to customer order by skilled upholsterers either at one of our three UK factories or by our long-standing supplier partners.

Unmatched service proposition
To complement our product quality, we also invest in our service. We directly employ over 200 delivery drivers and crew to allow us to provide our customers with a full installation service. Our products are delivered into the room of our customer's choice and then are unwrapped, assembled (if required) and inspected before all packaging material is taken away for recycling.

To ensure our customers receive the highest quality of aftercare we also employ over 150 of our own in-house upholstery service technicians, with at least one based in every store, to promptly visit customer homes and address any service queries.

DFS at a glance:

Inspire
We are the UK's 4th largest retail advertiser. Our 'always on' marketing drives consumer demand and awareness of our extensive product range which aims to offer a 'sofa for everyone'.

Create
Our own UK design studios and upholstery factories design and produce more than a quarter of the furniture we sell, allowing lead times on some made-to-order sofas to be as little as three weeks.

Retail
105 DFS stores in the UK, ROI and Netherlands, plus 17 smaller footprint Sofa Workshop and Dwell branded stores.

Our websites and apps complement our store network and provide a strong incremental sales channel.

Service
Our dedicated in-house delivery crew and upholstery technicians provide full installation and service support.

Make a space
Simply create a digital version of the room your sofa will sit in using our style library, or upload your own photos.

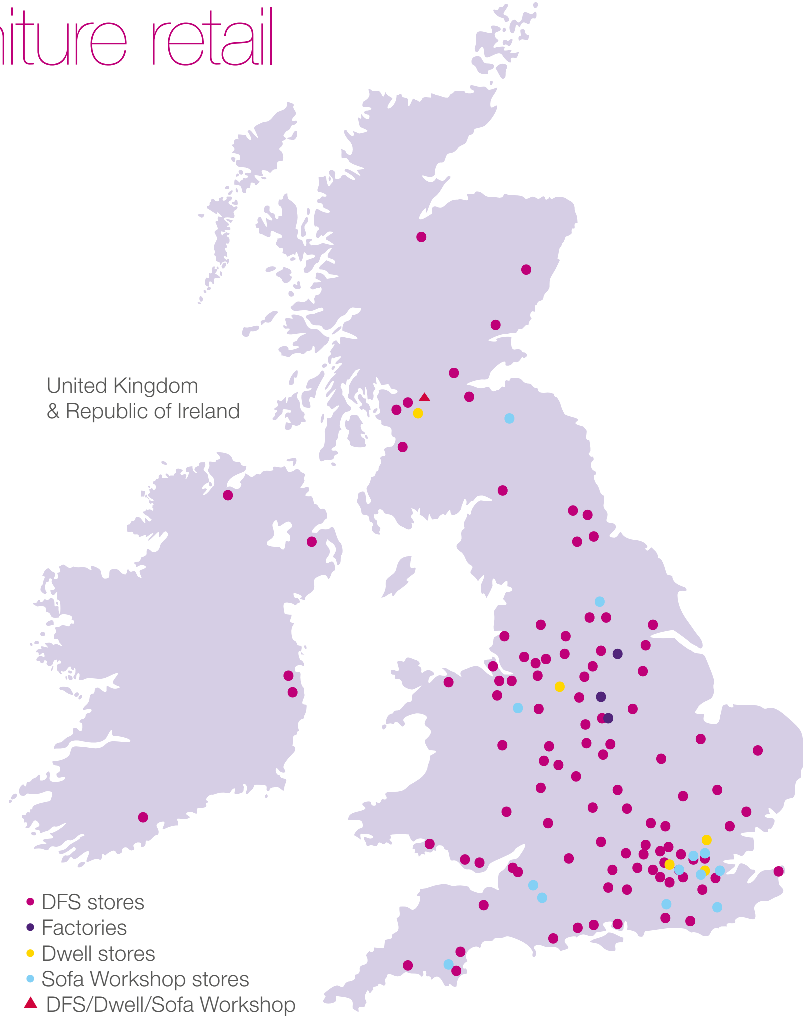
The clear leader in UK upholstered furniture retail

45 years

of specialist heritage in the design, manufacture and sale of upholstered furniture

Service

End-to-end direct control of all aspects of our operations, from manufacturing to delivery and after sales service, allowing us to offer high-quality customer service and increase operational flexibility



Today DFS employs more than 3,500 people and operates over 100 retail stores in the UK, the Republic of Ireland and the Netherlands, a comprehensive online channel, and our own three upholstery factories in the UK.

Chairman's statement

Richard Baker
Chairman

We remain dedicated to creating and making quality sofas that every home loves and can afford. We are proud to retain our family culture and our relentless focus on success. This is our first year end report since our listing in March and we are pleased to report a good performance across the financial year with our strategy wholly on-track.

The continuation of our growth journey

Our flotation in March this year was an exciting milestone in our transition from a formerly founder-led private company to an independent, listed business focused on delivering profitable growth and cash returns to shareholders. Since joining as Chairman over five years ago, I have been consistently impressed by how the flexible business model, vertical integration and scale of our Group allow us to generate strong cash returns regardless of market headwinds or tailwinds. I am delighted to see continued evidence that the growth strategy put in place by the executive management team is delivering positive results across multiple initiatives.

There are still substantial further potential opportunities for DFS in both the UK and international markets under our current strategy. The strong performance of our store opening programme is indicative of the long-term opportunity in the UK as we develop and test new store sizes and formats. Our trial store in Cruquius in the Netherlands continues to perform encouragingly, giving us the confidence to continue our international trial by opening more stores and increasing marketing spend. The opening of Sofa Workshop and Dwell shop-in-shops represents a natural step in our journey to increase our appeal to a broader range of customers and maximise returns from our store warehouse space conversion. In addition, overlying these initiatives, our continued increase in online participation gives us great confidence that our omnichannel offer will continue to deliver excellent growth.

Our markets

The financial year saw a continuation of the favourable upholstery sector conditions experienced since the second half of our 2014 fiscal year, evidenced by the key macroeconomic indicators of consumer confidence, housing market activity and consumer credit availability.

“Record levels of revenues, profits and cash flow over the last financial year, with strategic growth initiatives on track”

> “There is substantial further opportunity in both the UK and internationally under our current strategy”

All of these show positive signs of ongoing recovery. The value of the upholstery market still remains more than 20% beneath the peak seen in 2007, which gives us further confidence in the prospects for long-term growth in the sector, notwithstanding the short term variations in trading results from transient weather or public events.

Results and dividend

The business has performed well in the year delivering record levels of revenues, profits and cash flow. This performance is especially pleasing given the potential impact of uncertainty around the UK general election in May, the prior year's extra week of trading and the flotation process earlier in the year.

Given the strong cash flow generation that is a feature of our business model, the Board has taken the decision to declare payment of an interim dividend of 3.1 pence per share and recommend to shareholders a final dividend of 6.2 pence per share. We see this as a clear statement of intent to deliver for shareholders both earnings growth and cash returns through our progressive dividend policy.

People

I am exceptionally proud of the continued hard work of our family of over 3,500 employees across the Group, who deliver outstanding service at every stage of our customer experience. Our Net Promoter Scores, a measure of customer service, have reached record levels over the last few months, and bear testament to the team's efforts to delight our customers, and I thank them for their dedication.

We have had non-executive representation on our Board, which I have chaired, for many years before our listing. I am pleased that we have been able to add three outstanding independent non-executives to support the business in its strategic and operational development. We recognise the importance of a diversity of skills at Board level and our new members bring complementary experience from a variety of business backgrounds, giving us particular strengths in customer service, employee engagement, responsible retailing and financial control.

I would also like to express my thanks to Jon Massey for his 27 years of service to the Group, as he retires from full-time executive responsibilities. We look forward to continuing to benefit from his experience as he continues to work with us in an advisory capacity.

Conclusion

With the key macro-economic indicators for the upholstery sector all positive and our strategic initiatives on-track, we can look forward with confidence. We have an exceptionally strong management team, a leading customer proposition, a financial model that is well adapted for the volatility in demand that the sector can experience and a proven long-term growth strategy. DFS is well positioned to make further excellent progress in the year ahead.

Richard Baker
Chairman
7 October 2015

Market overview

We have been consistently capturing market share, achieving success through our differentiated customer proposition and omnichannel presence.

Large potential customer base

DFS has a specialist focus on the retail upholstered furniture sector which accounts for approximately 25% of the furniture and floorcoverings market. The UK retail upholstered furniture sector was estimated by Verdict to be c.£3.0 billion in 2014. We also offer a selected range of beds, dining and other furniture giving access to other segments in the market.

Clear leader in the sector…

DFS is the clear leader in the upholstery sector with 25.7% share by value. Our share is over three times larger than that of the next competitor.

Our website also maintains a leading presence, attracting over 40% of the sector's traffic volumes.

…which has returned to steady growth that is forecast to continue

Between 1994 and 2014, the UK upholstered furniture sector has grown by 2.9% per annum on a compound annual growth basis.

The sector is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability. After peaking at £3.9 billion in 2007, the subsequent financial crisis, compounded by the exit of several significant retailers, caused the market to decline to £2.9 billion in 2011 from where it has since stabilised to c.£3.0 billion in 2014. The market is forecast to reach c.£3.1 billion in 2015, and on the basis that the demand drivers have generally continued to show improvement, it is anticipated this momentum will continue.

Key market drivers

Consumer confidence (%)[1]

Housing transactions ('000s)[2]

Net unsecured lending (% change)[3]

1 GfK Consumer Confidence, Overall index for "UK Consumer Confidence"
2 HM Revenue & Customs quarterly residential property transactions valued over £40,000 for England and Wales
3 Bank of England Net Unsecured Lending to Individuals Seasonally Adjusted

Our unprompted brand awareness of 75% is over 2.5x greater than that of our nearest competitor

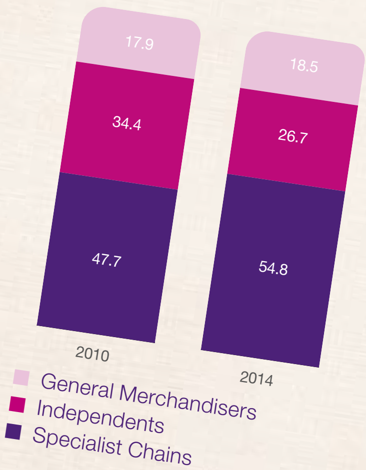
Customers seeking the benefits of specialism and scale

We see three broad categories of companies competing in the upholstery retail market: Specialist Chains such as DFS, ScS, Harveys, Sofaworks and Furniture Village; General Merchandisers such as Ikea, John Lewis, Next and Argos; and Independents that are typically single store operations.

A sofa, once purchased, will be located at the heart of a customer's home for a number of years. As a result, most customers will perform significant research in order to find the right product for them. This depth of research generally leads customers to prefer to choose to purchase from Specialist Chains and Independents that have the specialist sales staff and breadth of product range to appeal to the broadest range of customers. This trend can be seen in the combined market share of these two categories having remained over 80% from 2010 to 2014.

Customers are however increasingly choosing to purchase from Specialist Chains, with the sector share held by specialists rising from 47.7% in 2010 to 54.8%. Specialist Chains benefit from advertising more widely than Independents and using their purchasing scale to offer customers better value and more attractive purchase financing terms, as well as giving the reassurance of more visible financial strength and brand reputation to underpin long-term product warranties.

We believe that this trend is likely to continue as customers continue to see the benefits that Specialist Chains can offer and Independents continue to face the challenge of declining sales with static fixed costs.



Business model

We have a 'difficult to match' business model, with key advantages that deliver sales growth, market share gain and strong margins.

Recommend

- Award-winning customer feedback system to track Net Promoter Score (NPS) at an individual employee level
- Database of more than 5 million customer records, each with delivery addresses, supporting future store location decisions and enabling direct marketing initiatives
- Active engagement with customers on social media and through Trustpilot – 8.9/10 average rating

Inspire

- DFS is the UK's 4th largest retail advertiser
- Significant spend and 'always on' marketing generates unprompted brand awareness over 2.5x any specialist competitor
- Rich, engaging web presence attracting over 40% of sector web traffic
- Continued innovation in marketing activities with a focus on technology

Business model made possible by:

Scale
\+ Vertical integration
\+ Expert focus

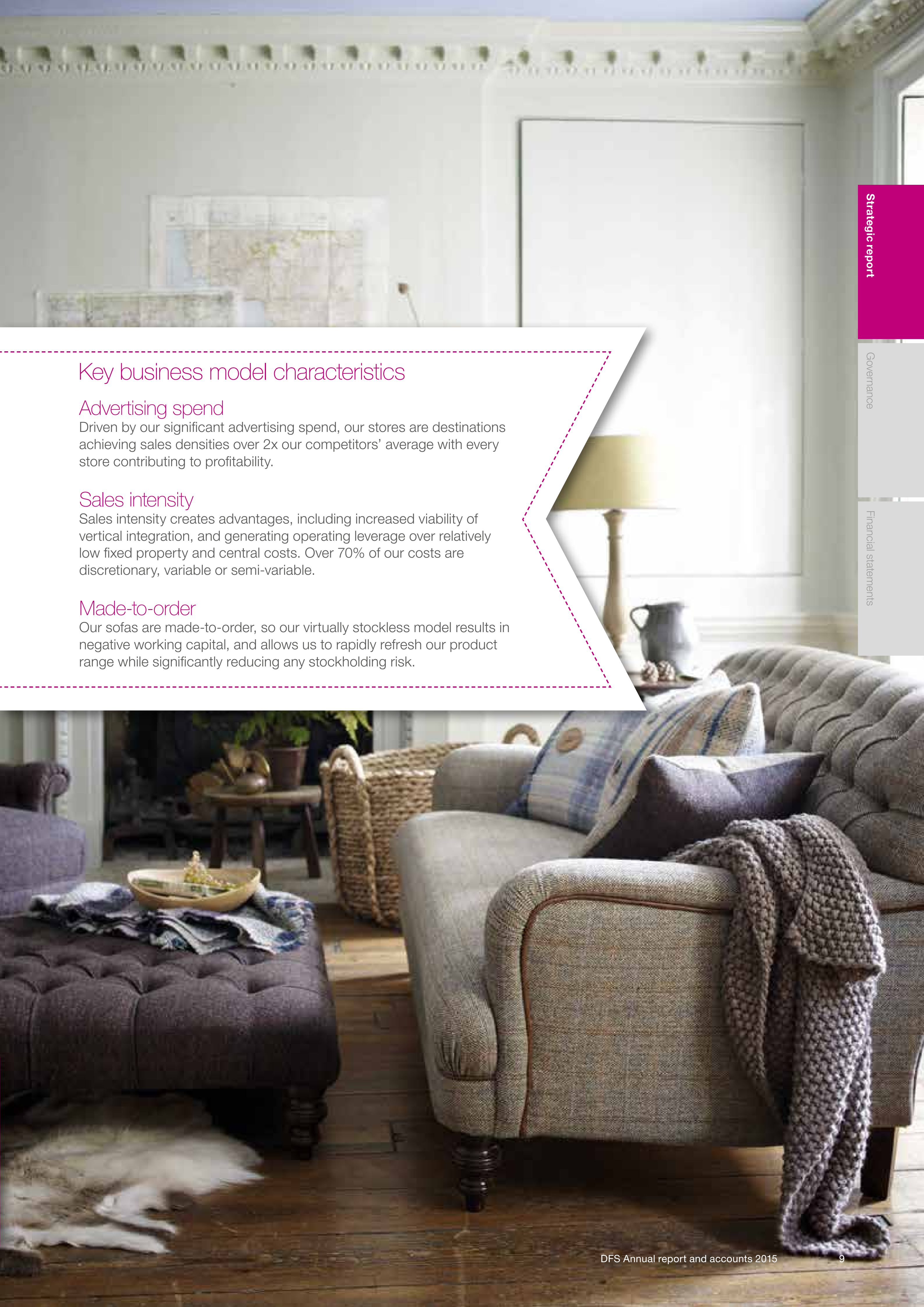
Sell

- Nationwide network of well-invested, attractively presented stores
- Online and telephone sales teams available 24 hours a day, 365 days a year
- Well-trained sales teams – 3 month induction programme including 2 weeks classroom training
- Broadest product range in the industry, enhanced by exclusive branded ranges
- Interest-free credit offer independently rated by Defaqto as the best in furniture retailing

Manufacture & install

- Products manufactured to customer order, resulting in virtually stockless, negative working capital model
- External purchasing scale and in-house manufacturing enables DFS to offer industry leading value across all price points and minimises lead times on bespoke products
- Directly employed delivery crews and service upholsterers allows end-to-end control of customer experience and focus on customer service

Our upholstery sales are over 3x that of our next nearest competitor giving us tangible scale advantages



Key business model characteristics

Advertising spend

Driven by our significant advertising spend, our stores are destinations achieving sales densities over 2x our competitors' average with every store contributing to profitability.

Sales intensity

Sales intensity creates advantages, including increased viability of vertical integration, and generating operating leverage over relatively low fixed property and central costs. Over 70% of our costs are discretionary, variable or semi-variable.

Made-to-order

Our sofas are made-to-order, so our virtually stockless model results in negative working capital, and allows us to rapidly refresh our product range while significantly reducing any stockholding risk.


COUNTRY LIVING
COUNTRY LIVING

Business model continued

We believe DFS's business model is well-suited to exploit the general shift towards online retail.

Made for online retail

For most consumers, upholstery is a well-considered purchase – it represents a significant expenditure on a product that will be located at the heart of the home.

Over 70% of upholstery customers begin their research online. Our website inspires customers with rich media content that enables them to search for products by material, size and style. We also offer room-planning tablet applications to allow customers to create a digital version of their living room, and to customise their product choice by selecting from a wide range of available colours and fabrics before viewing a virtual reality representation of their choice.

Where customers need more information and assistance we have a team of advisers that can engage by telephone, video conversation or live text chat to deal with customers' specific needs directly.

Seamless integration between stores and online

Given the importance of comfort, design and materials to the purchase decision, currently over 90% of upholstery customers wish to experience sitting on a product before placing an order. DFS already has a nationwide network of over 100 stores that act as 'destination showrooms' to allow potential customers to view, test and learn about products under consideration. Our live chat advisers can book store appointments for customers where they are greeted by a named store salesperson and shown the products that are of most interest.

In-store we use our technology infrastructure to show customers the breadth and depth of our whole range. Using new handheld tablets our salespeople can build a virtual representation of any product in our range before 'swiping' to display it for customers on a large video screen. In-store kiosks also give customers and sales colleagues access to our web channel to display our extended range of beds, dining and other furniture.

Achieving efficient fulfilment

Given the size and weight of the upholstery products, fulfilment is a significant cost to upholstery retailers. Our model has always included direct delivery to our customers' homes using our own delivery fleet and employees. DFS is able to use its significant scale (over 3x larger than any competitor, and larger still when compared to online-only retailers) to maximise the number of deliveries a two person delivery crew can make in a single day by minimising the distance travelled between deliveries. This intensity in delivery reduces fulfilment cost per order and allows DFS to offer compelling value to its customers.

Reflecting the significant investment made and these operational advantages relative to competitors, DFS has seen consistently strong growth in website visitor traffic, with dfs.co.uk now attracting over 1.5m unique visitors per month – over 40% of sector web traffic, and generating continued double-digit growth in important online revenues.

>70%
of customers begin their research online

dfs.co.uk
attracts over 40% of sector web traffic

100+
stores that act as 'destination showrooms' to allow potential customers to view, test and learn about products under consideration

Strategy

We have proven strategies to deliver growth. All of our growth initiatives have been in place for a number of years and have delivered proven incremental sales and profit.

Our six strategic priorities are:

1. Broadening our product and brand appeal
2. Exploit UK roll-out opportunities
3. Establish presence in International Markets
4. Full utilisation of store retail space
5. Maintain online leadership
6. Benefit from resumption of upholstery sector growth

All of our strategic growth initiatives are on track and can be seen in detail on pages 14 – 19

Strategy in action

1 Broadening our product and brand appeal

- We believe approximately 43% (£1.4 billion) of the total upholstery sector by value is purchased by a demographic group of 'aspirational customers' who tend to be older and more affluent than other customer groups. These aspirational customers are primarily motivated by quality of design, product and service from start to finish, and see brands as a signifier of trust and quality.
- Whilst we currently account for c.26% of all UK upholstery sales by value our overall share in this 'aspirational customer' segment is currently c.23%, and we intend to grow this share. We have already proven our ability to capture market share in this segment growing from a base of c.18% in 2012 through a combination of own brand development, marketing refinement, brand partnerships and acquisitions.

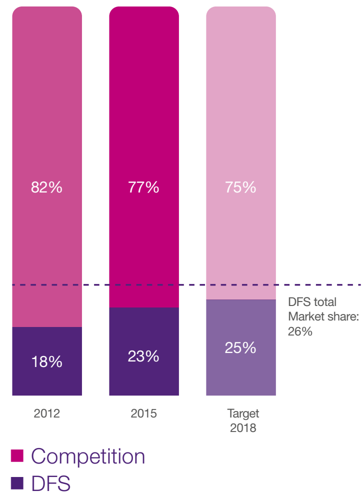
Progress

- Exclusive brand sales orders grew by 75% in FY 2015.
- 84 exclusive brand ranges currently on sale with 42 introduced within the last twelve months, including the launch of DFS's Iconica brand.

The future

- We aim to grow our market share in the 'aspirational customers' demographic segment to over 25% by FY 2018.

Demonstrated Momentum in Capturing Share of £1.3bn Aspirational Customer Market



Source: Independent surveys conducted on behalf of DFS. 2015 figures are average of Nov-14, Mar-15 and Jul-15 and include 1% for Sofa Workshop and Dwell.

15%

Exclusive brand sales account for 15% of group gross sales

2 Exploit UK roll-out opportunities

- While we have nationwide store coverage already, we have been successful in profitably adding further new UK stores to our portfolio. We use a bespoke customer catchment area model, developed in partnership with CACI that utilises our customer delivery data accurately to predict opportunities in further customer catchment areas.
- There is also innovation in store formats to be utilised in new catchment areas. We have successfully introduced both a medium 10,000 sq.ft. format in three locations, and are trialling a 2,500 sq.ft. small store format in the high footfall urban Westfield Stratford shopping centre.

c.21 months

Average payback for new UK Stores

Progress

- Six UK stores opened since August 2014.
- Trial Westfield store opened and operating profitably, with minimal cannibalisation on surrounding retail park store locations.

The future

- We have identified locations for more than 15 further 10,000-15,000 sq. ft. stores that are each predicted to generate over £500,000 incremental EBITDA net of cannibalisation of existing stores.
- We intend to continue to trial new store formats and locations to make our products more accessible to potential customers, including the trial of up to two additional urban small stores during FY 2016.

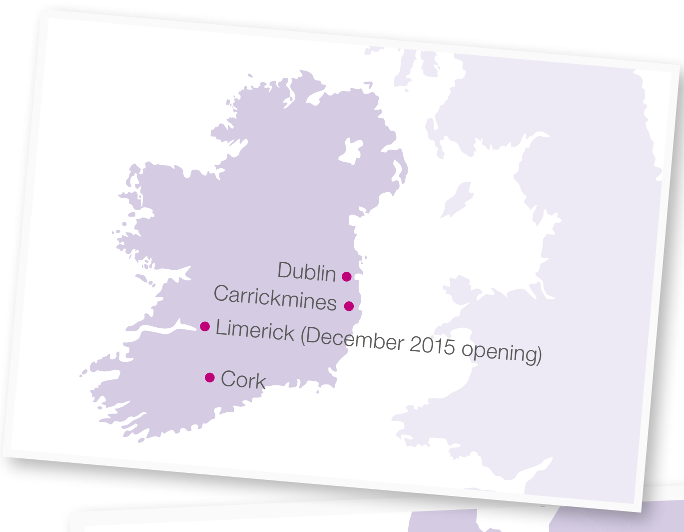
Strategy in action continued

3 Establish presence in International Markets

- We have proven our ability to enter new markets having entered the Republic of Ireland in Financial Year 2012 and grown to be the second biggest player by sales in the upholstered retail furniture sector. Having carried out a global opportunity review, with the assistance of consultants OC&C, the Netherlands has been identified as the optimal initial location for new entry into Continental Europe.
- In October 2015 we also acquired DFS Spain, an independent retailer operating a single 5,000 sq. ft. store in San Javier on the South Coast of Spain. Through this transaction we have reacquired brand rights to DFS across Europe, enabling us to market our online presence through dfs.co.uk to expatriates in Spain. We also intend to continue operating the retail store, leveraging the strength of our brand and the store's strong local reputation developed through over a decade of sales in the region.

4th

ROI store opening December 2015 in Limerick



Progress

- Three established stores in ROI, all operating profitably, with a fourth store to be opened in December 2015 in Limerick.
- First trial store in the Netherlands opened in Cruquius in November 2014, with the Rotterdam trial store opened in September 2015.
- Acquisition of DFS Spain in October 2015.

The future

- We believe that there is considerable potential for DFS in the Netherlands should the initial trial stores maintain their positive trajectory.
- We intend to commence marketing activities in expatriate areas of Spain to increase web traffic flows to dfs.co.uk.

4 Full utilisation of store retail space

- We are releasing retail space in our store estate by moving and consolidating warehouse facilities currently located on retail store sites to lower rent and more logistically efficient locations.
- We have to date used this additional retail space to offer a complementary range of dining furniture and beds, and we are currently assessing the relative returns of broadening our upholstery offering or locating Dwell or Sofa Workshop shop-in-shops.

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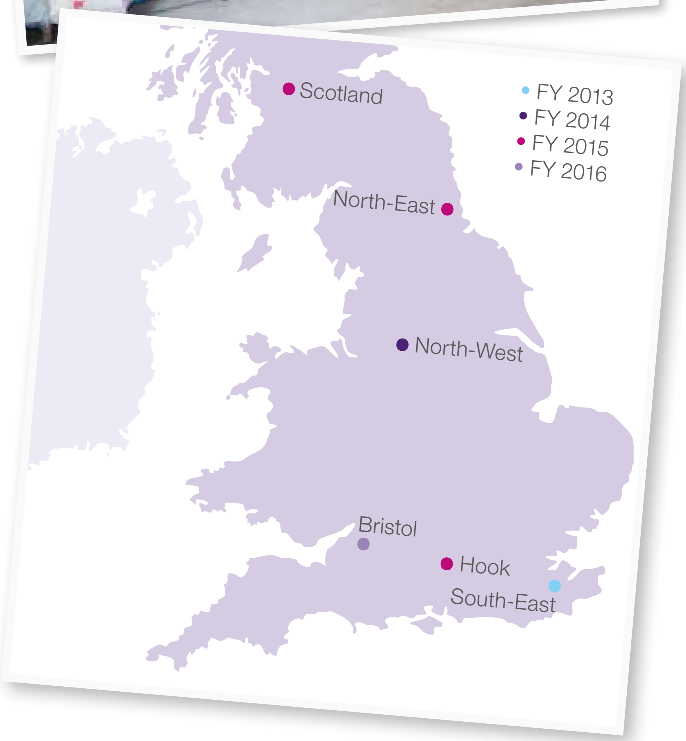
Stores with ex-warehouse space now converted into incremental space



Progress

- Six Customer Distribution Centres (‘CDCs’) established to date, with ex-warehouse space at 12 stores now converted into incremental selling space.
- Shop-in-shop trials of Dwell and Sofa Workshop commenced at three DFS stores in August 2015.

The future

- We are targeting 17 CDCs across the country releasing c.400,000 sq. ft. of additional retail space with three new CDC conversions completed each year.

5 Maintain online leadership

- We have the market leading online upholstery platform and a proven track record of growth in margin enhancing sales through this channel.
- While the primary role of the platform will continue to be to inspire and attract customers to physical stores, our online channel lends itself to convenience and other shoppers who may not be willing to visit a physical retail store.
- Approximately 70% of DFS's web sales are from customers that have not visited a physical DFS store in the last three months, implying that the majority of online sales are generally incremental to existing store sales.

+17%
Growth in online gross sales in 2015

Progress

- Gross sales grew by 17% in FY 2015.
- Over 1.5m unique visitors per month between February and July 2015.

The future

- We intend to leverage our leading presence in this marketplace to generate incremental sales through adding extended ranges of direct home delivery furniture both in the upholstery and wider furniture markets, efficiently utilising the Group's existing traffic and interest free credit offer and maximising the Sofa Workshop and Dwell online opportunity.

6 Benefit from resumption of upholstery sector growth

c.3% p.a.
Sector growth forecast for 2014 – 2017

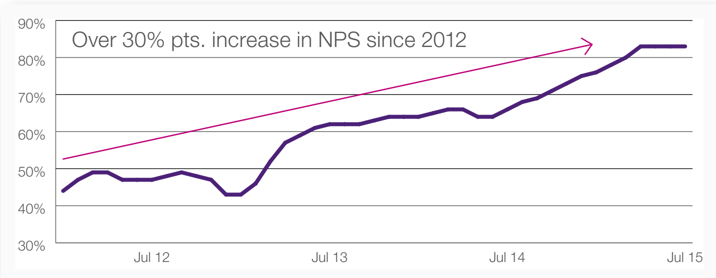
- In addition to using our targeted strategies to drive growth above furniture market rates, we also expect to benefit from general growth of the upholstery sector and furniture market, forecast to be c.3% per annum to 2017.
- We continue to invest in our store estate, including store refits and lighting upgrades in order to deliver a high quality experience and ambience.
- To maintain our strength and appeal with our core customer base we have invested in a customer feedback system, which ensures that any neutral or negative feedback is directly followed up upon to learn where opportunities to improve our service exist, and to allow us to enhance our reputation with those customers.
- We are also investing in our employee development programmes to ensure that our people have the necessary skills to deliver the world class customer service that we aspire to offer.

Progress

- Our post-purchase customer Net Promoter Scores ('NPS') averaged over 80% during the final six months of FY 2015.
- Because of this success we intend to broaden the emphasis of our Net Promoter Score to also include other stages of measurement, in particular our "established customer" measure, which is surveyed six months post-delivery.

The future

- All our customer facing colleagues will be trained to possess a minimum of a level 2 NVQ in customer service. Our head office team incentivisation is also being amended to include NPS measures.



Risks and uncertainties

The Group faces a number of risks and uncertainties in both the development and day-to-day operations of its business. The Board regularly reviews key business risks and oversees the implementation by executive directors and operational management of processes to manage these risks.

Those risks that could potentially have a significant impact on the business are discussed below, together with the Group's related mitigating activities. Other risks which are currently either not known to the Group or are not considered material could also impact the Group's reported performance or assets.

Risk	Mitigation
Business strategy The success of the Group depends upon the formulation and implementation of appropriate strategies by the Board.	Strategic issues are regularly discussed at Board meetings in addition to dedicated strategy days. Performance against strategic targets is documented and reviewed to assess progress and enable any remedial actions to be taken on a timely basis. Senior management are set specific objectives for their business area which are aligned to the strategy and a proportion of their remuneration is dependent on the achievement of these objectives.
Economy and consumer market conditions The retail market for upholstered furniture in the UK is highly competitive. The Group's success is therefore dependent on its ability to compete effectively, particularly during peak trading periods. The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the wider UK economy including (but not limited to) consumer confidence, income levels, interest rates, the availability of credit and the level of housing market activity. Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of the business.	The Group continues to make substantial investments in marketing to maintain its leading brand status. Marketing strategy is supported through econometric and customer insight analysis. Detailed sales information by product and store is reviewed daily, enabling changes to product selection, incentive structures and advertising strategy to be made on a dynamic basis to optimise sales. Our in-house design teams enable reaction to emerging trends. Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value and are supported by excellent customer service, in order to enhance the Group's market-leading position. The Group's Interest free credit offer allows customers to spread the cost into affordable monthly payments. The Group has a focus on offering outstanding customer care and service. This is underpinned by our established use of Net Promoter Score ('NPS') at all touch points of the consumer journey to ensure the brand is growing, trusted and appealing.

Risk	Mitigation
Expansion of retail store network The growth of the Group depends on its ability to open and operate new stores on a timely and cost-effective basis while continuing to increase sales at existing stores. This includes successfully achieving incremental sales from retail space released by roll out of Customer Distribution Centres. Competition for desirable retail sites has historically been significant, which may reduce the availability and/or increase the rental costs of such sites. Successful execution of any new store roll-out also depends upon a number of other factors, including the hiring, training and retention of qualified personnel and the capability of the Group's existing information technology and distribution systems to accommodate new stores.	The Group continuously reviews the location and format of its stores and their contribution to overall results. A detailed appraisal model is applied to assess the payback period and expected profitability of each potential new store, including its impact on existing stores in the area. Appraisals are subject to thorough review and approval by the Board before any investment is made. The Group has an established supporting infrastructure in place to recruit and train staff and fit out and open stores to schedule.
Website and IT systems The Group's website is a key component of its omnichannel proposition and a failure to review and innovate in this competitive area could impact achievement of the Group's strategic growth plans. The website and other parts of the Group's operations depend upon the continued availability and integrity of its IT systems.	The Group continues to make substantial investment in both website development and marketing to maintain its market leading position. Full back up and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated.
Consumer finance The majority of the Group's sales are to customers that utilise its interest free finance offerings, which are provided by external finance houses that, in return for a fee, bear the risk of customer default. Credit standards with respect to customer finance offerings typically tighten during periods of economic downturn, which may limit the Group's ability to offer customer finance on commercially acceptable terms and/or may increase the amount of the fee payable to the external providers of customer finance.	The Group has longstanding relationships with a number of finance houses and now has long term contracts in place with multiple providers which more than cover the total requirement for customer finance. These arrangements enable a redistribution of business in the event of withdrawal by one or more providers, and acceptance rates and fee levels are continuously reviewed to ensure that each provider remains competitive. An increase in LIBOR that affects the cost of providing credit may be mitigated by revising the customer offer in line with maintaining market leader status.
Supply chain A large portion of the Group's products are supplied by a core of manufacturers, with many produced in continental Europe and Asia. The Group's internal manufacturing operations also supply a significant proportion of goods sold and may not wholly be able to compensate for the failure of any of the Group's key external suppliers to satisfy their delivery obligations. Increases in finished goods and underlying commodity prices may negatively impact the Group's trading margins.	The Group maintains flexible supply arrangements to facilitate switching between suppliers where necessary and uses a variety of freight forwarders to avoid reliance on any one transport link. Supplier performance is monitored against operational and quality targets and reviewed by senior management. All external upholstered furniture suppliers are frequently inspected by the Group to ensure that production is proceeding smoothly and that quality standards are maintained. Fixed prices are negotiated for finished goods and the scale of the Group enables it to achieve significant cost savings with supplier partners.

Risks and uncertainties continued

Risk	Mitigation
Employees The success of the Group depends significantly on its ability to attract and retain a workforce that includes experienced sales, product design and production personnel and to retain members of its senior management team, many of whom have significant experience in the Group's business and industry.	Employee remuneration is structured to be at attractive levels and to incentivise employees towards results that are aligned with the objectives of the Group. In addition, senior management may participate in equity in the Group or in longer term incentive plans operating over a three year cycle. Succession plans have been developed for all senior management roles.
Financial risk and liquidity A downturn in the macroeconomic environment may impact the Group's ability to obtain financing. An increase in interest rates could increase the Group's financing costs. The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas.	The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £30.0 million revolving credit facility in place until March 2020 which is as yet unutilised. Foreign exchange and interest rate risks are managed through the use of appropriate hedging arrangements in accordance with its Board-approved treasury policy. No financial instruments are entered into for speculative purposes.
Regulatory environment The Group is subject to an increasing burden of compliance in many of its activities from regulatory and other authorities and is subject to regulatory risk with potential for significant financial impact or reputational damage. Changes to other legislation which may have significant retrospective or future economic effects could also impact operating results. Following the Company's admission to the London Stock Exchange on 11 March 2015 the Group is subject to increased regulatory obligations as a result of being listed, which will increase the Group's legal and financial compliance costs and make some activities more time-consuming and costly.	Comprehensive training and monitoring programmes are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Reputational Risk Committee is in place to monitor management information and review processes and procedures to ensure our customers are treated fairly. This includes rigorous oversight and escalation processes to maintain the status of limited permission to offer consumer finance granted by the FCA. The Group has appointed experienced non-executive directors to strengthen its Board of directors and support strong corporate governance. The Board is supported by an experienced senior management team, augmented as necessary by specialist third party advisors. Additional costs associated with the Group becoming a public company have been incorporated into the Group's financial and operational plans to ensure appropriate levels of monitoring and control.

Chief Executive's report

Ian Filby
Chief Executive Officer

The Group delivered a good overall performance in FY15, outperforming furniture market growth rates, and achieving record sales and operating profits. Furthermore we have made continuing progress across all our strategic initiatives, giving me confidence that we will continue to deliver on our targets for growth. The dividend we have recommended is a clear expression of our belief that we are able to deliver both attractive earnings growth and cash returns for shareholders in future.

Overview

I am pleased to report a further successful period of operational success and strategic progress. Leveraging the strength of our business model, we have successfully met our targets for near-term growth while maintaining very strong cash flows and also making the investments necessary to achieve long-term success.

The results for the last twelve months represent a record level of gross sales and adjusted EBITDA, and our cash conversion has remained outstanding. Reflecting this strong cash generation, we are pleased to be able to recommend payment of both an interim and final dividend, and can confirm that we have reduced our net debt below the level expected for year-end at the time of our IPO. We look forward to continuing to deliver both earnings growth and free cash flow for our shareholders.

Our strategic progress has also been exciting. Our branded ranges have continued to be positively received by consumers. We have been encouraged by our progress in the Netherlands and the positive results that we have seen to date from our small-store UK format. Our UK and ROI new store opening programme has continued to deliver incremental EBITDA, with six stores opened during the financial year, with each already now operationally profitable. We have also been able to continue to make more of our core store footprint through conversion of in-store warehouses into incremental retail space and establishing three further Customer Distribution Centres ('CDCs'). We continue to see the benefits of our sector-leading investment in online, with exceptional growth in visitor traffic.

> "Our stated mission is creating and making sofas that every home loves and can afford"

Growth strategy update

Broadening our appeal to customers

Our stated mission is "creating and making sofas that every home loves and can afford". While we already have the leading competitive share in all consumer segments that we identify, our research suggests that we achieve different degrees of success in various consumer demographic segments. We have a clear focus on strengthening our share of the "aspirational consumer" segment of the furniture market, where we believe our handmade-to-order product and British manufacturing base should appeal strongly. To deliver on this strategy we are evolving aspects of our customer proposition, while seeking to maintain our core appeal to all customers.

We have continued to develop our range of exclusive branded products, including new luxury leather ranges under the Iconica brand, and have started the sale of selected collections of sofas and sofabeds from Sofa Workshop and Dwell through our DFS stores and website. This is an exciting development alongside the growth of our Country Living, House Beautiful and French Connection brands. We have also continued to evolve our marketing approach, complementing our significant investment in advertising with an increased use of PR, direct marketing and sponsored advertising.

Reflecting our continued progress and investment, orders for our Exclusive Branded ranges grew by 75%. Furthermore, independent surveys conducted on our behalf suggest that we have now grown

> “We have successfully delivered on our targets for near-term growth while maintaining very strong cash flows and also making the investments necessary to achieve long-term success”

our presence with the aspirational customer segment we are targeting from 18% to 23% (including Sofa Workshop and Dwell sales) and we continue to believe that we are on track to reach our 2018 target of 25% segment share.

UK and ROI store roll-out

We have a strong track record of opening new DFS stores in the UK and ROI at a rate of three to five per annum, and this trend has continued over the last 12 months with five successful new openings of 10-15,000 sq. ft. stores. Using our established customer catchment area model, which leverages our comprehensive delivery postcode data, we are able to assess accurately the opportunity that exists for a new store and ensure that substantial incremental EBITDA is delivered.

In order to establish how we can better access urban areas, we also opened a trial format 2,500 sq. ft. store in the Westfield shopping centre in Stratford, London in March 2015. Based on the success that we have seen to date we have taken the decision to open a further two trial small format stores.

Our Sofa Workshop business also opened standalone stores in Newbury and Westfield Stratford, and in August 2015 opened shops in converted DFS warehouse space in Glasgow and Gateshead. Also in August 2015, Dwell opened stores in converted DFS warehouse space in Glasgow and New Malden.

International expansion

Building on the experience we gained in our successful entry into the Republic of Ireland, in November 2014 we opened our first trial store in Cruquius, near Amsterdam, in the Netherlands. This move has been challenging, requiring us to operate with a different local language and under a new regulatory regime, while simultaneously establishing and growing our brand awareness with consumers. We have been encouraged by our progress to date. Our strong product range, in-house manufacturing expertise and service culture has proved to appeal to Dutch consumers despite the challenge of adverse currency movements. On the back of the positive results that we have seen to date we have taken the decision to open two further stores during the current financial year, one of which opened in September 2015 in the Alexandrium shopping mall/retail park in Rotterdam (10,000 sq. ft).

As discussed in our July trading update, our investment in future growth in the Netherlands is expected to lead to an increase in operating costs net of incremental revenue of £2–3 million in FY16.

A somewhat different, but likewise potentially exciting growth initiative has also commenced in Spain. On 1 October 2015 we acquired a locally well-regarded business, branded “DFS Spain”, which has served the expatriate community from a single c. 5,000 sq. ft. store on the south coast of Spain for over a decade. In addition to securing the registered DFS trademark in Spain, which will now allow us to target DFS advertising to the expatriate market in Spain, we will benefit from a physical showroom presence, giving customers a local point to experience our range and allowing us to benefit from increased logistical efficiencies in Spain. Although we have no plans at present to grow our Spain showroom base, we see this acquisition as a positive step to unlock the potential of our strong brand recognition and online web offer on dfs.co.uk with up to 800,000 expatriates from the UK currently living in Spain.

Retail space conversion

During the year we continued to pursue our CDC conversion programme, converting in-store warehouses into additional retail space and consolidating those warehouse operations into larger purpose-built off-site facilities. In August 2015 we opened our sixth CDC in Bristol, and we have now released approximately 70,000 square feet of retail space across 12 stores. We currently plan to use this released space to sell dining and bedroom furniture, where we have had proven success; and we are also trialling the use of the space alternatively for Sofa Workshop or Dwell shop within shops or an extended DFS upholstery range.

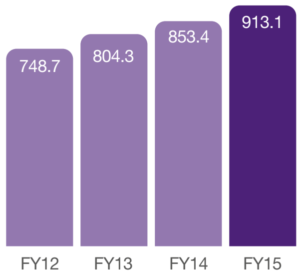
Online

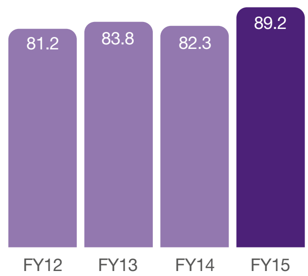
Our website dfs.co.uk maintained its sector leading presence, continuing to attract over 40% of upholstery sector web traffic over the course of the year. We have seen continued double-digit growth in online sales with the proportion of Group orders placed contributing materially to our sales.

Chief Executive's report continued

Key performance indicators

Financial KPIs
Continued growth in sales and EBITDA

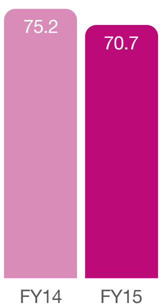


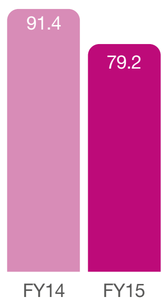


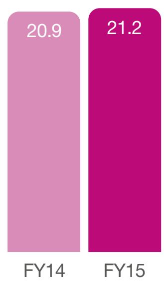
Gross sales (£m)
Gross sales represents the total amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Adjusted EBITDA[1] (£m)
Adjusted EBITDA means underlying earnings before interest, taxation, depreciation and amortisation as adjusted for certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance.

Consistently strong rates of return







Free cash flow (£m)
Free cash flow is Adjusted EBITDA, less gross capital expenditure and changes in working capital.

Cash conversion (%)
Cash conversion is free cash flow expressed as a percentage of Adjusted EBITDA.

Return on capital employed (%)
ROCE is post-tax operating profit before non-underlying items plus operating lease charges expressed as a percentage of the sum of: property, plant & equipment, computer software, working capital and 8x operating lease charges.

Non-financial KPIs

Number of DFS stores
FY15: 105
FY14: 100
Number of stores trading at the end of the financial period.

Net Promoter Score (customer service)
FY15: 78.8%
FY14: 64.8%
Average across all DFS stores based on post purchase customer satisfaction surveys.

Online growth rate
FY15: +17.5%
FY14: +6.7%
Year on year change in sales generated by internet/telephone/live chat channels.

Growth in Exclusive brand sales
FY15: 75%
FY14: 55%
Year on year change in value of sales orders of exclusive brand product ranges.

Stores with converted warehouse space
FY15: 8
FY14: 3
Weighted average number of DFS stores during the financial period where former warehouse space has been converted into retail space.

1. No adjusted items in FY15. £2.3m of adjusted items in FY14 relating to start-up operating losses of acquired businesses and prior period bonus adjustments.

During the year we have also sought to increase the integration of our online technology with our store estate. We rolled out our online store appointment booking service nationwide, and are trialling the display of "virtual reality" representations of customer orders on in-store display screens.

We have also launched the DFS Live app, allowing our customers to interact from their home using video functionality with our Live Chat team. Our online advisers are available 24x7 and our customers now have the choice to interact using either in-store, video or telephone channels.

Customer service

We continue to strive to deliver the highest standards of customer service. Our approach relies both on proactive training and Net Promoter Score ("NPS") linked incentivisation of our employees, combined with a feedback system that allows us accurately to measure and track the satisfaction of customers throughout their purchase down to the product, store, factory and employee level.

During the last 12 months we revised the pay structure for all sales teams to increase the importance of customer satisfaction scores. We have also commenced an incremental training programme to ensure all our front-line customer-facing colleagues possess at least a level 2 customer service NVQ award.

I am grateful for the positive way in which all our people have taken on, owned and driven forward our customer service approach over recent years and I would like to express my thanks for their efforts.

Reflecting our service approach I am pleased to report that our post-purchase NPS is now over 80%. Because of this success in achieving exceptional rates of post-purchase customer satisfaction, we will broaden our focus to emphasise established customer satisfaction – the willingness of customers that purchased our products six months previously to recommend our products to their friends or family.

Management

I would like to thank Jon Massey for his distinguished service to the Group over the last 27 years. Jon informed the Group that he wished to retire from full-time executive employment and therefore it has been agreed with our IPO joint global coordinators that he will be released with immediate effect from the lock-up arrangements that currently apply to our senior managers.

I would also like to welcome Nick Collard to DFS, who has been appointed to the new role of Chief Commercial Officer as part of our executive committee. Nick has extensive retail knowledge and expertise from a distinguished career with Morrisons and Boots. He will strengthen the senior management team, focusing on product and range management and further enhancing our growth initiatives.

Corporate responsibility

At DFS we continue to work hard to put corporate responsibility at the heart of everything we do. The Group formulated an Energy Management Policy to support the reduction of our energy use, and we have continued to reduce vehicle emissions from our company car fleet, despite increases in store numbers and headcount. We also maintained our focus on the efficiency of our delivery fleet, and made further progress in working towards our long term goal of sending zero waste to landfill.

In the community, we have continued our partnership with the British Heart Foundation both in fundraising through the successful sofa recycling scheme and by training new and existing employees in CPR skills and defibrillator awareness. We also continued our support for BBC Children in Need for the second year.

Team GB partnership

We were delighted to announce in December that DFS was Team GB's chosen official homeware partner for the Rio 2016 Olympic games. While we are of course proud to support our nation's athletes as they seek to build on the success they saw in London 2012, we believe that we will derive real operational benefits from this investment. First, we see significant potential to promote our brand with consumers, leveraging the strong consumer appeal of Team GB. Secondly, we are fortunate to be able to work with a number of athletes and Team GB ambassadors to develop our organisation operationally, using their marginal gains philosophy and also their one team approach to improve our employee engagement levels.

We are excited at the potential that the partnership offers and how strongly it fits with a number of the strategic growth initiatives that we are pursuing.

Outlook

We have been reassured to see positive trends in UK disposable income and consumer confidence continuing, and we expect this to provide a supportive market environment for the furniture sector over the coming months. We further believe that the Group is well-positioned relative to its competitors and we thus have confidence that the business is in a strong position to sustain its track record of gross sales growth and furniture market share capture in 2015/16, albeit our performance will now be measured against the strong comparators of the financial year under review.

Overall the business enjoys excellent prospects to deliver long-term profitable growth, strong cash generation and a progressive dividend policy as one of the UK's best-known brands, a major British manufacturer and the country's leading retailer of upholstered furniture.

Ian Filby
Chief Executive Officer
7 October 2015

Financial review

We have delivered a strong financial performance in the period and undertaken several key development steps to create a strong stable platform for future growth.

Bill Barnes
Finance Director

This is the first Financial Review since the Group listed in March 2015. For the majority of the year on which we are reporting a different pre-IPO capital structure was in place and the period also includes significant non-underlying costs of a non-recurring nature. Accordingly we have referred to adjusted underlying results where appropriate within this report in order to present a more meaningful analysis.

The table below is presented in order to show an underlying position.

	Underlying £m	Non-underlying £m	2015 Total £m
EBITDA	89.2	(11.6)	77.6
Depreciation and amortisation	(17.0)	–	(17.0)
Operating profit	72.2	(11.6)	60.6
Finance income	0.1	–	0.1
Finance expense	(39.0)	(11.0)	(50.0)
Profit/(Loss) Before Tax	33.3	(22.6)	10.7
Taxation	(10.4)	2.9	(7.5)
Profit/(Loss) for the year	22.9	(19.7)	3.2
Adjusted for:			
Shareholder loan interest	16.6		
Adjusted profit after tax	39.5		
Dividend proposed	(19.8)		
Adjusted retained profit	19.7		

Sales and Revenue

Group gross sales for the year increased by 7.0% to £913.1 million (FY14: £853.4 million), including a 5.8% increase in DFS sales as well as increased contributions from Dwell and Sofa Workshop. The mix of interest free credit offers selected by our customers resulted in a slightly higher increase in Group revenue, which grew by 7.5% to £706.1 million (FY14: £656.8 million). The slight reduction in growth rate in the second half of the financial year reflects the more demanding comparatives and the extra trading week last year, but continued to show strong momentum.

Gross margin

Continuing the trend of the first half year, gross profit increased at a faster rate than revenue, up 9.3% to £122.3 million (FY14: £111.9 million). While our planned investments in price points and changes in our product sales mix resulted in a slight decrease in gross margin on goods sold, this was offset by greater efficiencies in other direct costs. In particular the continuing growth in our UK store network and online sales has spread the costs of national advertising over a wider revenue base, reducing marketing costs as a proportion of sales.

Central costs

Underlying administrative expenses rose by 3.8% primarily due to increased staff costs reflecting additional management capability to drive growth initiatives, additional costs relating to the central functions of the Dwell and Sofa Workshop businesses acquired in the previous financial year, and the first period of additional costs associated with our listed status. We anticipate 'plc' costs, largely associated with share based remuneration charges, to increase by c.£1m per annum in each of the following two financial years.

Operating Profit and EBITDA

The net impact of the sales and margin effects noted above was an 8.4% increase in adjusted EBITDA for the year to £89.2 million (FY14: £82.3 million), with the adjusted EBITDA margin increasing by 10 basis points to 12.6% (FY14: 12.5%). Underlying operating profit rose 10.7% to £72.2 million (FY14: £65.3 million).

Non-underlying costs incurred in the period, mainly relating to the IPO and the Group's international expansion, totalled £11.6 million (FY14: non-underlying and adjusted items of £6.7 million).

Non-recurring costs associated with newly acquired businesses or the establishment of operations in new geographical territories are treated as non-underlying in the first year, in line with our accounting policy. In FY15 £2.8 million of non-underlying costs were related to international and acquired business start-up activity. Operating profit after non-underlying costs was broadly unchanged at £60.6 million (FY14: £60.9 million).

Finance costs

As noted at the half year, the IPO and related refinancing significantly reduced the Group's net debt and established a new financing structure with a much lower ongoing annual interest cost.

The Group's £310.0 million senior secured notes were repaid on 12 March 2015 and a new senior bank facility of £200.0 million drawn down. We also renewed an undrawn revolving credit facility of £30.0 million, in order to maintain financial flexibility. In addition, previous shareholder loans and accrued interest of £192.7 million were converted into ordinary share capital.

Finance costs include interest payable on a shareholder loan, for which £16.6 million is adjusted for on a post-tax basis in the table opposite as the loan was extinguished on the IPO. In addition, a total of £11.0 million was incurred on the redemption premium and charges connected with the repayment of the Group's £310.0 million senior secured notes and these have been presented separately as exceptional finance costs.

We expect that finance costs in future will be significantly lower than those experienced historically, with our fully-hedged external cash borrowing cost falling to beneath 5% (including facility fees).

Tax

The tax charge reported for the year is distorted by certain non-underlying items which have been treated as non-deductible for Corporation Tax. Excluding these items, the underlying effective tax rate on underlying Profit Before Tax is 21.5%, slightly higher than the UK Corporation Tax rate applicable in the period of 20.7%.

Earnings Per Share (EPS)

An adjusted calculation of Earnings Per Share ('EPS') based on the 213.0 million ordinary shares in issue since the IPO, and adjusted earnings of £39.5 million in the table opposite, results in adjusted EPS of 18.5 pence per share.

Capital expenditure

Gross capital expenditure for the year was £22.9 million (FY14: £17.8 million excluding the cost of acquisitions). The increase primarily related to new store openings, including both new DFS stores in the UK and overseas and the expansion of Sofa Workshop and Dwell, and the roll out of Customer Distribution Centres in the UK. We have also maintained our investment in the refit of existing stores and development of our retail website. This level of capital investment is likely to continue in the current financial year and be augmented by additional investment in international expansion.

Cash flow and balance sheet

The IPO, and related refinancing and changes in capital structure, resulted in the Group establishing a robust balance sheet to support future growth. We closed the year with cash of £40.7 million, giving a net debt position of £162.2 million, providing significant cover in financing the proposed dividend and achieving a gearing ratio of 1.8x adjusted EBITDA, in line with our intention stated at IPO to reduce gearing to less than 2x by year end. Cash flow includes non-underlying expenditure associated with the IPO and refinancing of £27.6 million and returns to previous shareholders pre IPO of £20.0 million.

Cash flow is therefore analysed as follows:

	£m
Closing cash July 2015	40.7
Opening cash July 2014	53.8
Cash outflow in the year	(13.1)
Adjusted for:	
IPO and associated refinancing	27.6
Return to pre IPO shareholders	20.0
Adjusted underlying increase in cash	34.5

Our strong free cash flow generation means we continue to reflect very strong conversion levels from adjusted EBITDA. Working capital movements reflected the increased volumes in the business, providing inflows with our virtually stockless, made-to-order model and hence negative working capital. Our cash generation will continue to provide the opportunity to deliver further, even after the progressive dividend policy we intend to establish.

Dividend

The strength of our operating results and cash flow enable DFS to make a strong statement of intent that we will deliver excellent returns to shareholders. The Board has therefore proposed both an interim dividend of 3.1 pence per share and a final dividend of 6.2 pence per share in respect of the financial year ended July 2015. Subject to approval of the final dividend at the Annual General Meeting to be held on 4 December 2015, the proposed final dividend and interim dividend will be paid on 30 December 2015 to shareholders on the register on 11 December 2015, and the shares will become ex-dividend on 10 December 2015. The total return of 9.3 pence per share equates to a distribution of approximately 50% of adjusted underlying Profit After Tax. Notwithstanding our anticipated earnings growth, our reduced financing costs in FY16 alone will allow strong growth in this dividend and we plan to maintain a pay-out ratio of between 45-50% of Profit After Tax.

Bill Barnes
Finance Director
7 October 2015

Corporate responsibility

At DFS we work hard to put corporate responsibility at the heart of everything we do so that we can most effectively and efficiently deliver real value for everyone involved in our business. We count among our stakeholders, customers, employees, shareholders, suppliers and the people in the communities in which we operate. DFS is also a member of Business in the Community. Throughout our interaction with all these parties, we aim to make a positive impact on society and the environment in support of the Group's longer term commercial and strategic objectives.

Environment

We have continued to work to increase our operational efficiency and reduce the potential impact of our activities on the environment. The Group has formulated an Energy Management Policy to support the reduction of the Group's energy use where practical and consistent with the operational needs of the business. During the year we achieved ISO 14001 accreditation for our head office operations and are working to roll this out across our business in the year ahead.

Greenhouse gas data

	Tonnes CO_2e	Intensity measure (Tonnes CO_2e per £m Revenue)
Scope 1	19,130	27.1
Scope 2	19,123	27.1
TOTAL	38,253	54.2

The changes to our company car programme that we initiated in 2012 have continued to reduce our vehicle emissions (see box), despite increasing store numbers and headcount over that period. We have also maintained our focus on the efficiency of our delivery fleet.

Waste management remains an important consideration for the Group and we have made further progress in working towards our long term goal of zero waste to landfill. During the year we increased the amount of cardboard and polythene that was recycled by a further 4% and introduced a detailed system of waste reporting to support future improvements.

Going the extra mile

In March 2012, DFS began a new company car initiative in partnership with Hitachi to transition our company car fleet to more fuel efficient vehicles. At July 2014 more than 60% of our vehicles were from the new scheme and had average CO_2 emissions of 116.9g/km – a reduction of more than 10% compared to the legacy fleet. As a result, even though the size of our fleet has grown in that time, total tonnes CO_2e has actually decreased. As well as improving our environmental performance, this has also reduced the related tax burden on our employees.

Our people

The continuing success of DFS owes a great deal to the exceptional team of people that we employ.

DFS aims to reward its employees fairly. Our entry-level salaries, which account for fewer than 5% of our employees, are aligned to the independently determined Living Wage (which exceeds the level proposed by the UK government) and all employees are able to influence their earnings through reward schemes linked to performance. We also aim to support the health and welfare of our employees and their families through a variety of initiatives including life and critical illness cover and an employee assistance service.

We remain strongly committed to helping all our employees to make the most of their talents through our continuing programmes of training and development. Internal training courses are accredited to National Standards and formal training was delivered during the year in a wide variety of areas including retail, business and administration, customer service, distribution and logistics. In addition we have introduced an industry-leading apprenticeship programme (see box).

DFS firmly believes in the benefits of a diverse workforce and the gender analysis of employee numbers is reported to the operating board on a monthly basis.

4,390

Training days delivered to DFS employees in FY15

The gender balance of employees at July 2015 is given below:

July 2015	Female		Male	
Directors	2	29%	5	71%
Senior managers	3	19%	13	81%
All employees	1,216	33%	2,501	67%

Communication with employees is made through manager briefings, company presentations and conferences as well as regular newsletters, including a monthly update directly from the Chief Executive. Employee views are sought through regular feedback sessions with directors and an active programme of employee engagement surveys, the results of which are communicated back to staff.

DFS aims to support the health and welfare of our employees and their families through a variety of initiatives including life and critical illness cover, and an employee assistance service. It is the policy of the Group to support the employment of disabled people, wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Group as well as generally through training and career development.

We were delighted to obtain external recognition for excellence in employee conditions by the award for the second year running of Top Employer certification from the Top Employers Institute.

Training the next generation

This year a group of eleven apprentices between 18 and 22 years of age were recruited from across the UK to join our new Young Service Managers Apprenticeship Programme. In completing the two year course, participants will achieve a Level 2 Diploma in Furniture, Soft Furnishings and Interiors, complete the Duke of Edinburgh Gold Award and gain crucial work experience to develop both their technical and customer services skills. Our apprentices are supported throughout the programme by business mentors as well as appointed pastoral carers to give them the best chance of success.

The benefits to participants of a recognised qualification and work experience in a relevant field are enormous, but so too are the benefits to our business. The steady decline of upholstery and furniture manufacturing in the UK presents an increasing challenge for DFS as we seek to recruit people with the right skill sets in upholstery and leather-working as well as a commitment to the highest standard of customer service. The Apprenticeship Programme allows us to develop our own future Service Managers, nurture scarce skills and increase the diversity of our talent pool.

Corporate responsibility continued

189

Externally accredited qualifications achieved by DFS employees in FY15

Health and safety

The health and well-being of our employees and customers is important to DFS and we strive for continuing improvement in managing health and safety risks across all of the Group's operations. Employees receive general health and safety training as part of their induction, plus job-specific training where appropriate. We have a dedicated internal team who visit all of our stores and factories to monitor compliance with the Group's health and safety policies and identify areas for improvement. The Board has instituted a regular review of best practice and performance, including reporting of any significant issues at each meeting.

Our customers

Our customers are at the very heart of our business so in pursuit of our vision of DFS being a world-class British business we need to deliver an outstanding experience for our customers, at all times.

We make significant investment in employee training and incentivisation to deliver the highest levels of customer service and ensure that we treat our customers well. Staff performance and customer satisfaction are monitored though regular inspections, surveys and mystery shoppers, which are carried out through an independent consumer research group.

Customer referral is the perfect indicator of excellent customer satisfaction and we use Net Promoter Score ('NPS') as a measure of recommendation, which provides us with an internationally recognised predictor with proven links to business success. A new customer feedback system has also been introduced which generates an action plan for low-scoring customers to enable stores to follow up effectively on potential service issues.

These initiatives have successfully increased our NPS scores to record levels and have been recognised by the Institute of Customer Service in their 2014 UK Customer Satisfaction Awards, where DFS won the *Customer Feedback Strategy Award.*

Our products and suppliers

DFS goes to great lengths to ensure the quality and safety of all the products it sells. Our own detailed quality checks are supported by the use of independent safety specialists, and all upholstered furniture items are offered with a ten year guarantee.

We have longstanding relationships with our upholstery suppliers and close contact with them is maintained through frequent visits by our operational and senior management. DFS has led the industry in establishing quality level agreements with all suppliers; these set targets for ways of working and service outcomes together with a dedicated forum for working in partnership with supplies to monitor and improve performance, including compliance with our ethical trading requirements.

Community

DFS has continued its partnerships with the British Heart Foundation both through fundraising via the sofa recycling scheme (see box) and training new and existing employees in CPR skills and defibrillator awareness that will help more people survive an out of hospital cardiac arrest.

We have also continued our support for BBC Children in Need for the second year, raising £700,000 through a variety of activities including offering customers a chance to win their entire order for free by entering a monthly competition.

DFS remains a Gold Partner of the Duke of Edinburgh's Award, supporting young people to develop new skills for work and life and contribute to their communities. A similar arrangement is in place in the Republic of Ireland where DFS is a Gold Partner of Gaisce – The President's Award.

In addition to the major national charities above, DFS supports a number of charities and initiatives based locally to our operations, particularly those promoting opportunities for young people. Charitable donations made by the Group during the year amounted to £264,011 (FY14: £237,067).

During the year, we were also delighted to announce that DFS became Official Homeware Partner for Team GB in the run up to the Rio 2016 Olympic Games. We look forward using our expertise to providing a comfortable home away from home for the Team GB athletes to support their rest and relaxation during the Games.

Fighting for every heartbeat

Feedback from our customers highlighted that many were interested in the safe and convenient disposal of their old sofas but had no means of doing this. In response, we developed the DFS Sofa Recycling initiative in partnership with the British Heart Foundation ('BHF').

Once customers receive notification that their new sofa is on its way they can call or go online to arrange the free collection of their old sofa at a time to suit them. The sofas then make their way to the many BHF furniture shops across Britain to be sold at a reasonable price, raising essential funds for the charity, while avoiding the old sofas being sent to landfill.

To date, our customers have raised over **£6.7 million** towards the BHF's vital research to help it fight against coronary heart disease.

This Strategic Report was approved by the Board on 7 October 2015.

Ian Filby
Chief Executive Officer

Bill Barnes
Finance Director

Board of directors

Our Board has a diverse mix of backgrounds, skills and experience and its members are committed to setting the strategic direction whilst maintaining the highest standards of corporate governance and instilling a sound framework for the control and management of the Group, driving it to further success.

Key:
N = Member of the Nominations Committee
A = Member of the Audit Committee
R = Member of the Remuneration Committee
I = Independent Non-Executive Director
S = Nominee of major shareholder

Richard Baker
Non-Executive Chairman (Chairman of the Nomination Committee)
N

Richard joined DFS in 2010 following the acquisition of the business by Advent, for whom he has acted as an operating partner since August 2009. He has 29 years of experience in the consumer and retail sector and was previously Chief Executive of Boots Group and Alliance Boots and Chief Operating Officer at the supermarket group Asda. Richard has been a non-executive director of Whitbread plc since 2009 and is currently non-executive Chairman, having been appointed to the role in 2014. He is also currently non-executive Chairman of the Global Advisory Council of Aimia Inc and he is an independent director of the Lawn Tennis Association. Richard has an MA (Hons) in Engineering Science from Cambridge University and a Diploma in Strategic Retail Management from Harvard.

Ian Filby
Chief Executive Officer

Ian joined DFS in 2010 and has 34 years of retail experience, primarily at Alliance Boots, where his most recent roles were Retail Brand Development Director and Trading Director. He is also currently non-executive Chairman of Shoe Zone plc and is a member of the British Retail Consortium Board, and Chairman of the British Retail Consortium Policy Board. Ian has an MA (Hons) in Chemistry from Cambridge University.

Bill Barnes
Finance Director

Bill joined DFS in 2003 and has 26 years of experience in the retail sector having spent 14 years at retailer Next plc where he was Group Financial Controller and Company Secretary. Bill has a B.Com (Bachelor of Commerce) from the University of Birmingham. He is a fellow of the Institute of Chartered Accountants.




Luke Mayhew
Senior Independent Non-Executive Director
N A R I

Luke joined DFS in October 2014 and is currently Chairman of the Remuneration Committee of InterContinental Hotels Group PLC and Trustee of BBC Children in Need. He was previously Chairman of the British Retail Consortium, a non-executive Director of Brambles Ltd and WH Smith PLC and Chairman of Pets at Home Group Limited. He served for 13 years on the Board of John Lewis Partnership, including as Managing Director of the Department Store division.

Julie Southern
Independent Non-Executive Director (Chairman of the Audit Committee)
N A R I

Julie joined DFS in February 2015, and was previously with Virgin Atlantic from 2000 to 2013, first spending ten years as CFO before taking on the role of Chief Commercial Officer in 2010. Prior to joining Virgin Atlantic, she was Group Finance Director of Porsche Cars GB and Finance and Operations Director of WH Smith's subsidiary HJ Chapman & Co. Julie currently is a non-executive director of NXP Semiconductors and also Cineworld Group and Rentokil Initial plc where she chairs their Audit Committees. In addition, she is a non-executive director of Gategroup Holding AG where she chairs the Nomination and Compensation Committee. Julie is a qualified accountant, having trained with Price Waterhouse, and has a BA (Hons) in Economics from Cambridge University.

Gwyn Burr
Independent Non-Executive Director (Chairman of the Remuneration Committee)
N A R I

Gwyn joined DFS in December 2014 and previously served on the operating board of J Sainsbury plc and held various management positions within the supermarket group Asda. She is currently an independent non-executive director of Metro AG, Wembley National Stadium Limited (due to cease on 9 October 2015), Hammerson plc and Just Eat plc. She is also a non-executive director of Sainsbury's Bank plc. Gwyn has a BA (Hons) in Economics and History from Bradford University.

Andy Dawson
Non-Executive Director
S

Andy joined DFS in 2010 in connection with the acquisition of DFS by Advent. He is a Partner of Advent and coordinates Advent's retail activities in Europe. He has over 10 years of experience in private equity focused on the retail sector. Andy has an MA (Hons) in Engineering from Cambridge University.

Directors' report

Introduction

The Directors present their Annual Report and audited financial statements for the 52 weeks ended 1 August 2015, in accordance with section 415 of the Companies Act 2006. Certain disclosure requirements for inclusion in this report have been incorporated by way of cross reference to the Strategic report and the Directors' remuneration report, and should be read in conjunction with this report.

The following also form part of this report:

- greenhouse gas emissions, which can be found on page 30;
- employees, which can be found on pages 30 and 31;
- the corporate governance statement, set out on pages 39 to 45; and
- our strategy and objectives, set out on pages 12 to 19.

Information regarding the Company's charitable donations can be found in the corporate responsibility report on pages 32 to 33. No political donations were made in 2015 (2014: £nil).

The Company

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

The Company changed its name from Diamond Holdco 1 Limited to DFS Furniture Limited on 3 February 2015. On 18 February 2015, the Company re-registered as a public limited company and changed its name to DFS Furniture plc. On 6 March 2015, conditional dealings of the Company's shares began on the London Stock Exchange and on 11 March 2015 the Company was admitted to trading on the main market of the London Stock Exchange. The Company has no overseas subsidiaries but operates branches in the Republic of Ireland and the Netherlands.

Results and dividends

The Group's results for the year are set out in the consolidated financial statements on pages 77 to 104. The Company only results of DFS Furniture plc are set out on pages 105 to 107. The Directors have declared an interim dividend of 3.1 pence per share and also proposed a final dividend of 6.2 pence per share to be paid in respect of the 52 weeks ended 1 August 2015. It is intended that both dividends will be paid on 30 December 2015 to all shareholders on the register on 11 December 2015. The Company's shares will trade ex-dividend from 10 December 2015.

Directors

The Directors of the Company who held office at the date of this annual report and their biographical details can be found on pages 34 to 35. 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.

All of the Directors were appointed to the Company on 2 February 2015 and will retire from office and seek re-election at the Company's Annual General Meeting on 4 December 2015 in accordance with the Company's Articles of Association.

Mike Ristaino also served as a Director of the Company until 3 February 2015 when he resigned as a result of the IPO process.

Directors' interests

Information about the Directors' interests in the Ordinary Shares of the Company on 1 August 2015 or date of appointment if later, and any subsequent changes as at 6 October 2015 is set out in the Directors' remuneration report on page 72.

Directors' indemnities and insurance

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

The Company also purchased Public Offering of Security liability insurance to provide cover for liabilities incurred by the Directors in the performance of their duties or powers in connection with the issue of the Prospectus in relation to the listing of the Company's shares on the London Stock Exchange.

Employees

As at year end the Company employed 3,717 employees (as set out in the gender analysis table on page 31).

Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders. No amendments are proposed at the 2015 AGM.

Annual General Meeting (AGM)

The Company's first AGM since listing will take place on 4 December 2015 at Warmsworth House, Holiday Inn, High Road, Warmsworth, Doncaster, DN4 9UX at 2.30pm, and the Chairs of each of the Board's Committees will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM, including the resolutions to be proposed, will be sent to shareholders at least 21 clear days prior to the date of the meeting.

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

Share capital

Details of the Company's share capital are set out in Note 21 to the consolidated financial statements. Following the Company's IPO it has one class of Ordinary Shares. As at 6 October 2015 the Company had an issued share capital of 213,030,601 Ordinary Shares of £1.50 each.

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

Other than the general provisions of the Articles of Association and prevailing legislation, there are no specific restrictions on the size of a holding or on the transfer of the Ordinary Shares. The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights except for the lock-up undertakings agreed at the time of Admission by certain significant corporate and individual shareholders, as detailed below. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Shareholder	Lock-up period	Number of shares
Advent Diamond (Luxembourg) Sàr.l.	180 days from admission	113,361,359
Richard Baker	365 days from admission	4,824,402
Ian Filby	365 days from admission	1,313,208
Bill Barnes	365 days from admission	698,626
Jon Massey	365 days from admission	787,925
Ian MacGuffog	365 days from admission	301,374
EBT (see note)	365 days from admission	5,143,453

Note: At 1 August 2015, the shareholdings of certain members of senior management were held via an Employment Benefit Trust. It is intended that these shareholdings will be transferred to the individual managers concerned (and spouses where appropriate) but will still be subject to the lock-up period noted above.

Authority to purchase own shares

As part of the IPO, at a general meeting of the Company on 17 February 2015, the Company was authorised to purchase a maximum of 10% of the Company's issued share capital immediately following Admission to the London Stock Exchange. This authority will expire at the close of the 2015 AGM.

Directors' report continued

Authority to allot shares

As part of the IPO, at a general meeting of the Company on 17 February 2015 the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of:

- £250,000,000 in connection with the pre IPO group reorganisation;
- £100,000,000 in connection with the IPO;
- £130,000,000 in any other case.

As at the date of this Annual Report shares with a total nominal value of £276,930,684 have been issued under these authorities. These authorities will expire at the conclusion of the 2015 AGM unless revoked, varied or renewed prior to that meeting.

Resolutions will be proposed at the 2015 AGM to renew these authorities.

Major interests in shares

As at 6 October 2015, the Company had been advised of the following notifiable interests in the Company's voting rights:

Shareholder	Number of voting rights at 1 August 2015 and 6 October 2015	% voting rights at 1 August 2015 and 6 October 2015
Advent Diamond (Luxembourg) Sàr.l.	113,361,359	53.2
Richard Baker*	4,824,402	2.3

* Deemed to be actively in-concert with Advent Diamond (Luxembourg) Sàr.l.

Financial risk management

The Company's objectives and policies on financial risk management, including information on credit, liquidity and market risks can be found in Note 23 to the financial statements.

Going concern

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including £200.0 million of a senior loan facility maturing in 2020 and a £30.0 million revolving credit facility in place until March 2020 which is as yet unutilised. Further details of these facilities and the Group's financial management objectives are detailed in the financial statements.

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 for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditor and disclosure of information to auditor

Each of the Directors at the date of this report confirms that:

- so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he/she has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

KPMG LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it as the Company's auditor will be proposed at the forthcoming AGM.

Subsequent events

Subsequent events between 1 August 2015 and the date of signing this report are detailed in Note 28 to the financial statements.

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

Paul Walker
Company Secretary
7 October 2015

Corporate governance

Richard Baker
Non-Executive Chairman

Dear Shareholder
I am pleased to introduce DFS Furniture plc's first corporate governance report since our IPO in March 2015.

The Admission of the Company's shares to the main market of the London Stock Exchange on 11 March 2015 followed approximately five years of successful private-equity ownership by Advent. During this time, we had already established many good governance practices including regular and structured Board meetings with active participation by Executive and Non-Executive Directors alike, along with active Audit and Remuneration Committees comprised solely of Non-Executive Directors.

Building on these firm foundations, we took the opportunity of the Company's IPO to review and refresh our Board and Committee governance arrangements, with the aim of bringing them in line with recognised good practice for publicly quoted companies based on the Listing Rules of the Financial Conduct Authority, including the UK Corporate Governance Code ("Governance Code").

This has included:

1. Appointing three new independent Non-Executive Directors in advance of our IPO: Luke Mayhew, Gwyn Burr and Julie Southern. These experienced individuals provide diverse, valuable and fully independent representation to our Board as well as proven track records in business at a high level and expertise of relevance to the Company.

2. Reconstituting the Audit and Remuneration Committees with our new independent Directors and with updated terms of reference, and appointing a new Nomination Committee on a similar basis. Each of these Committees is fully compliant with the recommendations of the Governance Code.

3. Appointing Luke Mayhew as our Senior Independent Director.

4. Formalising other governance arrangements such as the division of responsibilities between Ian Filby as CEO and myself as Chairman and expanding the matters specifically reserved for the decision of the Board (reported on more fully in the report of our Board commencing on page 41.

5. Moving the remuneration of our Executive Directors towards more typical practice for listed companies (reported on more fully in the report of our Remuneration Committee commencing on page 53).

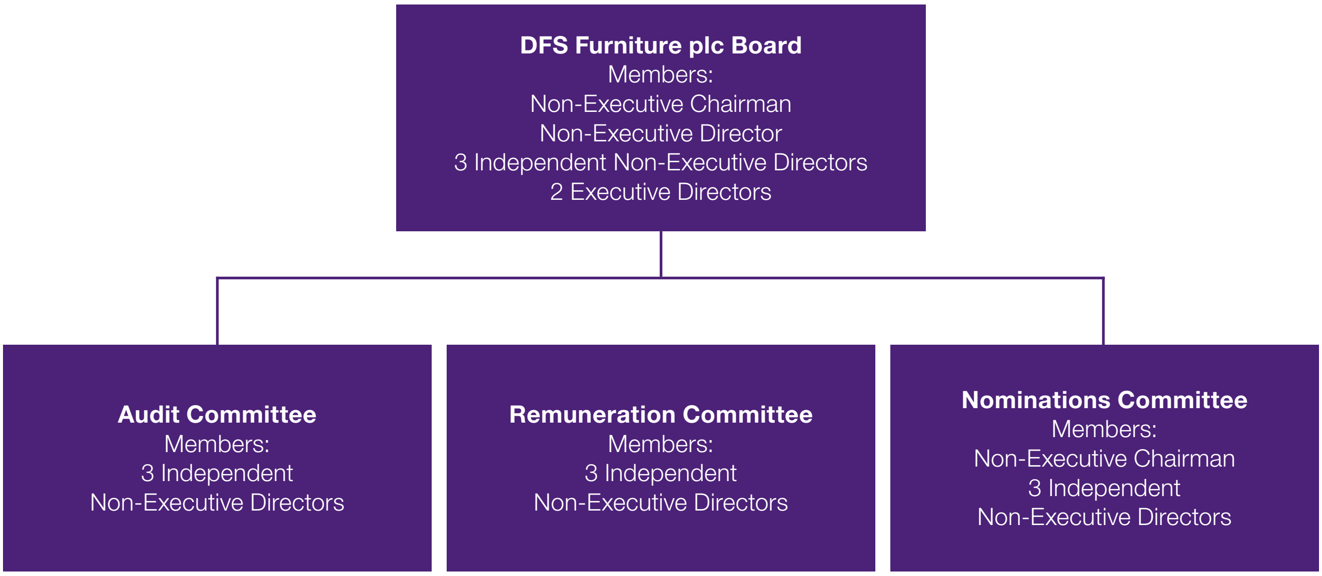
However, since the Company listed only recently, it has not yet been practicable and/or meaningful to fully comply with the provisions of the Governance Code; however, we shall endeavour to progress towards full compliance, wherever possible, in a reasonable period of time. The key constituents necessary to deliver a robust structure are in place and, accordingly, this report includes a description of how the Company has applied the principles and provisions of the Governance Code since 11 March 2015 and how it intends to apply those principles in the future.

Corporate governance continued

Board composition
The Board is currently comprised of a Non-Executive Chairman and six other Directors, of whom only three are considered to be wholly independent. The Governance Code recommends that at least half the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. Although we are compliant with the Governance Code in this regard, the Board intends that in the future at least half of its members should be Independent Non-Executive Directors. On Admission we stated that to achieve this objective a fourth Independent Non-Executive Director may be appointed to the Board following Admission although such person has not been identified as at the date of this report.

On Admission, we noted an area of ongoing non compliance with the Governance Code due to the fact that I, the Company's Non-Executive Chairman, am, for the purposes of the Governance Code, not considered to have been independent on my appointment as Chairman back in 2010 due to my role as an Operating Partner at Advent. However, following Admission, I have not acted on behalf of Advent in respect of its investment in the business, nor have I received any remuneration from Advent in respect of my role at DFS. Advent, being the current majority shareholder, and the other members of the Board are unanimously of the opinion that I can continue to be a valuable asset to the Company, bringing a wealth of experience in public companies and a keen understanding of retail businesses, as well as being independent in character and judgement.

Company structure



I look forward to reporting to you next year on how our governance arrangements continue to develop. This will include a report on the evaluation to be undertaken of the effectiveness of our Board in the first year since the Company's IPO and on any actions we undertake in response to this. We view measurement of performance, targeting improvement and reporting results to be as important for us as a Board as it is for our business.

Richard Baker
Chairman
7 October 2015

Compliance with the UK Corporate Governance Code 2012: Introduction

The Board is committed to maintaining high standards of corporate governance and maintaining a sound framework for the control and management of the Group.

The UK Corporate Governance Code 2012 applies to financial years beginning on or after 1 October 2012. A copy of the Governance Code can be found at www.frc.co.uk.

This report, which incorporates reports from the Audit and Nomination Committees on pages 46 to 52 together with the Strategic report, the Directors' remuneration report on pages 53 to 73 and the Directors' report on pages 36 to 38, describes how the Company has applied the relevant principles of the 2012 Governance Code.

A new version of the Governance Code was published in September 2014 and applies to financial years beginning on or after 1 October 2014. The Company will therefore apply the principles of the new Code going forward.

Compliance statement

The Company adopted the UK Corporate Governance Code on Admission of the Company's shares to the main market of the London Stock Exchange on 11 March 2015. Since that date, the Company has applied all except three of the main principles of the Code as listed below:

- A.3.1 The Chairman was not independent on appointment.
- B.6 and A.4.2 The Board has not carried out an annual evaluation of its own performance or that of the Chairman, given the Board and its Committees have been operating for less than a year. A formal evaluation process will be carried out during the forthcoming financial year.

The role of the Board

The Board currently consists of three Independent Non-Executive Directors, two Non-Executive Directors (including the Non-Executive Chairman) and two Executive Directors. Biographies of all members of the Board appear on pages 34 to 35.

The Board is collectively responsible for the long-term success of the Company and for leading and controlling the Group and has overall authority for the management and conduct of the Group's business, strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Group.

The Chief Executive Officer (CEO) and Finance Director (FD) sit on the Board and two levels of management sit below the Board: the Executive Board and the Operating Board, each of which are led by the CEO. The CEO and FD therefore act as a bridge between management and the Board. The Board delegates to management the day-to-day running of the business within defined parameters. Board meetings are scheduled to coincide with key events in the corporate and trading calendar and in future this will include the interim and final results and the Annual General Meeting (AGM).

The Board has adopted a formal schedule of matters reserved for its approval and has delegated other specific responsibilities to its Committees. This schedule sets out key aspects of the affairs of the Company which the Board does not delegate, including:

- approval of the annual Group budget and strategic four year business plan and review of performance against them, including approval of growth activities into new markets or countries;
- approval of the interim/annual report and accounts and any preliminary announcement, including approval of dividend policy/payments;
- approval of treasury policies, material guarantees, granting of security and entry into/material amendment of loan facilities;
- approval and review of the management of balance sheet foreign exchange exposure;
- approval of material finance and operating leases and approval of major investments including corporate/capital acquisitions/disposals;
- approval of changes to the Group's capital structure including reductions of capital and share issues/buybacks;
- approval of recommendations from the Audit, Remuneration or Nomination committees;
- ensuring satisfactory dialogue with shareholders based on a mutual understanding of objectives;
- approval of changes to the structure, size and composition of the Board and any other control structure;
- maintenance of a sound system of internal controls and risk management, including approval of the Group's risk register; and
- any decision likely to have a material impact on the Group from any financial, operational, strategic or reputational perspective.

All Directors have access to the advice and services of the Company Secretary, who has responsibility for ensuring compliance with the Board's procedures. All the Directors have the right to have their opposition to, or concerns over, any Board decision noted in the minutes. The Board has adopted guidelines by which Directors may take independent professional advice at the Company's expense in the performance of their duties.

Given the relatively recent date of the IPO, the Chairman and the Non-Executive Directors have not yet met without the Executives present in the period between the listing on 11 March 2015 and 1 August 2015. However, such meetings have been scheduled for the forthcoming financial year.

Board committees

Subject to those matters reserved for its decision, the Board has delegated to its Audit, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees, available on the Group's corporate website, www.dfscorporate.co.uk, and separate reports for each Committee are included in this Annual Report from pages 46 to 73.

Role of the Chairman and Chief Executive Officer

The Board is chaired by Richard Baker, who was appointed in 2010 whilst the Group was under Advent's private ownership. The Chairman of the Company is responsible for leading the Board and ensuring its effectiveness in all aspects of its role. Ian Filby is the Chief Executive Officer and is responsible for managing the profitable operation of the Company to create shareholder value by promoting the long term success of the Company. The role is distinct and separate to that of the Chairman and clear divisions of accountability and responsibility have been agreed by the Board and are set out in writing, as summarised below:

Role of the Chairman

- managing the business of the Board including organising and chairing regular meetings;
- ensuring the submission to the Board by the Chief Executive of objectives, policies and strategies for the Group, including the Group business plan and annual budget;
- keeping under review with the Board the general progress and long term development of the Group and ensuring that effective strategic planning for the Company is undertaken;
- facilitating the contributions of Non-Executive Directors to the leadership of the Group;
- holding meetings with the Non-Executive Directors without the Executive Directors present, as appropriate;
- ensuring effective communication between the Board and the Company's shareholders;
- acting on the results of the Board's annual review of its and its Committees' and individual Directors' performances; and
- appraising the performance of the Chief Executive and making appropriate recommendations as to his or her remuneration to the Remuneration Committee.

Role of the Chief Executive Officer

- managing the Group's physical, financial and human resources;
- planning the Group's strategies effectively;
- ensuring that the Group complies with all relevant legislation and regulatory requirements;
- allocating duties and responsibilities to Directors;
- reviewing the performance of the other Executive Directors and making appropriate recommendations as to their remuneration to the remuneration committee;
- managing the Group's relations with shareholders, customers, suppliers, regulators, other public organisations, other companies and the media; and
- keeping the Chairman and other Non-Executive Directors informed in respect of all relevant matters.

Role of the Senior Independent Director (SID)

The Governance Code recommends that the Board of Directors of a company with a premium listing on the official list of the London Stock Exchange ("Official List") should appoint one of the Independent Non-Executive Directors to be the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns which the normal channels through the Chairman, CEO or other Executive Directors have failed to resolve, or for which such channels would be inappropriate. Luke Mayhew has been appointed as the Senior Independent Director.

Board balance and independence

As mentioned in the Chairman's introduction, DFS can not be fully compliant with the recommendations of the Governance Code in this area, but intends to mitigate any perceived risks by managing the Board composition accordingly in due course. The Company has a relationship agreement ("the Relationship Agreement") in place with its principal shareholder, Advent, and with the current Chairman, Richard Baker.

The principal purposes of the Relationship Agreement are to ensure that:

- the Group and its subsidiaries are capable of carrying on their business independently of Advent and/or Richard Baker;
- all transactions and arrangements between the parties are conducted at arm's length and on normal commercial terms; and
- neither party take any action or propose a shareholder resolution that would have the effect of preventing the Group from complying with its obligations under the Listing Rules.

Under the terms of the Relationship Agreement, Advent is entitled to nominate for appointment to the Board one Nominee Director who is approved as being suitable by the Nomination Committee. This entitlement will remain in force for so long as Advent holds, in the aggregate, at least 15% of the ordinary share capital or voting rights of the Company. The Nominee Director appointed by Advent is Andy Dawson.

Length of appointments

Non-Executive appointments to the Board are for an initial period of three years, are subject to annual re-election by shareholders at the Company's annual general meeting and to any requirements of the Listing Rules and are contingent on continued satisfactory performance.

Information, meetings and attendance

The Board met on a number of occasions during the year prior to Admission. Since then the Board has met five times before the financial year end to review operational and trading performance including the approval of the updated strategic four year plan and budget for the next financial year.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet six times, with two additional telephone meetings to review important trading periods. At these meetings, the Board will monitor the Company's performance against the agreed strategy and business plan and review specific business areas in order to maintain a broad and thorough understanding of the business model.

In respect of the five Board meetings held since the IPO and before the financial year end, there was full attendance apart from one meeting where five of the seven Directors attended. The relatively recent timing of some Board appointments meant that it was not possible to arrange meetings at which all Directors were available to join due to their existing commitments.

Corporate governance continued

Information, meetings and attendance continued

A summary of meeting attendance for the year is as follows:

	Date of joining DFS	Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings in financial year		**11**	**4**	**2**	**–**
Richard Baker	July 2010	11/11	1/2	1/1	–
Ian Filby	July 2010	11/11	–	–	–
Bill Barnes	Oct 2003	11/11	–	–	–
Andy Dawson	July 2010	11/11	2/2	1/1	–
Luke Mayhew	Oct 2014	9/10	4/4	2/2	–
Gwyn Burr	Dec 2014	6/7	1/3	1/1	–
Julie Southern	Feb 2015	6/7	2/2	1/1	–

Notes:

1. In addition to the 11 Board meetings referred to in the table, a further two meetings were held, specifically as part of the IPO process, where there was full attendance.
2. Immediately prior to the IPO, Richard Baker and Andy Dawson stood down from the Audit and Remuneration Committees, in accordance with the independence requirements of the Governance Code.
3. The meetings included in the table also include the meetings held by DFS Furniture Holdings plc, the Group's previous reporting parent company prior to Admission.

The Chairman, in conjunction with the Company Secretary, is responsible for ensuring that the Directors receive accurate, timely and clear information. Prior to each scheduled Board meeting, a pack is circulated in respect of the most recent financial period which includes an update on key performance targets, trading performance against budget and includes detailed financial and non-financial data and analysis. Board packs are distributed in the week prior to each meeting to provide sufficient time for Directors to review their papers in advance. If Directors are unable to attend a Board meeting for any reason, they nonetheless receive the relevant papers and are consulted prior to the meeting and their views are made known to the other Directors.

Conflicts of interest

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

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

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

Development

In preparation for listing all Directors received an induction briefing from the Company's legal advisers on their duties and responsibilities as Directors of a publicly quoted company. Furthermore, the new Non-Executive Directors have met key members of Senior Management in order to familiarise themselves with the Group and have spent time in the business to gain experience of the day-to-day operations.

During the coming year, the Chairman will review and agree with each Non-Executive Director their individual training and development needs. In addition, under the guidance of the Chairman, the Company Secretary will establish a formal induction training process for new Directors.

Board evaluation
A significant number of the Directors were only appointed in the months immediately preceding the listing in March 2015. The Board believes that a meaningful evaluation of the Board can only take place after it has been working together for a reasonable time and has therefore not yet completed a formal review of Board performance. An evaluation policy will be developed and implemented during the next financial year.

The Senior Independent Director, Luke Mayhew, together with the Independent Non-Executive Directors, will evaluate the performance of the Chairman.

Election of Directors
The Board can appoint any person to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following AGM and shall then be eligible for election by shareholders. The forthcoming AGM will be the Company's first since registering as a public company. In accordance with the Articles, all the Directors will be offering themselves for re-election at the AGM to be held at Warmsworth House, Holiday Inn, High Road, Warmsworth, Doncaster, DN4 9UX, on 4 December 2015, full details of which are set out in the notice of meeting accompanying this Annual Report.

As noted above, the current Board has been in post for only a short period of time and so a formal evaluation of the performance of the Board, its principal committees and the individual Directors would be of limited value. However, pending the development and implementation of a formal evaluation process during the forthcoming financial year, the Board is satisfied that each Director remains competent to discharge his/her responsibilities as a member of the Board.

External appointments
The Executive Directors may accept outside appointments provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company. At the time of the IPO it was noted that Ian Filby was, and continues to be, Non-Executive Chairman of Shoezone plc and a director of IFF Life and Business Solutions Limited and the British Retail Consortium. The Board considers that these appointments do not adversely impact his ability to carry out his role.

The Non-Executive Directors' appointment letters anticipate a minimum time commitment of two days per month, recognising that there is always the possibility of an additional time commitment and ad hoc matters arising from time to time, particularly when the Company is undergoing a period of increased activity. The average time commitment inevitably increases where a Non-Executive Director assumes additional responsibilities such as being appointed to a Board Committee.

Relations with shareholders
As part of the IPO process in the earlier part of 2015, the Board met with a large number of investors. These meetings involved the Chief Executive Officer, Finance Director and other Senior Management, where appropriate.

As part of its future investor relations programme, DFS will aim to maintain an active dialogue with its key stakeholders, including institutional investors, to discuss issues relating to the performance of the Group including strategy and new developments. The recent permanent appointment of a new member of the senior management team responsible for Investor Relations reflects the Group's commitment to this important aspect of being a publicly quoted company.

The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise. Investor relations activity and analysis of the share register are ongoing items of review by the Board.

The Chairman and Non-Executive Directors are available to attend investor relations meetings or to request meetings with investors or analysts independently of the Group's management, if required.

Audit Committee report

Julie Southern
Chairman of the Audit Committee

Chairman's introduction

As noted earlier in this report, we took the opportunity of the Company's IPO to review and refresh the existing Committee governance arrangements. As a consequence, the current Audit Committee terms of reference were approved on 22 February 2015 ahead of Admission, which coincided with the commencement of my chairmanship. The Committee's terms of reference conform to the requirements of the UK Corporate Governance Code 2012 ("Governance Code") and are available on the Company's corporate website at www.dfscorporate.co.uk.

The Committee comprises only independent Directors and under its terms of reference is required to meet at least three times in each year at appropriate times in the financial reporting and auditing cycle. Outside of the formal meeting programme, the Audit Committee is committed to maintaining meaningful dialogues with key individuals involved in the Company's governance, including my fellow Board members, the external audit lead partner and the head of the internal audit function.

Clearly, this Annual Report, being the first as a public company, places greater emphasis on the Audit Committee to assist the Board to discharge its duty to ensure that the report, when taken as a whole, is fair, balanced and understandable.

As a result, I explain in this report how the Committee has discharged its responsibilities, with specific reference to the requirement of the Governance Code to address significant reporting issues for the financial statements and to explain how the Committee assessed external audit effectiveness and safeguards in relation to the provision by the auditor of non-audit services. This report also covers how the Committee has considered that an effective system of internal control and risk management is in place.

Although the Company has only been recently admitted to the London Stock Exchange it was of course a listed company between 1993 and 2004. I have been pleased to find that the approach to financial and risk management that one would expect in a listed company has been maintained under private ownership. The Committee has a sound platform to build on and there is a positive and engaged attitude within the Company to develop further.

Now that its operations are fully established, it is planned for the Committee's effectiveness to be independently reviewed in line with the general review of the Board and all its other committees in the year ahead.

Julie Southern
Chairman of the Audit Committee
7 October 2015

Composition
Prior to listing, the Audit Committee comprised three Non-Executive Directors, including Richard Baker (as its Chair) and Andy Dawson, both of whom stood down from the Audit Committee at IPO in accordance with the independence requirements of the Governance Code

Since the IPO, the Audit Committee is chaired by Julie Southern and its other members are Luke Mayhew and Gwyn Burr. The Governance 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 former executive and non-executive roles, details of which are set out on page 35, Julie Southern has recent and relevant financial experience and the Company complies with the requirements of the Governance Code in this respect. Similarly, both Luke Mayhew and Gwyn Burr have extensive relevant commercial and operational experience in large organisations which will benefit the Committee. Biographies of the Independent Non-Executive Directors are included on pages 34 and 35.

The Chief Executive Officer, Finance Director and Chairman attend meetings of the Audit Committee by invitation, as do KPMG LLP and other members of management or the Board as appropriate. The Company Secretary also attends by invitation in order to maintain a record of the meetings.

Roles and responsibilities
The Audit Committee assists the Board in discharging its responsibilities with regard to the oversight of:
- financial reporting;
- internal controls and risk management systems;
- compliance, whistleblowing and fraud; and
- internal and external audit.

In particular, this includes:
- monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance including a review of any significant financial reporting judgements contained therein;
- reviewing the Group's processes and procedures for ensuring that material business risks are properly identified and managed;
- reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems;
- receiving regular reports on significant litigation and compliance issues;
- reviewing the Group's arrangements with regard to employee/contractor whistleblowing, fraud detection, prevention of bribery and money-laundering;
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- overseeing the Group's relationship with its external auditor, including their appointment, remuneration, independence and the effectiveness of the audit process; and
- developing and implementing a policy on the supply of non-audit services by the external auditor.

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

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

Activities of the Audit Committee
Prior to listing, the Audit Committee of the Group met twice to discuss and approve the full year results for FY 2014 and, in preparation for the IPO, to discuss and approve the first quarter results for FY 2015. Since the IPO, the Committee has met three times, firstly in March 2015, to discuss and approve the half year results for FY 2015, and secondly in June 2015, to review and approve KPMG's continuing appointment, audit strategy and fees for the audit of FY 2015 full year results. Attendance at those meetings is shown on page 44.

Activities of the Audit Committee continued

In October 2015, the Audit Committee reviewed and approved a non-audit services policy and the internal audit scope and programme for FY 2016. In addition, the Committee reviewed and approved, for consideration by the Board, the financial results for the 52 weeks ended 1 August 2015 including a review of the full year external audit. As part of that review process, the members of the Committee reviewed the Annual Report, the adequacy of the disclosure with respect to going concern and whether the Annual Report taken as a whole was fair, balanced and understandable.

This additional review by the Audit Committee, supplemented by advice received from external advisers during the drafting process, assisted the Board in determining that the report was fair, balanced and understandable at the time that it was approved. The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans and supporting assumptions and concluded that the Company's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

In addition to the formal meetings noted above, and as part of the IPO and their induction into their new roles, all of the current Audit Committee members reviewed the Company's risk register and the various internal policies in place.

Significant issues considered in relation to the financial statements

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

- *Impairment of intangible assets*
  The Group holds significant goodwill in the business following the acquisition of the DFS Group in 2010 by Advent and the DFS Group's subsequent acquisition of The Sofa Workshop Limited. In addition, the Group has recognised the value of the respective brands of Sofa Workshop and Dwell as intangible assets. As required by accounting standards, management have completed an annual impairment review of the carrying value of goodwill for each cash-generating unit, and in total, details of which are set out in Note 9 to the financial statements. This review highlighted that no impairment charge was required.

- *Non-underlying items*
  During the year the Group was admitted to trading on the London Stock Exchange through an Initial Public Offering (IPO) and also refinanced its borrowings. As a result, management has identified £22.6m of expenses relating directly to these events, and other non-recurring costs as non-underlying items and therefore to be disclosed separately. The Committee is satisfied that these costs fall outside the recurring operations of the business and therefore their separate disclosure as non-underlying is considered reasonable and in line with the Group's accounting policy.

- *Share-based incentives*
  As a result of Admission, the Group implemented a number of new share-based incentive schemes for senior management. The valuation methods and the related assumptions for these schemes are subject to management judgement. There is a risk that these instruments are not valued correctly and therefore an incorrect charge is recognised in the financial statements. The Group's external auditor has independently audited the valuation models used by management and the assumptions used in calculating the Group's IFRS 2 charge. Further share-based incentive schemes are planned to be implemented in FY 2016. Valuations for grants under these new schemes will be reviewed by the Group's external auditor.

- *Provisions and long-term accruals*
  Several of the Group's provisions and accruals, which primarily relate to the estimated cost of the retail customer guarantees provided and claims relating to historical sales of Payment Protection Insurance, continue to require significant judgement in assessing their appropriateness and quantum. Management have considered the rationale and basis for these provisions and long term accruals to assess their reasonableness and adequacy which has been reviewed and agreed by the Group's external auditor in conjunction with their substantive testing.

Assessment of effectiveness of the external audit process

The Audit Committee oversees the relationship with the external auditor and considers the re-appointment of the Company's auditor, KPMG LLP, before making a recommendation to the Board to be put to shareholders. As part of this responsibility, the Committee approved the audit plan for the 52 weeks ended 1 August 2015 and reviewed the auditor's findings and management representation letters. Prior to recommending the appointment of KPMG LLP at the forthcoming AGM to the Board, the Audit Committee reviewed the extended audit process, the performance of the auditor and its ongoing independence, taking into consideration input from management, responses to questions from the Committee and the audit findings reported to the Committee. Based on this review, the Committee concluded that the external audit process had been run efficiently and that KPMG LLP has been effective in its role as external auditor.

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

Whilst the Audit Committee does not consider it necessary to have a policy for the rotation of the external audit firm immediately following the Company's IPO, it is planned to keep this possibility under review in the coming years and to continue to comply with the audit tender rules applying to the Company.

The Audit Committee has set a policy which is intended to maintain the independence and integrity of the Company's auditor when acting as auditor of the Group's accounts. The policy governs the provision of audit, audit-related assurance and non-audit services provided by the auditor. In summary, this requires approval by the Committee for all individual non-audit engagements:

- with an expected cost in excess of £50,000; and
- where it is expected the annual cost for all non-audit engagements will be in excess of £150,000.

The policy details the types of non-audit services which are prohibited as they would directly threaten auditor objectivity and independence. It also describes permissable services, which would generally be acceptable (subject to the monetary limits above) and possible services which require Audit Committee approval on a case-by-case basis.

The Committee notes the non-audit fees in the financial year ended 1 August 2015 were significantly increased by KPMG's role as reporting accountant on the IPO prospectus document, a non-recurring exercise of an exceptional nature.

Independence safeguards

The current audit firm was appointed while the Group was under private ownership and has served for a number of years, however in accordance with best ethical standards, external auditors are required to adhere to a rotation policy whereby the audit engagement partner is rotated after five years. For purposes of continuity during the Group's first reporting period since listing, this engagement has continued but the Group aims to ensure that it complies with best practice on audit firm rotation as a listed entity.

The external auditor is also 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.

Independence assessment by the Audit Committee

The Committee is satisfied that the independence of the external auditor is not impaired, and notes that the audit firm's engagement partner rotation policy as been complied with. Audit and non-audit fees are set out in Note 3 to the financial statements. The Audit Committee noted that the auditor had provided non-audit services on the IPO transaction but believes sufficient and appropriate safeguards were in place for this work and the external auditor remained independent throughout the period.

The Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of KPMG LLP as auditor until the AGM in 2016.

Internal audit

The Committee has recommended to the Board that the current internal audit function, which historically has concentrated on operational activities, should be reviewed in terms of both its scope and focus. As noted previously, the results of that review were considered at the October 2015 meeting and the programme for FY 2016 approved.

During this review, the Committee noted the Company's relatively straightforward business model with a simple Group structure and an open and accountable culture with clear authority limits and the assurance gained from reports from management and the external auditor with regard to internal controls and risk management.

Internal control and risk management

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

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has operating

Internal control and risk management continued
policies and controls in place covering a range of issues including financial reporting, capital expenditure, business continuity and information technology and appropriate employee policies. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements.

The Board is ultimately responsible for the Group's system of internal controls and risk management and discharges or intends to discharge its duties in this area by:
- holding regular Board meetings to consider the matters reserved for its consideration;
- receiving regular management reports which provide an assessment of key risks and controls;
- scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- ensuring there is a clear organisational structure with defined responsibilities and levels of authority;
- ensuring there are documented policies and procedures in place; and
- scheduling regular Board reviews of financial budgets and forecasts with performance reported to the Board monthly.

In reviewing the effectiveness of the system of internal controls, the Committee will, going forward:
- review the risk register compiled and maintained by senior managers within the Group and question and challenge where necessary;
- regularly review the system of financial and accounting controls; and
- report to the Board on the risk and control culture within the Group.

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

There have been no changes in the Company's internal control during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal controls and risk management is in place which enable the Company to identify, evaluate and manage key risks and which accord 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 20 to 23.

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, dishonesty, corruption and breaches of data protection or health and safety. There have been no instances of whistleblowing during the year under review.

Control environment
The Board is committed to business integrity, high ethical and moral values and professionalism in all its activities. The Group has policies in place for:
- anti-bribery;
- equal opportunities; and
- gifts and entertainment.

Accountability
The Board is required to present a fair, balanced and understandable assessment of the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on page 74. As set out in the Directors' report, the Directors consider the Company's business to be a going concern.

Julie Southern
Chairman of the Audit Committee
7 October 2015

Nomination Committee report

Richard Baker
Chairman of the Nomination Committee

Chairman's introduction

My role as Chairman of the Nomination Committee is to ensure we have the appropriate skills, knowledge, experience and diversity on the Board and in senior management positions, both now and in the future, in order that DFS continues to compete successfully in the marketplace.

I am extremely pleased that, in preparation for the IPO, Luke Mayhew, Gwyn Burr and Julie Southern joined DFS to complement and strengthen the existing Board. Nevertheless, succession planning for Directors and other senior executives continues to be of importance to ensure the relevant expertise is in place to address the challenges and opportunities facing the Group.

As mentioned in my introduction to the corporate governance statement, it is not possible for DFS to fully comply with the provisions of the Governance Code because of my deemed lack of independence on appointment as Chairman back in 2010. However we shall endeavour to mitigate any perceived risk by managing the Board composition in due course, so that at least half of its members are independent Non-Executive Directors.

During the forthcoming year, it is my intention the Committee will be proactive in assessing and managing an orderly evolution of the membership of the Board and to make recommendations to the Board on its composition and balance where appropriate.

Richard Baker
Chairman of the Nomination Committee
7 October 2015

Nomination Committee report continued

Composition

The Nomination Committee is chaired by Richard Baker and its other members are Luke Mayhew, Gwyn Burr and Julie Southern. The Governance Code recommends that a majority of the Nomination Committee be non-executive directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. As such, the Board considers that the Company complies with the Governance Code.

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

The Nomination Committee will meet as often as it deems necessary but in any event at least once a year.

Roles and responsibilities

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and its committees (including an appraisal of skills, knowledge, experience and diversity, including gender) and for making recommendations to the Board with regard to any changes.

It is also responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

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

Activities of the Nomination Committee

The Nomination Committee was formally established as part of the IPO process and did not meet between 11 March 2015 and 1 August 2015. The first meeting of the Nomination Committee took place on 3 September 2015.

Prior to the creation of the Nomination Committee, as part of the preparation for the IPO, the Non-Executive directors considered the composition of the Board and, in particular:

- assessed the capabilities of the existing Executive Directors drawing upon their first-hand experience of the previous five years;
- utilised the services of Spencer Stuart Executive Search Consultants (who had no connection with the Company) in the recruitment of the three independent Non-Executive Directors.

Diversity

Whilst the Company pursues diversity, including gender diversity, throughout the business, the Board has not committed to any specific targets. Our Board currently has two female Directors (29% of the Board). We will give due consideration to Board balance and diversity when making new appointments to the Board and will continue to follow the policy of appointing talented people at every level to deliver high performance.

Richard Baker
Chairman of the Nomination Committee
7 October 2015

Directors' remuneration report

Gwyn Burr
Chairman of the
Remuneration Committee

This report has been prepared in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 (the "Regulations") as well as the Companies Act 2006. This report is set out in the following key sections:

PART A: ANNUAL STATEMENT

2015 was a very significant year for DFS Furniture with the successful IPO in March. During the five months of trading as a publicly listed company, the Company generated a 11.8% total return to its shareholders (from the Placing Price to the closing price at the financial year end) compared with a 2.1% return for the FTSE 250 as a whole. As set out earlier in this Annual Report, our operating and financial performance remained strong and provides a good platform for future growth.

Dear Shareholder

I am pleased to present to you our first Directors' Remuneration Report for DFS Furniture as a listed company. This affords me the opportunity to explain the background to the Remuneration Committee's work up until and after IPO.

DFS established its Remuneration Committee as a private company in 2010. In the lead up to the initial share offering the Committee undertook a review of the underlying policy and remuneration structures of companies in the listed environment. As a result we put in place a clear, fair and not excessive policy suitable for DFS as a listed company.

Our Directors' Remuneration Policy

Our overall goal is to have a remuneration strategy which stimulates sustainable, value creating growth and performance for the business and rewards the performance of management accordingly. This has guided our thinking and actions in our initial work together and our dialogue with senior management.

Directors' remuneration report continued

The policy to be applied for three years from the start of the 2016 Financial Year is set out in the appropriate detail over the following pages, with key areas of the policy provided below:

- Fixed level of remuneration will be set at an appropriate level for each individual and in doing so the Committee will take into account the levels of fixed remuneration for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, the performance and responsibilities of the individual along with pay and conditions throughout the Group.
- Recognising the continued growth aspirations for the Company to deliver ongoing superior returns for shareholders, both Executive Directors are eligible to participate in market competitive annual bonus and long-term incentive arrangements. Under both plans the Executive Directors will have the opportunity to receive appropriate levels of reward reflective of our annual operating and financial performance and our long term earnings and returns to shareholders.
- Both Executive Directors are required to maintain a material stake in the Company. Having regard to the high levels of executive share ownership and our business model, the Committee did not consider the complexity associated with deferred bonuses and holding periods warranted their introduction.

Designing a pay structure, particularly one that could be adopted on IPO, involves various judgements. We believe that, on behalf of all shareholders, we have fulfilled our objectives of developing an appropriate, robust, performance-orientated and not excessive approach.

Business context and Committee decisions on remuneration

As you will have read earlier in this Annual Report, this was a successful year for DFS with record results:

- Gross sales for the Group for the financial year to date are up 7.0% on the prior year to £913.1 million.
- Adjusted EBITDA increased by 8.4% on the prior year to £89.2 million.
- Free cash flow remains robust with net debt less than 2x adjusted EBITDA at the financial year end.
- The Company generated a 11.8% total return to its shareholders (from the Placing Price to the closing price at the financial year end) compared with a 2.1% return for the FTSE 250 as a whole.
- Strong increases in customer satisfaction scores were achieved, with post-purchase Net Promoter Scores averaging 78.8% for the year compared to 64.8% in the prior year.

The results delivered by the Group reflect the implementation of DFS's proven growth strategy, building on its established market leadership to further broaden product and brand appeal without compromising quality and value. The Group's growth initiatives include a measured programme of store expansion and retail space release in the UK and overseas, continued development of its omnichannel proposition and constant enhancement of the product range, to build on the Group's established success in extending its appeal to more customers.

Overall the business enjoys excellent prospects to deliver long-term profitable growth, strong cash generation and a progressive dividend policy as one of the UK's best-known brands, a major British manufacturer and the country's leading retailer of upholstered furniture.

These strong results and prospects underpinned our decision at year-end to award Ian Filby a bonus of £332,280 and £250,729 for Bill Barnes (both 85.2% of maximum). The Committee determined the bonus outcomes following an assessment of targets set at the start of the year covering our core key performance indicators (including gross sales, underlying EBITDA and underlying cash flow) and their personal contribution to the business. Full details of the performance measures and targets can be found on page 66.

In relation to salary, the Committee's policy post Admission was to position salaries broadly in line with those UK listed companies of a similar size and complexity. As explained in the IPO listing particulars, Ian Filby's salary will be increased to £425,000 as from 1 October 2015, marking the transition to our listed company remuneration policy. Bill Barnes' salary was increased by 2.0% from 1 August 2015.

During the year we granted awards at IPO under the DFS Furniture plc Long-Term Incentive Plan ("LTIP") to both Executive Directors and plan to grant further awards during October 2015. These awards will vest subject to the achievement of stretching EPS and Total Shareholder Return targets.

Format of this report and matters to be approved at our AGM in December

The remainder of this report is split out into the following three sections:

- Our remuneration at a glance (page 55).
- Directors' Remuneration Policy setting out the Company's forward looking remuneration policy (pages 56 to 65).
- Annual Report on Remuneration providing details of the payments made to Directors in 2015, as well as other statutory disclosures (pages 66 to 73).

At our 2015 AGM, resolutions to approve the new Directors' Remuneration Policy and the Annual Report on Remuneration and this letter will be put to shareholders.

My goal has been to be thoughtful and clear in the layout of both parts of the Directors' Remuneration Report and I ask for your support on both resolutions. We are committed to hearing, and take an active interest in, your views as shareholders. If you would like to discuss any further aspect of our remuneration strategy I would welcome your views.

On behalf of the Remuneration Committee and Board

Gwyn Burr
Chairman of the Remuneration Committee
7 October 2015

PART B: OUR REMUNERATION AT A GLANCE

Ahead of the detailed Directors' Remuneration Policy and the Annual Report on Remuneration, we have below summarised how key elements of the remuneration policy will be implemented for 2016 and the key decisions taken by the Committee in relation to base pay and incentives for the Executive Directors in respect of the 2015 year end.

2016 Executive Director Remuneration policy

	Ian Filby	Bill Barnes
Base salary	£425,000	£300,169
Annual bonus	Maximum: 100% of salary	Maximum: 100% of salary
Operation for 2016	• The 2016 Annual Bonus scorecard comprises of five performance measures, namely: gross sales, cash flow, profit before tax, net promoter score (i.e. customer satisfaction) and personal objectives. • Each measures accounts for 20% of the bonus scorecard. • Bonuses are payable in cash following the end of the financial year.	
LTIP	Award size: 130% of salary	Award size: 100% of salary
Operation for FY 16 awards	• Awards due to be granted in October 2016 will vest based on three-year performance against challenging targets, aligned with the delivery of the Company's long-term strategy. • Adjusted Earnings per Share (50% weighting). • Relative Total Shareholder Return versus the FTSE 250 (excluding Investment Trusts) (50% weighting).	
Malus and clawback	Malus and clawback provisions apply under the Annual Bonus and the LTIP at the discretion of the Committee in appropriate circumstances such as a participant's material under performance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud or other reason as determined by the Committee.	
Pension	£50,000 cash allowance less employers National Insurance costs. Historically and for 2016 Ian Filby has waived his entitlement to a pension contribution from the Group and a charitable donation will be made as an alternative.	£45,000 cash allowance less employers National Insurance costs.
Shareholding requirement	200% of salary.	200% of salary.

2015 Year-end decisions made

	Ian Filby	Bill Barnes
2016 salary review	£425,000 (a 9% increase) from 1 October 2015 as disclosed at IPO.	2.0% increase to £300,169 from 1 August 2015.
2015 bonus outcome:	• 79.6% payout on Group gross sales • 61.3% on Group underlying EBITDA • 100% on Group underlying cash flow • 100% on personal objectives	
Value	£332,280	£250,729
% of salary/maximum	85.2%	85.2%

PART C: DIRECTORS' REMUNERATION POLICY

This section of the Report contains details of the Directors' Remuneration Policy that will govern the Company's future remuneration payments. The policy is intended to apply for three years from the start of the 2016 Financial Year. The policy described in this part, subject to approval by shareholders at the Company's AGM on 4 December 2015. The policy part will be displayed on the Company's website, in the Investor Relations section, immediately after the 2015 AGM.

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

1. Executive director remuneration policy

Remuneration strategy

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

1	2	3	4	5
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 across the Group

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

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

Remuneration policy table

Element, purpose & link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Base Salary			
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.	Salaries are reviewed annually, and any changes normally take effect from 1 August. When determining the salary of the executives the Committee takes into consideration: • the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity; • 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.	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. The salaries payable to the Executive Directors are disclosed on page 68.	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.	Reviewed periodically to ensure benefits remain market competitive. Benefits currently include: • Car and fuel allowance; • Life insurance; • Directors' & Officers' liability insurance; • Private medical insurance (including cover for spouses and dependants); • Reimbursement of home telephone line and telephone expenses; • Professional subscriptions; • Critical illness cover; • Staff discounts; • Other minor benefits as provided from time to time, including seasonal gifts.	Benefit values vary year on year depending on premiums and the maximum potential value is the cost of the provision of these benefits.	No performance or recovery provisions apply.
Pension			
To provide a competitive company contribution that enables effective retirement planning.	Pension is provided by way of a contribution to a personal pension scheme or cash allowance in lieu of pension benefits. No recovery provisions apply.	The maximum contribution to a personal pension scheme or cash in lieu is equal to £50,000.	No performance or recovery provisions apply.

Element, purpose & link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Annual Bonus			
Incentivises achievement of annual objectives which support the Group's short-term performance goals.	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. Malus and clawback provisions apply at the discretion of the Committee where the Committee considers such actions reasonable and appropriate such as a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud or other reason as determined by the Committee.	Maximum awards under the Annual Bonus are equal to 100% of salary. Threshold performance: 0% of maximum.	Performance targets will be set by the Committee annually based on a range of financial and non-financial measures. Financial targets govern the majority of bonus payments, which may include those related to profit, cash flow and sales. Non-financial measures may include customer satisfaction targets and individual personal objectives. The Committee has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year. As well as determining the measures and targets, the Committee will also determine the weighting of the various measures to ensure that they support the business strategy and objectives for the relevant year.
LTIP			
The DFS Furniture plc 2015 Long-Term Incentive Plan (LTIP) incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders.	Under the LTIP, the Committee may award annual grants of performance share awards in the form of nil-cost options or conditional shares (LTIP Awards) on an annual basis. LTIP Awards under the plan will vest after a three year performance period (apart from initial awards, which were granted shortly after Admission and will vest after the financial year ending July 2017) subject to the achievement of the performance measures. Malus and clawback provisions apply at the discretion of the Committee where the Committee considers such actions reasonable and appropriate such as a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud or other reason as determined by the Committee.	Maximum LTIP Awards are equal to 150% of base salary. In exceptional circumstances, the Committee retains the discretion to increase this to 300% of salary. Participants may be entitled to dividend equivalents representing the dividends paid during the performance period on LTIP awards that have vested.	Awards vest based performance against challenging targets, aligned with the delivery of the Company's long-term strategy. Adjusted EPS and Relative Total Shareholder Return measures will determine the vesting of awards granted in any year (50% weighting for each measure). Targets are typically structured as a challenging sliding scale, with no more than 20% of the maximum award vesting for achieving the threshold performance level through to full vesting for substantial out-performance of the threshold. The Committee will review performance measures annually, in terms of the range of targets, the measures themselves and weightings applied to each element of the LTIP. Any revisions to the metrics and/or weightings will only take place if it is necessary because of developments in the Group's strategy and, where these are material, following dialogue with the major shareholders.

Element, purpose & link to strategy	Operation	Maximum opportunity	Performance measures and assessment
All-employee incentives			
Encourage all employees to become shareholders and thereby align their interests with shareholders.	Eligible employees may participate in the Sharesave and Share Incentive Plan or country equivalent. Executive Directors will be entitled to participate on those same terms.	Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.	Not applicable.
Shareholding guidelines			
To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.	The Executive Directors are required to build or maintain (as relevant) a minimum shareholding in the Company. Shares included in this calculation are those held beneficially by the Executive Director and their spouse/life partner.	The shareholding requirement is up to 200% of salary for Executive Directors.	Not applicable.

Legacy awards

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

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

Performance measures and targets

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

Element	Performance measures	Rationale	How targets are set
Annual Bonus	A range of financial and non-financial performance measures.	The Committee selected the financial measures based on the Group's Key Performance Indicators (KPIs) and personal objectives are individually set and based on key strategic goals.	The performance targets are determined annually by the Committee taking into account market conditions and forecasts.
LTIP	• EPS • Relative Total Shareholder Return.	EPS is an important measure of shareholder value over which Executive Directors have clear line of sight. Relative Total Shareholder Return reflects DFS performance relative to other companies in which investors could choose to invest.	EPS targets are set in reference to analyst forecasts and business plans. Relative Total Shareholder Return targets are determined taking into account the comparative market returns and the expected level of returns for DFS shareholders.

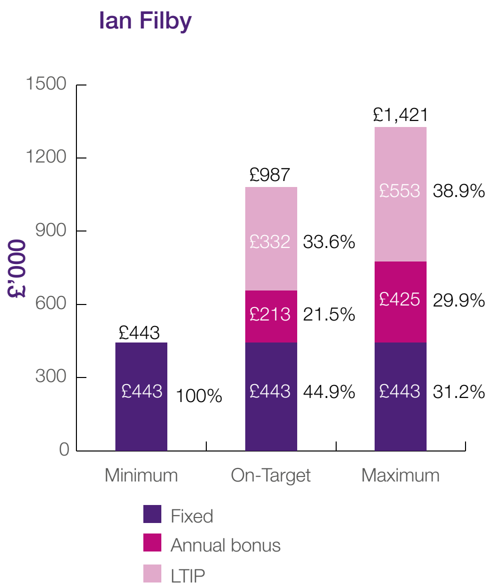
The Committee is of the opinion that, given the commercial sensitivity of the Company's operations, disclosing precise targets for the Annual Bonus in advance would not be in shareholders' interests. Except in circumstances where elements remain commercially sensitive, actual targets, performance achieved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

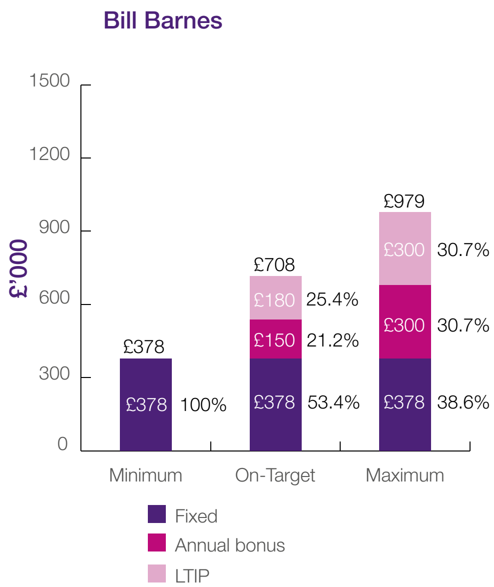
Directors' remuneration report continued

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

2. Illustrations of application of remuneration policy
The charts below seek to demonstrate how pay varies with performance for the Executive Directors based on the stated remuneration policy. The charts show an estimate of the remuneration that could be received by Executives Directors under the policy set out in this report. Each of the bars is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP.

The charts indicate that a significant proportion of both target and maximum pay is performance related.





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

Element	Minimum	On-Target	Maximum
Fixed Elements	• Base salary at of £425,000 for Ian Filby and £300,169 for Bill Barnes. • Pension £45,000 (less employers NI) for Bill Barnes. Historically and for 2016 Ian Filby has waived his entitlement to a pension contribution from the Group and a charitable donation will be made as an alternative. Therefore £0 is shown for Ian Filby in the scenarios above. • Estimated value of benefits provided under the policy.		
Annual Bonus	Nil	50% of maximum	100% of salary for both Executive Directors
LTIP	Nil	60% of maximum	Ian Filby: 130% of salary Bill Barnes: 100% of salary

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

3. Approach to recruitment and promotions

The Company will pay total remuneration for new Executive Directors that enables the Company to attract appropriately skilled and experienced individuals, but is not, in the opinion of the Committee, excessive. The remuneration package for any new recruit would be assessed following the same principles as for the Executive Directors, as set out in the remuneration policy table.

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

Element	Policy description
Base salary and benefits	• The salary level will be set taking into account a number of factors including market factors, the individual's experience and responsibilities and other pay structures within the Company and will be consistent with the salary policy for existing Executive Directors. • This may mean that the Executive Director is recruited on a salary below the market rate with a view that it would be increased subject to performance over a number of years. • Benefits may be provided in line with DFS' benefits policy as set out in the remuneration policy table.
Pension	• An Executive Director will be able to receive either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits in line with DFS' policy as set out in the remuneration policy table.
Annual Bonus	• An Executive Director will be eligible to participate in the Annual Bonus as set out in the remuneration policy table. • Awards may be granted up to the maximum opportunity allowable in the remuneration policy table at the Committee's discretion.
Long-term incentives	• 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 may be up to 450% of salary (i.e. Annual Bonus and LTIP Awards).
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. • In such instances, the Company will disclose a full explanation of the detail and rationale for such recruitment related compensation. In making such awards the Committee will seek to take into account the nature (including whether awards are cash or share-based), vesting period and performance measures and/or conditions for any remuneration forfeited by the individual when leaving a previous employer. Where such awards had outstanding performance or service conditions (which are not significantly completed) the Company will generally impose equivalent conditions. • 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.

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

Service contracts

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

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

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

Payments for loss of office

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

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

Element	Approach	Discretion
Base salary	The Company is entitled to terminate an Executive Director's employment without notice and without compensation for resignation or in the event of termination by the Company due to gross misconduct, wilful neglect or certain other specified circumstances. In other circumstances the Company may determine that an Executive Director will be entitled to receive payment in lieu of notice equivalent to the salary payments that he would have been entitled to receive during any required period of notice or unexpired part thereof.	None.
Annual Bonus	Where an Executive Director's employment is terminated after the end of a financial year but before the bonus payment is made, the Executive Director may be eligible for a bonus award for that financial year subject to an assessment based on financial and personal performance achieved over the period. Where an Executive Director's employment is terminated during a financial year, a pro-rata bonus award for the period worked in that financial year may be payable subject to an assessment based on financial and personal performance. In respect of the current Executive Directors (but not part of the Company's policy for any future Executive Directors), where the Company decides to invoke the contractual payment in lieu of notice clause, he will be entitled to receive a bonus equivalent to 75% of his maximum bonus opportunity based on financial performance, pro-rated for any required period of notice or unexpired part thereof. Any such payment shall be made promptly following the Board's approval and signing of the audited accounts for the year concerned. However, there may be no payment in the event of gross misconduct, wilful neglect or certain other specified circumstances.	In respect of the current Executive Directors (but not part of the Company's policy for any future Executive Directors), the Committee has discretion to increase the payment in respect of any pro-rata bonus by the amount of bonus based on personal performance that the Committee determines would have been payable had the Executive Director's employment not been terminated. Further, and for the present Executive Directors only, where a payment is made in lieu of notice, the Committee has discretion to increase the bonus payment in respect of financial performance to an amount equivalent to 100% of the maximum bonus opportunity. The Committee also retains discretion to increase the payment in respect of bonus based on personal performance that the Committee determines would have been payable had the Executive Director's employment not been terminated. The Committee confirms that it will explain the reasons should it ever have to invoke these discretions.

Element	Approach	Discretion
LTIP	If a participant in the LTIP ceases employment as a result of: • death; • ill-health, injury or disability; • the participant's employing company ceasing to be a Group member or the transfer of an undertaking or part of an undertaking (in which the participant is employed) to a person who is not a Group member; or • any other reason, permitted by the Committee in its absolute discretion except where the participant is summarily dismissed; Unless the Committee determines that an LTIP Award will vest as soon as practicable after the date of cessation, an LTIP Award which has not yet vested as at the date of cessation will continue and vest on the normal vesting date subject to earlier vesting on certain corporate events taking place. If a participant in the LTIP ceases employment for any other reason, his awards will lapse in full (whether vested or not) on the date of such cessation. Unless otherwise determined by the Committee in its absolute discretion the number of shares in respect of which an award shall vest will be calculated on a pro rata basis, taking into account the extent to which any performance conditions have been satisfied at the end of the performance period (or at the date of cessation, if vesting following cessation is permitted) and the period of time that has elapsed from the grant date to the date of cessation. All vested LTIP Awards in the form of nil-cost options may be exercised following cessation for such period as set out in the rules of the LTIP or otherwise determined by the Committee.	Under the rules of the LTIP, the Committee has discretion to determine whether the reason for termination of employment is "any other reason" (as described in the previous column) – such classification effectively governs the treatment of awards post-cessation of employment. The Committee has discretion to determine that vesting will take place as soon as practicable following the date of cessation. The Committee has discretion to determine whether or not vesting of an award shall be reduced on a pro rata basis to take account of the extent to which any performance conditions have been satisfied and the period of time that has elapsed from the grant date to the date of cessation. It should be noted that it is the Committee's policy only to apply its discretion if the circumstances at the time are, in its opinion, sufficiently exceptional, and to provide a full explanation to shareholders where discretion is exercised.
	In the event of a takeover or scheme of arrangement awards will automatically vest on the date of such event (subject to provisions in the LTIP rules which allow for exchanges of awards). On a voluntary/compulsory winding-up of the Company (other than in the nature of an internal reorganisation), demerger or other events deemed appropriate by the Committee awards will vest at the discretion of the Committee on the date of such event. Unless otherwise determined by the Committee, the number of shares in respect of which an award shall vest will be calculated on a pro-rata basis taking into account the extent any performance conditions have been satisfied at the date of the relevant event and the period of time that has elapsed from the grant date to the date of the relevant event. To the extent awards do not vest or are exchanged (in the case of a takeover or scheme of arrangement only) they shall lapse in full immediately.	The Committee has discretion to determine that awards vest on a date prior to the date of the corporate event taking place. The Committee has discretion to determine whether or not vesting of an award shall be reduced on a pro rata basis to take account of the extent to which any performance conditions have been satisfied and the period of time that has elapsed from the grant date to the date of the relevant event. It should be noted that it is the Committee's policy only to apply its discretion if the circumstances at the time are, in its opinion, sufficiently exceptional, and to provide a full explanation to shareholders where discretion is exercised. The Committee has discretion for existing unvested awards to be exchanged in the event of a takeover.

5. Consideration of employee remuneration and shareholders consideration of shareholder views

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

All-employee remuneration

In setting the remuneration policy for directors, the pay and conditions of other employees of DFS are taken into account, including any base salary increases awarded. The Committee is provided with data on the remuneration structure for management level tiers below the Executive Directors, and uses this information to ensure consistency of approach throughout the Company.

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

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

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

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

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

Remuneration policy table

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

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

Purpose	Operation	Maximum opportunity	Performance measures and assessment
To provide compensation that attracts high calibre individuals and reflects their experience and knowledge.	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.	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.	Non-Executive Director fees are not performance related.

Letters of appointment

The Non-Executive Directors do not have service contracts but are appointed under letters of appointment which provide for a review after an initial three year term terminable by either the Non-Executive Director or the Company with one month's prior written notice. Each Non-Executive Director is subject to annual re-election at the Company's AGM. The table below sets out the dates that each Non-executive Director was first appointed as a Group director (all Directors were subsequently appointed to the current parent company, DFS Furniture plc on 2 February 2015 as part of the IPO process).

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

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

PART D: ANNUAL REPORT ON REMUNERATION

This Annual Report on Remuneration contains details of how the Company's Remuneration Policy for Directors was implemented during the financial year ended 1 August 2015. This report has been prepared in accordance with the provisions of the Companies Act 2006 and the Regulations. An advisory resolution to approve this report and the Annual Statement will be put to shareholders at the AGM on 4 December 2015.

1. Single figure remuneration table: 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.

		Base Salary £000	Taxable Benefits £000	Bonus £000	Long-Term Incentives £000	Pension £000	Other £000	Total £000
Ian Filby	**2015**	**390**	**18**	**332**	**–**	**50**	**–**	**790**
	2014	358	19	149	–	50	–	576
Bill Barnes	**2015**	**294**	**38**	**251**	**–**	**40**	**102**	**725**
	2014	276	33	132	–	40	–	481

Notes
1. Taxable Benefits comprise car and fuel allowance, private medical insurance (including cover for spouses and dependants), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses – the values of which has been included in the Taxable Benefits column.
2. The Executive Directors' are entitled to receive a contribution to a personal pension scheme or cash in lieu – the value of which has been included in the Pension column for Bill Barnes. Ian Filby waived his entitlement to a pension contribution from the Group and a donation of £50,000 (2014: £50,000) has instead been made to a registered charity of which he is one of the trustees.
3. Mike Ristaino was a director of the company until 3 February 2015 in an administrative capacity on behalf of Advent Diamond (Luxembourg) Sarl. He received no remuneration in 2014 or 2015 for his services to the Company.

Annual bonus outcomes for the financial year ending 1 August 2015 – audited

For 2015 the Chief Executive Officer and the Finance Director had a maximum annual bonus opportunity of 100% of salary. For each Executive Director, the 2015 annual bonus determination was based on performance against four performance measures namely; gross sales, underlying EBITDA, underlying cash flow and personal objectives. The table below provides information on the targets for each measure, actual performance and resulting bonus payment for each Executive Director:

Performance measure	Weighting (% of maximum bonus opportunity)	Threshold target (0% of performance measure maximum opportunity earned)	Maximum target (100% of performance measure maximum opportunity earned)	Actual performance outcome	% of performance measure maximum opportunity earned
Gross sales	25%	£853.4m	£928.4m	£913.1m	79.6%
Underlying EBITDA	25%	£80.0m	£95.0m	£89.2m	61.3%
Underlying cash flow	25%	£22.2m	£32.2m	£34.5m	100%
Personal objectives	25%	See below	See below	See below	100%
Overall extent to which the bonus targets were achieved	85.2% of maximum for the Chief Executive Officer 85.2% of maximum for the Finance Director				

Notes
1. Between threshold and maximum, pay-out for the financial measures was calculated on a straight-line basis.
2. Gross sales and underlying EBITDA (underlying operating profit before depreciation and amortisation) are presented on the income statement on page 77. Underlying cash flow means the net movement in cash and cash equivalents during the financial year as adjusted for cash flows associated with non-underlying items.

Performance against the personal objectives are described below:

	Weighting (% of maximum bonus opportunity)	Performance targets	Actual performance outcome	% of performance measure maximum opportunity earned
Ian Filby	25%	• Develop specific growth initiatives including online and international initiatives • Improve measurable customer service metrics • Achieve specific growth targets in support of sales and profit growth	• The Committee was satisfied that all personal objectives were achieved.	100%
Bill Barnes	25%	• Establish appropriate refinancing for the Group commensurate with revised capital structure • Improve management information content for specific areas • Integrate acquisitions into financial planning and reporting	• The Committee was satisfied that all personal objectives were achieved.	100%

As a result for the performance results shown above, the bonuses awarded to the Executive Directors are £332,280 for Ian Filby (85.2% of maximum) and £250,729 for Bill Barnes (85.2% of maximum). The 2015 bonuses for Ian Filby and Bill Barnes will be paid in cash. No part of the bonus will be subject to deferral and no discretion was exercised by the Committee when determining the bonus outcomes.

Other – audited

As part of the reorganisation process, Bill Barnes was invited to acquire 16,000 shares under the Management Equity Plan in DFS Investments Ltd at a price of £3.21 which was at a discount to the IPO price of £9.57. There were no performance conditions attached to these shares or the other shares purchased under the plan by the Executive Directors.

The value shown in the column "other" represents the intrinsic value of the shares at the date of award (i.e. the difference between the IPO value and the purchase value).

For reference both Executive Directors were entitled to sell 30% of their shares under the Management Equity Plan on Admission, with the balance subject to a 365 day lock-up from the date of Admission. Ian Filby sold 30% of his shares on Admission; Bill Barnes sold 25.52%.

Payments to past Directors or for loss of office – audited

During the year there were no payments to past Directors and no payments for loss of office.

2. Implementation of remuneration policy for the Executive Directors for 2016

Base salary

In setting salary levels for the 2016 financial year for the Executive Directors, the Committee considered a number of factors, including individual performance and experience, pay and conditions for employees across the Group, the general performance of the Company, pay levels in other comparable companies and the economic environment. The salaries for 2016 and the relative increases are set out below.

	Base salary £000		
	2016	2015	% change
Ian Filby	£425,000	£390,000	+9.0%
Bill Barnes	£300,169	£294,283	+2.0%

Notes

1. Ian Filby's salary increase was discussed at the time of the IPO and disclosed in the listing particulars. This higher than normal salary increase is part of the transition to a listed company's remuneration policy. This salary increase will take effect from 1 October 2015.
2. Bill Barnes has been awarded a salary increase of 2.0% which took effect from 1 August 2015. This salary increase was slightly above the standard staff pay review of 1.2%, but consistent with the approach for high performing individuals.

Pension and benefits

The maximum contribution to a personal pension scheme or cash in lieu is equal to £50,000 for Ian Filby and £45,000 (less employers NI cost) for Bill Barnes. Ian Filby has waived his entitlement to a pension contribution from the Group and a monthly charitable donation will be made instead.

Benefits will be provided to the Executive Directors' in line with the Directors' Remuneration Policy.

Annual bonus

Consistent with the Remuneration Policy the maximum and threshold bonus potentials for 2016 are:

	Threshold bonus	Maximum bonus
Ian Filby	0% of salary	100% of salary
Bill Barnes	0% of salary	100% of salary

For the 2016 financial year, performance measures include Group gross sales, Group underlying cash flow, Group underlying profit before tax, Net Promoter Score (i.e. customer satisfaction) and personal objectives. Each performance measure shall have a 20% weighting.

The Committee is of the opinion that the precise performance targets for the Annual Bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the financial year. Actual targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs.

LTIP Awards
Details of the LTIP Awards to be made in October are provided below.

	Type of Award	Maximum Value of Award at Grant Date	Vesting period	Exercise Price
Ian Filby	Conditional Share Award	130% of salary	Three years	Nil
Bill Barnes	Conditional Share Award	100% of salary	Three years	Nil

The awards will vest subject to achieving two challenging measures, namely Adjusted EPS (50% weighting) and Relative Total Shareholder Return (50% weighting). The targets are contained in table below:

Measure	Performance period	Performance target	Vesting (% of Award)
Total Shareholder Return versus FTSE 250 Index (excluding Investment Trusts)	2 August 2015 to the end of the 2018 financial year	Below Index return	0%
		Equal to Index return	20%
		12% p.a. above the Index return	100%
Adjusted Earnings per Share	3 financial years ending the 2018 financial year	Less than 8% per annum	0%
		8% per annum	20%
		18% per annum	100%

Notes
1. Growth in Total Shareholder Return will be calculated on a simple average annual growth rate.
2. Adjusted Earnings per Share will be calculated on a compound annual growth rate basis.

3. Consideration by the Committee of matters relating to the directors' remuneration for 2015 and 2016

The Committee complies with the UK Corporate Governance Code. The Committee makes recommendations to the Board, within agreed terms of reference, on remuneration for the Executive Directors and has oversight of remuneration arrangements for senior management. The Committee's full terms of reference are available on the Company's website at www.dfscorporate.co.uk.

Members of the Committee during 2015	Independent	Committee meeting: October 2014	Committee meeting: March 2015	Attendance
Gwyn Burr (Chair)	Yes	n/a	√	100%
Luke Mayhew	Yes	√	√	100%
Julie Southern	Yes	n/a	√	100%
Richard Baker	No	√	n/a	100%
Andy Dawson	No	√	n/a	100%

Richard Baker and Andy Dawson ceased to be members of the Committee on 22 February 2015. All Committee members attended all Remuneration Committee meetings that took place while they were members of the Committee. None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Chief Executive Officer and the Finance Director attend meetings at the invitation of the Committee, but are not present when their own remuneration is being discussed. The Committee is supported by the HR Director, Finance and Company Secretariat functions.

3. Consideration by the Committee of matters relating to the directors' remuneration for 2015 and 2016 continued

The Committee received external advice in 2015 from KPMG and PwC during the year. KPMG advised the Committee up until the IPO and subsequently the Committee appointed PwC as its advisors after a tender process in July 2015. PwC are considered by the Committee to be objective and independent. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. The Committee reviewed the nature of all the services provided during the year by KPMG and PwC and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to KPMG in respect of services to the Committee during the year were £50,000. Fees were determined based on the scope and nature of the projects undertaken for the Committee.

During the financial year, there were two Committee meetings. The matters covered at each meeting are covered in the table below:

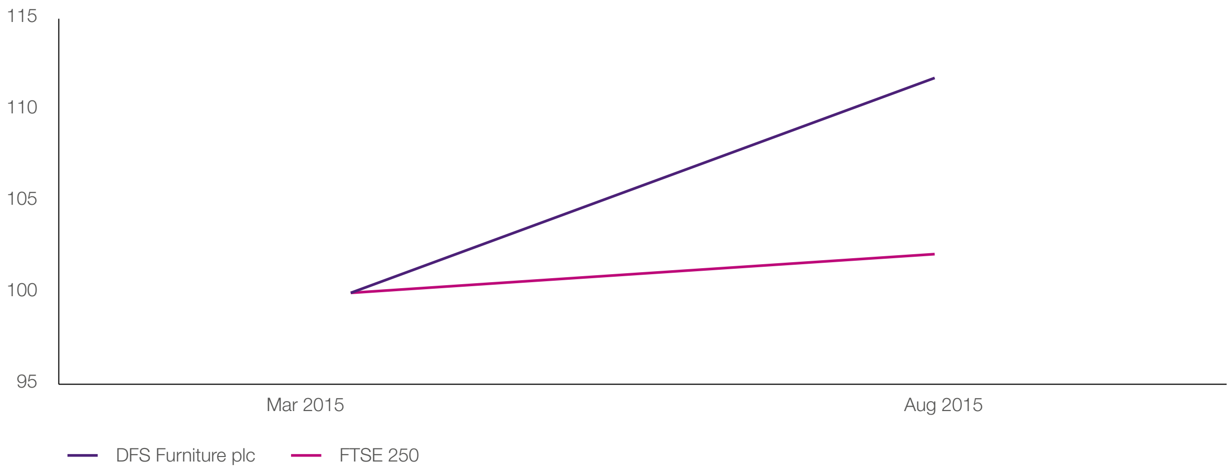
October 2014	March 2015
• Review of 2013/14 performance against targets • Review of Executive Director salaries	• Review and approval of grants of awards under LTIP and RSP pursuant to IPO

4. Chief Executive Officer and employee pay

Total Shareholder Returns and Chief Executive Officer pay since IPO

The Committee believes that the current Executive Directors' Remuneration Policy and the supporting reward structure provide clear alignment with the Company's performance. The Committee believes it is appropriate to monitor the Company's performance against the FTSE 250 Index as it represents a broad equity market against which the Company compares itself.

The chart below illustrates our strong Total Shareholder Return performance against the FTSE 250 Index since 5 March 2015, the date of IPO, to the end of the 2015 financial year.



Chief Executive Officer	2015
Single figure of total remuneration (£000)	790
Bonus pay-out (% maximum)	85.2%
Long-term incentive vesting rates (% maximum)	n/a

Percentage change in the Chief Executive Officer's remuneration
The table below compares the percentage increase in the Chief Executive Officer's 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.

% change from 2014 to 2015	Base salary	Benefits	Annual bonus
Chief Executive Officer	+8.9%	-1.4%	+122.8%
Employee pay	+1.0%	0%	–16.1%

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	2015	2014	% change
Employee spend	£125.0m	£116.4m	+7.4%
Distributions to shareholders	–	£1.3m	–

Note
1. The above figures are taken from Notes 4 and 20 to the financial statements.

In addition to the above, as part of the IPO selling shareholders allocated 1% of their profits to the DFS Partnership Scheme, which enabled approximately 2,600 DFS employees to receive a share of a £2.6 million pay out from the previous shareholders and senior management.

5. Single figure remuneration table: 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.

		Fees £000	Benefits/Other £000	Total £000
Richard Baker	2015	210	–	210
	2014	210	1	211
Luke Mayhew	2015	50	50	100
	2014	–	–	–
Gwyn Burr	2015	33	25	58
	2014	–	–	–
Julie Southern	2015	25	20	45
	2014	–	–	–
Andy Dawson	2015	–	–	–
	2014	–	–	–

Notes
1. Andy Dawson does not receive a fee for his role as Non-Executive Director.
2. Other amounts include additional payments made in respect of contributions to the Admission process.

Directors' remuneration report continued

Fees to be provided in 2016 to the Non-Executive Directors
The following table sets out the annual fee rates for the Non-Executive Directors:

	2016	2015	% change
Chairman fee	£210,000	£210,000	nil
Independent Non-Executive Director fee	£50,000	£50,000	nil
Senior Independent Director fee	£10,000	£10,000	nil

Non-Executive fees were agreed during 2015 and so no changes to these arrangements are anticipated for 2016.

6. Directors' shareholding and share interests

Shareholding and other interests at 1 August 2015 – audited
Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain (as relevant) a personal shareholding equal to 200% of their basic salary in the Company.

		Shareholding at 1 August 2015		Interests in shares under the LTIP (Conditional Shares)		
	Number of beneficially owned shares1	% of salary held	Shareholding requirement met	Subject to conditions	Vested but unexercised	Total at 1 August 2015
Ian Filby	1,313,208	960%	Yes	198,823	–	1,512,031
Bill Barnes	698,626	677%	Yes	115,405	–	814,031
Richard Baker	4,824,402	n/a	n/a	n/a	n/a	n/a
Luke Mayhew	19,821	n/a	n/a	n/a	n/a	n/a
Gwyn Burr	–	n/a	n/a	n/a	n/a	n/a
Julie Southern	3,921	n/a	n/a	n/a	n/a	n/a
Andy Dawson	–	n/a	n/a	n/a	n/a	n/a
Total	**6,859,978**			**314,228**	**–**	**7,174,206**

Notes
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Shareholding requirement calculation is based on the share price at the end of the year (£2.85 at 1 August 2015).

For both Executive Directors, the column "beneficially owned shares" includes shares held directly or indirectly by connected persons and those legally and beneficially owned under the Management Equity Plan.

At 6 October 2015 there had been no movement in Directors' shareholdings and share interests from 1 August 2015.

LTIP Awards granted in 2015

The table below sets out the details of the LTIP Awards granted on 16 March 2015 following IPO where vesting will be determined according to the achievement of certain performance measures. Non-Executive Directors do not receive awards under the plan.

	Type of Award	Face value/Maximum Value of Award at Grant Date (£'000 or % of salary)	Number of shares	Percentage of award receivable for threshold performance	Vesting date	Exercise Price
Ian Filby	Conditional Share Award	£539 138%	198,823	20%	31 July 2017	Nil
Bill Barnes	Conditional Share Award	£313 106%	115,405	20%	31 July 2017	Nil

Notes

1. The closing share price of £2.71 on 16 March 2015 was used to determine the maximum face value of awards.
2. Awards will only vest subject to the achievement of the performance conditions which will be measured at the time the Group publishes its full year results.

The awards will vest subject to achieving two challenging sliding scale targets, namely Adjusted EPS (50% weighting) and Relative Total Shareholder Return (50% weighting). The targets are contained in table below:

Measure	Performance period	Performance target	Vesting (% of Award)
Total Shareholder Return versus FTSE 250 Index (excluding Investment Trusts)	From the date of IPO (5 March 2015) to the end of the 2017 financial year	Below Index return	0%
		Equal to Index return	20%
		12% p.a. above the Index return	100%
Adjusted Earnings per Share	End of the 2017 financial year	Less than pence	0%
		23 pence	20%
		29 pence	100%

Notes

1. Growth in Total Shareholder Return will be calculated on a simple average annual growth rate.
2. Adjusted Earnings per Share will be based on the numbers reported for the financial year ending 29 July 2017.

Dilution

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

7. Shareholding voting

This is this first year that we will presenting our Directors' Remuneration Policy and Annual Report on Remuneration to shareholders for vote as a public listed company. We will present full voting results in next year's report.

By order of the Board

Gwyn Burr
Chairman of the Remuneration Committee
7 October 2015

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Company financial statements on the same basis.

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 Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:
select suitable accounting policies and then apply them consistently;
make judgements and estimates that are reasonable and prudent;
state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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

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 and 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.

On behalf of the Board

Ian Filby
Chief Executive Officer
7 October 2015

Bill Barnes
Finance Director

Independent auditor's report

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

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of DFS Furniture Plc for the 52 week period ended 1 August 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow statement and the related notes. 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 1 August 2015 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Group financial statements the risks of material misstatement that had the greatest effect on our Group audit were as follows:

Completeness, existence and accuracy of the Guarantee provision and other provisions and long term accruals (£14.7 million)

Refer to page 48 Audit Committee report, page 85 (accounting policy) and page 97 (financial disclosures).

The risk – The Group held provisions and long term accruals of £14.7 million at the period end. The guarantee provision totals £8.8 million and reflects the estimated cost of fulfilling the obligations arising from the product guarantee provided to the retail customers. The directors apply judgement in determining the appropriate provision based on detailed analysis of historic claims made and the run rate from the recent level of calls.

The other provisions and long term accruals represent liabilities for property related provisions held for onerous contracts and other obligations for the Group's property leases, reserves for payment protection insurance claims and other trading balances. We focused on these areas as judgement is required when assessing the value of the liabilities.

Our response –Our procedures included critically assessing the appropriateness of assumptions applied in calculating the value of the guarantee provision by focussing on the historical losses experienced by the Group and reconciling that experience to the approach taken to calculating the provision recognised. We utilised recent activity and expected trends to assess the average provision value for a claim against the actual costs incurred during the period.

For the remaining other provisions and long term accruals we have critically assessed the judgements taken regarding future uncertainties, tested the completeness and accuracy of the inputs of the calculations for recording the liability to the Group and agreed, where relevant to third party documentation. Our review specifically focussed on the calculation for the payment protection insurance provision, assessing the level of claims made in the period, the value of settlements paid and the judgements taken regarding the level of future claims.

We have also assessed the appropriateness of the Group's disclosures regarding provision uncertainty and timings.

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

The materiality for the Group financial statements as a whole was set at £3.0 million, determined with reference to a benchmark of Group profit before taxation of £10.7 million, which has then been normalised to exclude the pre-tax non-underlying items identified on the Group Income Statement and explained in note 3, and to reflect an interest expense consistent with the post IPO financing structure. These normalising adjustments amount to £49.3 million which increases our benchmark profit before tax to £60.0 million, of which our materiality of £3.0 million represents 5%.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £150,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Independent auditor's report continued

Of the Group's eight reporting components, the Group audit team subjected all eight to audits for Group reporting purposes. The audits undertaken at the reporting components was performed to a materiality level of between £0.1 million and £3.0 million, as set by the Group audit team.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

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

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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 38, in relation to going concern;
- the part of the Corporate Governance Statement on page 41 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 74, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a , which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Greg Watts (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
7 October 2015

Consolidated income statement

for 52 weeks ended 1 August 2015 (53 weeks ended 2 August 2014)

		2015			2014		
	Note	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Gross sales	1,2	**913.1**	**–**	**913.1**	853.4	–	853.4
Revenue	2	**706.1**	**–**	**706.1**	656.8	–	656.8
Cost of sales		**(583.8)**	**–**	**(583.8)**	(544.9)	–	(544.9)
Gross profit		**122.3**	**–**	**122.3**	111.9	–	111.9
Administrative expenses		**(33.1)**	**(11.6)**	**(44.7)**	(31.9)	(4.4)	(36.3)
Operating profit before depreciation and amortisation		**89.2**	**(11.6)**	**77.6**	80.0	(4.4)	75.6
Depreciation		**(14.3)**	**–**	**(14.3)**	(12.3)	–	(12.3)
Amortisation		**(2.7)**	**–**	**(2.7)**	(2.4)	–	(2.4)
Operating profit	2,3	**72.2**	**(11.6)**	**60.6**	65.3	(4.4)	60.9
Finance income	5	**0.1**	**–**	**0.1**	0.2	–	0.2
Finance expenses	5	**(39.0)**	**(11.0)**	**(50.0)**	(57.5)	–	(57.5)
Profit before tax		**33.3**	**(22.6)**	**10.7**	8.0	(4.4)	3.6
Taxation	6	**(10.4)**	**2.9**	**(7.5)**	(8.7)	0.6	(8.1)
Profit/(loss) for the year		**22.9**	**(19.7)**	**3.2**	(0.7)	(3.8)	(4.5)
Attributable to:							
Owners of the Company		**24.4**	**(19.7)**	**4.7**	(1.2)	(3.8)	(5.0)
Non-controlling interests		**(1.5)**	**–**	**(1.5)**	0.5	–	0.5
		22.9	**(19.7)**	**3.2**	(0.7)	(3.8)	(4.5)
Statutory earnings per share							
Basic	7	**22.4p**	**(18.1)p**	**4.3p**	(4.4)p	(13.1)p	(17.5)p
Diluted	7	**22.3p**	**(18.0)p**	**4.3p**	(4.4)p	(13.1)p	(17.5)p

Consolidated statement of comprehensive income

for 52 weeks ended 1 August 2015 (53 weeks ended 2 August 2014)

	2015 £m	2014 £m
Profit/(loss) for the year	**3.2**	(4.5)
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**7.0**	(8.1)
Net change in fair value of cash flow hedges reclassified to profit or loss	**(2.3)**	2.4
Income tax on items that are or may be reclassified subsequently to profit or loss	**(0.9)**	1.2
Other comprehensive income/(expense) for the year, net of income tax	**3.8**	(4.5)
Total comprehensive income/(expense) for the year	**7.0**	(9.0)
Attributable to:		
Owners of the Company	**8.5**	(9.5)
Non-controlling interests	**(1.5)**	0.5
	7.0	(9.0)

Consolidated balance sheet

at 1 August 2015 (2 August 2014)

	Note	2015 £m	2014 £m
Non-current assets			
Property, plant and equipment	8	**57.6**	50.9
Intangible assets	9	**489.3**	490.2
Other financial assets	11	**1.3**	0.1
Deferred tax assets	12	**12.1**	11.2
		560.3	552.4
Current assets			
Inventories	13	**28.3**	28.8
Other financial assets	11	**1.1**	–
Trade and other receivables	14	**25.3**	26.0
Cash and cash equivalents		**40.7**	53.8
		95.4	108.6
Total assets		**655.7**	661.0
Current liabilities			
Trade payables and other liabilities	15	**(145.2)**	(337.8)
Provisions	19	**(6.1)**	(5.8)
Other financial liabilities	16	**(0.8)**	(3.1)
Current tax liabilities		**(8.2)**	(7.3)
		(160.3)	(354.0)
Non-current liabilities			
Interest bearing loans and borrowings	17	**(197.9)**	(306.6)
Provisions	19	**(4.4)**	(4.4)
Other liabilities	15	**(69.2)**	(70.8)
		(271.5)	(381.8)
Total liabilities		**(431.8)**	(735.8)
Net assets/(liabilities)		**223.9**	(74.8)
Equity attributable to equity holders of the parent			
Share capital	21	**319.5**	42.6
Share premium	21	**40.4**	–
Merger reserve	21	**18.6**	–
Cash flow hedging reserve	21	**1.7**	(3.0)
Retained earnings		**(156.3)**	(113.5)
Equity attributable to owners of the Company		**223.9**	(73.9)
Non-controlling interests		**–**	(0.9)
Total equity		**223.9**	(74.8)

These financial statements were approved by the board of directors on 7 October 2015 and were signed on its behalf by:

Ian Filby
Chief Executive Officer

Bill Barnes
Finance Director

Company registered number: 7236769

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 27 July 2013	**42.6**	**–**	**–**	**2.7**	**(108.7)**	**(1.6)**	**(65.0)**
			–				
Loss for the year	–	–	–	–	(5.0)	0.5	(4.5)
Other comprehensive income/(expense)	–	–	–	(5.7)	1.2	–	(4.5)
Total comprehensive income/(expense) for the year	–	–	–	(5.7)	(3.8)	0.5	(9.0)
Issue of shares in subsidiary	–	–	–	–	–	0.2	0.2
Dividends	–	–	–	–	(1.3)	–	(1.3)
Capital contribution	–	–	–	–	0.3	–	0.3
Balance at 2 August 2014	**42.6**	**–**	**–**	**(3.0)**	**(113.5)**	**(0.9)**	**(74.8)**
Profit for the year	–	–	–	–	4.7	(1.5)	3.2
Other comprehensive income/(expense)	–	–	–	4.7	(0.9)	–	3.8
Total comprehensive income/(expense) for the year	–	–	–	4.7	3.8	(1.5)	7.0
Reorganisation on IPO	219.3	–	18.6	–	(47.2)	3.3	194.0
Equity raised on IPO	57.6	40.4	–	–	–	–	98.0
Dividends	–	–	–	–	–	(0.9)	(0.9)
Share based payments	–	–	–	–	0.6	–	0.6
Balance at 1 August 2015	**319.5**	**40.4**	**18.6**	**1.7**	**(156.3)**	**–**	**223.9**

Consolidated cash flow statement

for 52 weeks ended 1 August 2015 (53 weeks ended 2 August 2014)

	Note	2015 £m	2014 £m
Operating profit		**60.6**	60.9
Adjustments for:			
Depreciation, amortisation and impairment		**17.0**	14.7
Gain on sale of property, plant and equipment		**(0.8)**	(0.7)
Share based payment expense		**0.6**	0.3
(Increase)/decrease in trade and other receivables		**(1.6)**	0.2
Decrease/(increase) in inventories		**0.5**	(5.0)
Increase in trade and other payables		**2.4**	13.2
Increase/(decrease) in provisions		**0.2**	(0.4)
		78.9	83.2
Tax paid		**(8.4)**	(8.0)
Net cash from operating activities		**70.5**	75.2
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**0.9**	0.8
Interest received		**0.1**	0.2
Acquisition of subsidiaries		**–**	(1.4)
Acquisition of property, plant and equipment		**(19.0)**	(12.9)
Acquisition of other intangible assets		**(1.8)**	(2.5)
Net cash from investing activities		**(19.8)**	(15.8)
Cash flows from financing activities			
Proceeds from new loan		**200.0**	–
Interest paid		**(41.9)**	(42.1)
Exceptional finance costs		**(10.4)**	–
Repayment of borrowings		**(310.0)**	–
Proceeds on issue of new shares		**98.0**	–
Settlement of partly paid share capital		**2.3**	–
Payment of finance lease liabilities		**(0.9)**	(0.6)
Dividends paid		**(0.9)**	(1.3)
Net cash from financing activities		**(63.8)**	(44.0)
Net (decrease)/increase in cash and cash equivalents		**(13.1)**	15.4
Cash and cash equivalents at beginning of year		**53.8**	38.4
Cash and cash equivalents at end of year	26	**40.7**	53.8

Notes to the financial statements

1 Accounting policies

DFS Furniture plc (formerly Diamond Holdco 1 Limited, "the Company") is a company incorporated and domiciled in the United Kingdom.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.16.

1.1 Basis of preparation

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment liabilities which are measured at their fair value. The financial statements are for the 52 weeks to 1 August 2015 (last year 53 weeks to 2 August 2014).

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 105 to 107.

Initial Public Offering ("IPO")

During the financial period, the Group successfully completed its IPO and the Company's ordinary shares were admitted to trading on the main market of the London Stock Exchange on 11 March 2015.

In connection with the IPO the Group's capital structure was reorganised and its borrowings refinanced. The Group's £310.0 million senior secured notes were repaid on 12 March 2015 and a new senior bank facility of £200.0 million drawn down at a significantly reduced interest rate, together with an undrawn revolving credit facility of £30.0 million . In addition, previous shareholder loans and accrued interest of £192.7 million were converted into ordinary share capital. The effect of these transactions was to significantly reduce the Group's net debt and its future finance expenses.

Going concern

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including £200.0 million of a senior loan facility maturing in 2020 and a £30.0 million revolving credit facility in place until March 2020 which is as yet unutilised. Further details of these facilities and the Group's financial management objectives are detailed in the financial statements.

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 for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Group is exposed to or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date that control commences until the date that control ceases. The acquisition method is used to account for the acquisition of subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

1.3 Gross sales and revenue

Gross sales represent the total amounts payable by external customers, without adjustment for the time value of money, for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods and services to external customers, being gross sales less: value added and other sales taxes, the costs of obtaining interest free credit on behalf of customers and the amounts relating to services for which the Group acts as an agent.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised when goods have been delivered to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured.

1.4 Expenses

Non-underlying and exceptional items

Items that are material in size, unusual or non-recurring in nature are disclosed separately in the income statement in order to provide an indication of the Group's underlying business performance. The principal items which may be included as non-underlying are:

- significant profit or loss on the disposal of non-current assets
- impairment charges
- accelerated fair value charges arising on equity settled share based payments
- costs associated with significant corporate, financial or operating restructuring, including acquisitions or the establishment of operations in new geographical territories

Material finance income or expenses associated with significant changes in the Group's borrowings are disclosed separately as exceptional items below operating profit.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance expenses comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method and unwinding of the discount on provisions. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

1.5 Employee benefits

Defined contribution plans

Payments to defined contribution pension plans are recognised as an expense in the income statement as they fall due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Share based payments

The fair value of equity settled share based payments is recognised as an expense over the vesting period of the related awards, with a corresponding increase in equity. Fair values are calculated using option pricing models appropriate to the terms and conditions of the awards. The amount charged as an expense is regularly reviewed and adjusted to reflect the achievement of service and non-market based performance conditions.

1.6 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

1 Accounting policies continued

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

At interim reporting periods the tax charge is calculated in accordance with IAS 34, adjusted for material non-taxable items.

A deferred tax asset is recognised on deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.7 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

1.8 Business combinations

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions prior to 31 July 2011 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group and Company elected not to restate business combinations that took place prior to 31 July 2011. In respect of acquisitions prior to transition, goodwill is included at 31 July 2011 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that goodwill was amortised. On transition, amortisation of goodwill ceased as required by IFRS 1.

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described in 1.4 above.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

• buildings	50 years
• plant and equipment	4 to 10 years
• motor vehicles	4 years
• computer equipment	3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.10 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Estimated useful lives are as follows:

• computer software and website costs	3 years
• acquired brand names	20 years

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods manufactured by the Group includes direct materials, direct labour and appropriate overhead expenditure.

1.12 Impairment

The carrying amounts of the Group's tangible and intangible assets other than goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Details of provisions recognised are in note 19 and the related significant estimates and judgments in note 1.16.

1 Accounting policies continued

1.14 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1.15 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For other cash flow hedges the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.16 Significant areas of estimation and judgment

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, but may differ from actual results. Significant areas of estimation for the Group include the costs of meeting customer guarantees and property related provisions (note 19), the selling prices applied in determining net realisable values of inventories (note 13) and the assumptions underlying the value in use calculation for the impairment of goodwill (note 9).

1.17 New accounting standards

A number of new or revised standards and interpretations have been issued which are not yet effective or endorsed by the EU, including IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, and which have not therefore been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the Group's financial statements.

2 Segmental Analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Board. Segment performance is assessed based upon earnings before interest and tax excluding depreciation charges and non-underlying items ("underlying EBITDA").

The Group has only one reportable segment, which derives its revenues from the retailing of upholstered furniture and related products. Activities included in other segments comprise the manufacture and distribution of upholstered furniture.

	External sales		Internal sales		Total gross sales	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Retail	**913.1**	853.4	**0.6**	–	**913.7**	853.4
Other segments	**–**	–	**92.7**	89.1	**92.7**	89.1
Eliminations	**–**	–	**(93.3)**	(89.1)	**(93.3)**	(89.1)
Gross sales	**913.1**	853.4	**–**	–	**913.1**	853.4

	2015 £m	2014 £m
Total segments gross sales	**913.1**	853.4
Less: value added and other sales taxes	**(141.4)**	(131.8)
Less: costs of interest free credit and aftercare services	**(65.6)**	(64.8)
Revenue	**706.1**	656.8

	2015 £m	2014 £m
Retail underlying EBITDA	**82.4**	75.2
Other segments underlying EBITDA	**6.8**	4.8
	89.2	80.0
Depreciation & amortisation	**(17.0)**	(14.7)
Non-underlying items (note 3)	**(11.6)**	(4.4)
Operating profit	**60.6**	60.9
Finance income	**0.1**	0.2
Finance expenses	**(39.0)**	(57.5)
Exceptional refinancing costs	**(11.0)**	–
Profit before tax	**10.7**	3.6

A geographical analysis of revenue is presented below:

	2015 £m	2014 £m
United Kingdom	**689.7**	643.3
Europe	**16.4**	13.5
Total revenue	**706.1**	656.8

Notes to the financial statements continued

3 Operating profit

Group operating profit is stated after charging/(crediting):

	2015 £m	2014 £m
Depreciation on tangible assets	**14.3**	12.3
Net gain on disposal of property, plant and equipment	**(0.8)**	(0.7)
Amortisation of intangible assets	**2.7**	2.4
Cost of inventories recognised as an expense	**295.8**	267.6
Write down of inventories to net realisable value	**0.8**	2.0

Non-underlying items:

	2015 £m	2014 £m
Accelerated share based payments charge	**0.1**	0.3
International and acquired business set-up costs	**2.8**	1.5
Non-recurring and exceptional legal and professional costs	**8.7**	2.0
Acquisition costs	**–**	0.4
Restructuring costs	**–**	0.2
	11.6	4.4

Auditor's remuneration:

	2015 £m	2014 £m
Audit of these financial statements	**0.1**	0.1
Audit of the financial statements of Group subsidiaries	**0.1**	0.1
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	**0.1**	0.1
Other corporate finance services	**0.8**	0.6
	1.1	0.9

4 Staff numbers and costs

The average number of persons employed by the Group during the year, analysed by category, was as follows:

	Number of employees	
	2015	2014
Production	**1,059**	1,011
Warehouse and transport	**727**	729
Sales and administration	**1,914**	1,798
	3,700	3,538

The aggregate payroll costs of these persons were as follows:

	2015 £m	2014 £m
Wages and salaries	**111.0**	103.7
Social security costs	**11.2**	10.5
Other pension costs	**2.2**	2.2
	124.4	116.4
Share based payment expense (equity settled)	**0.6**	–
	125.0	116.4

Payroll costs in 2014 included £0.8m in respect of enhanced staff rewards relating to prior periods.

5 Finance income and expense

	2015 £m	2014 £m
Finance income		
Interest income on bank deposits	**0.1**	0.2
Total finance income	**0.1**	0.2
Finance expense		
Interest payable on senior secured notes	**(14.2)**	(23.6)
Interest payable on senior loan facility	**(2.8)**	–
Bank fees	**(0.5)**	(0.5)
Fair value lease adjustment unwind	**(3.0)**	(3.0)
Interest payable on parent company loan	**(17.0)**	(29.8)
Interest payable on 17% cumulative redeemable preference shares	**(0.1)**	(0.2)
Interest payable on 8% vendor loan notes	**(0.2)**	(0.1)
Unwind of discount on provisions	**(0.1)**	(0.1)
Finance lease interest	**(0.3)**	(0.2)
Other interest	**(0.8)**	–
Total finance expense	**(39.0)**	(57.5)

Exceptional finance costs of £11.0m were incurred during the period as a consequence of the refinancing undertaken in connection with the Company's admission to the London Stock Exchange (note 17). These costs primarily related to the redemption premium and write off of remaining unamortised issue costs on the Group's £310.0m senior secured notes.

6 Taxation

Recognised in the income statement

	2015 £m	2014 £m
Current tax		
Current year	**9.3**	8.8
Adjustments for prior years	**–**	–
Current tax expense	**9.3**	8.8
Deferred tax		
Origination and reversal of temporary differences	**(1.6)**	(0.7)
Adjustments for prior years	**(0.2)**	–
Deferred tax expense	**(1.8)**	(0.7)
Total tax expense in income statement	**7.5**	8.1

Reconciliation of effective tax rate

	2015 £m	2014 £m
Profit before tax for the year	**10.7**	3.6
Tax using the UK corporation tax rate of 20.67% (2014: 22.33%)	**2.2**	0.8
Non-deductible expenses	**5.5**	6.7
Deferred tax not recognised	**–**	0.6
Adjustments in respect of prior years	**(0.2)**	–
Total tax expense	**7.5**	8.1

Income tax recognised in other comprehensive income

	2015 £m	2014 £m
Effective portion of changes in fair value of cash flow hedges	**1.4**	0.5
Net change in fair value of cash flow hedges reclassified to profit or loss	**(0.5)**	(1.6)
	0.9	(1.1)

7 Earnings per share

Due to the changes in the Company's capital structure as a result of the IPO, the weighted average number of shares in issue for the calculation of statutory and underlying earnings per share, calculated in accordance with IAS 33 below does not provide a meaningful basis for comparison to future reporting periods. The related changes to the Group's financing arrangements including the repayment of the parent company loan have also had a similar impact.

The Directors have presented an adjusted underlying earnings per share in the Financial Review on page 29 which they consider provides a more useful measure for shareholders in respect of the current period. Adjusted underlying earnings per share excludes the tax-adjusted interest payments on the parent company loan from earnings and is calculated as if the number of ordinary shares in issue at 1 August 2015 had been in issue throughout both the current and previous financial years.

Statutory earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the financial period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period. The weighted average number of shares reflects the movements in share capital detailed in note 21; changes in the Company's capital structure with no corresponding change in resources are reflected as if they had occurred at the beginning of the earliest period presented.

Diluted earnings per share is calculated using the same net profit or loss for the financial period attributable to ordinary equity holders of the parent company, but increasing the weighted average number of ordinary shares by the dilutive effect of potential ordinary shares.

	2015 pence	2014 pence
Basic earnings per share	**4.3**	(17.5)
Diluted earnings per share	**4.3**	(17.5)

	2015 £m	2014 £m
Profit/(loss) for the year attributable to equity holders of the parent company	**4.7**	(5.0)

	2015 No.	2014 No.
Weighted average number of shares in issue for basic earnings per share	**108,753,074**	28,410,145
Dilutive effect of employee share based payment awards	**380,479**	–
Weighted average number of shares in issue for diluted earnings per share	**109,133,553**	28,410,145

Underlying earnings per share

Underlying basic earnings per share and underlying diluted earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent company, as adjusted to exclude the effect of non-underlying items, by the same weighted average numbers of ordinary shares above used for basic and diluted earnings per share respectively.

	2015 £m	2014 £m
Profit/(loss) for the year attributable to equity holders of the parent company	**4.7**	(5.0)
Non-underlying items	**22.6**	4.4
Tax effect of non-underlying items	**(2.9)**	(0.6)
Underlying profit/(loss) for the year attributable to equity holders of the parent company	**24.4**	(1.2)

	2015 pence	2014 pence
Underlying basic earnings per share	**22.4**	(4.4)
Underlying diluted earnings per share	**22.3**	(4.4)

8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
Cost				
Balance at 27 July 2013	3.3	54.8	12.7	70.8
Additions	0.4	8.8	6.1	15.3
Acquisition	0.1	0.2	–	0.3
Disposals	–	–	(3.8)	(3.8)
Balance at 2 August 2014	3.8	63.8	15.0	82.6
Additions	1.7	13.7	5.7	21.1
Disposals	–	–	(3.8)	(3.8)
Balance at 1 August 2015	5.5	77.5	16.9	99.9
Depreciation and impairment				
Balance at 27 July 2013	0.3	18.6	4.2	23.1
Depreciation charge for the year	0.2	7.7	4.4	12.3
Disposals	–	–	(3.7)	(3.7)
Balance at 2 August 2014	0.5	26.3	4.9	31.7
Depreciation charge for the year	0.3	9.1	4.9	14.3
Disposals	–	–	(3.7)	(3.7)
Balance at 1 August 2015	0.8	35.4	6.1	42.3
Net book value				
At 27 July 2013	3.0	36.2	8.5	47.7
At 2 August 2014	3.3	37.5	10.1	50.9
At 1 August 2015	**4.7**	**42.1**	**10.8**	**57.6**

Leased plant and machinery

Included in the total net book value of motor vehicles is £4.1m (2014: £3.4m) in respect of assets held under finance leases. Depreciation for the year on these assets was £1.5m (2014: £0.9m).

Capital commitments

At 1 August 2015 the Group had contracted capital commitments of £2.1m (2014: £1.7m) for which no provision has been made in the financial statements.

Notes to the financial statements continued

9 Intangible assets

	Computer software £m	Brand Names £m	Goodwill £m	Total £m
Cost				
Balance at 27 July 2013	5.1	0.5	479.6	485.2
Additions	2.5	–	–	2.5
Acquisition	–	2.0	4.4	6.4
Balance at 2 August 2014	7.6	2.5	484.0	494.1
Additions	1.8	–	–	1.8
Balance at 1 August 2015	9.4	2.5	484.0	495.9
Amortisation and impairment				
Balance at 27 July 2013	1.5	–	–	1.5
Amortisation charge for the year	2.3	0.1	–	2.4
Balance at 2 August 2014	3.8	0.1	–	3.9
Amortisation charge for the year	2.6	0.1	–	2.7
Balance at 1 August 2015	6.4	0.2	–	6.6
Net book value				
At 27 July 2013	3.6	0.5	479.6	483.7
At 2 August 2014	3.8	2.4	484.0	490.2
At 1 August 2015	**3.0**	**2.3**	**484.0**	**489.3**

Prior year acquisition

On 17 October 2013 the Group acquired 100% of the issued share capital and obtained control of The Sofa Workshop Limited, a UK based retailer of upholstered furniture. This acquisition was made to increase the Group's sales in particular customer segments and product groups. The goodwill of £4.4m arising from the acquisition is attributable to the workforces and operations of the acquired business and the significant synergies expected to arise following the acquisitions.

9 Intangible assets continued

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out below:

	The Sofa Workshop Limited £m
Property, plant & equipment	0.3
Identifiable intangible assets – brand name	2.0
Inventories	0.7
Cash	1.1
Trade and other receivables	0.7
Trade payables and other liabilities	(2.9)
Deferred tax	(0.4)
Total identifiable assets	1.5
Goodwill	4.4
Total consideration	5.9
Satisfied by:	
8% vendor loan notes	2.0
17% preference shares in subsidiary	1.0
Equity shares in subsidiary	0.3
Other loan	0.1
Cash consideration	2.5
Total consideration	5.9
Net cash outflow arising on acquisition	
Cash consideration	2.5
Less: cash and cash equivalent balances acquired	(1.1)
	1.4

The carrying amount of goodwill is allocated to the following cash generating units:

	Goodwill	
	2015 £m	2014 £m
DFS Trading Limited	**479.6**	479.6
The Sofa Workshop Limited	**4.4**	4.4
	484.0	484.0

Goodwill is tested annually for impairment on the basis of value in use. The key assumptions underlying the calculations are those regarding expected future sales volumes, changes in selling prices and direct costs and the discount rate applied.

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations. Selling prices and related costs are based on past practice and expected future changes in the market. These forecasts were extrapolated for six more years and discounted at a pre-tax discount rate of 9%. The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. Even with an assumption of no further growth beyond the four year budgeted period, a discount rate in excess of 19% would need to be applied in order for there to be any indication of an impairment. The directors have therefore concluded that no reasonably possible change in assumptions would result in an impairment of the assets and accordingly none has been recognised.

10 Investments in subsidiaries

The following companies are incorporated in England & Wales, are wholly owned by the Group and have been consolidated:

	Principal activity
Diamond Holdco 2 Limited	Intermediate holding company
Diamond Holdco 7 Limited	Intermediate holding company
DFS Furniture Holdings plc	Intermediate holding company
DFS Furniture Company Limited	Intermediate holding company
DFS Trading Limited	Furniture retailer
Coin Retail Limited (Jersey)	Intermediate holding company
Coin Furniture Limited	Furniture retailer
The Sofa Workshop Limited	Furniture retailer
DFS Spain Limited	Furniture retailer
Diamond Holdco 3 Limited	*
Diamond Holdco 4 Limited	*
DFS Investments Limited	*
Diamond Holdco 6 Limited	*
Diamond Holdco 8 Limited	*
Diamond Holdco Limited	*
Northern Upholstery Limited	*
Galegrove Limited	*
New DFS Furniture Limited	*
CF Ward Limited	*

* Denotes subsidiary companies in members voluntary liquidation as part of a Group restructure subsequent to the IPO.

11 Other financial assets

	2015 £m	2014 £m
Non-current		
Interest rate derivatives	**1.3**	–
Foreign exchange contracts	**–**	0.1
Foreign exchange contracts	**1.3**	0.1
Current		
Foreign exchange contracts	**1.1**	–

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23).

Interest rate derivatives are used to hedge interest rate risk on the Group's floating rate debt (note 23).

12 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2015 £m	2014 £m
Accelerated capital allowances	**1.9**	0.7
Fair value lease creditor	**4.9**	5.0
Revaluation of derivatives to fair value	**(0.3)**	0.6
Tax losses carried forward	**0.4**	–
Other temporary differences	**5.2**	4.9
Net tax assets	**12.1**	11.2

12 Deferred tax continued

The deferred tax movement in the year is as follows:

	2015 £m	2014 £m
At start of period	**11.2**	9.8
Charged to the income statement:		
Accelerated capital allowances	**1.2**	0.7
Fair value lease creditor	**(0.1)**	–
Tax losses carried forward	**0.4**	–
Other temporary differences	**0.3**	–
Acquisition of subsidiaries	**–**	(0.4)
Recognised in the statement of comprehensive income	**(0.9)**	1.1
At end of period	**12.1**	11.2

13 Inventories

	2015 £m	2014 £m
Raw materials and consumables	**4.7**	5.9
Finished goods and goods for resale	**23.6**	22.9
	28.3	28.8

14 Trade and other receivables

	2015 £m	2014 £m
Trade receivables	**11.3**	10.9
Amounts owed by non-controlling interests	**–**	2.3
Prepayments and accrued income	**13.3**	12.2
Other receivables	**0.7**	0.6
	25.3	26.0

No interest is charged on trade receivables; the Group bears no credit risk in respect of amounts due from retail customers under interest free credit arrangements. Prepayments and accrued income do not include impaired assets.

15 Trade payables and other liabilities

	2015 £m	2014 £m
Current		
Payments received on account	**23.6**	24.2
Trade payables	**64.8**	62.4
Other creditors including other tax and social security	**22.8**	23.4
Accruals and deferred income	**30.4**	30.9
Amounts owed to parent companies	**–**	194.6
Amounts due to non-controlling interests	**–**	1.4
Other loans and borrowings	**2.2**	–
Finance lease liabilities	**1.4**	0.9
	145.2	337.8

Notes to the financial statements continued

15 Trade payables and other liabilities continued

	2015 £m	2014 £m
Non-current		
Other creditors	**21.2**	21.8
Accruals and deferred income	**44.4**	44.0
Other loans & borrowings	**–**	2.1
Finance lease liabilities	**3.6**	2.9
	69.2	70.8

Trade payables do not bear interest and are paid within agreed credit terms. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the reporting date.

The amounts owed to the parent company were repayable on demand and bore interest at LIBOR plus 17%, compounded annually.

16 Other financial liabilities

	2015 £m	2014 £m
Non-current		
Foreign exchange contracts	**–**	–
Current		
Foreign exchange contracts	**0.8**	(3.1)

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23).

17 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

	2015 £m	2014 £m
Senior loan facility	**200.0**	–
Senior secured fixed rates notes due August 2018	**–**	200.0
Senior secured floating rate notes due August 2018	**–**	110.0
	200.0	310.0
Unamortised issue costs	**(2.1)**	(3.4)
	197.9	306.6

As at 2 August 2014, the Group had in issue £310.0m of senior secured notes listed on the Luxembourg Stock Exchange. The 2018 fixed rate notes carried an interest rate of 7.625% payable six monthly on 15 March and 15 September. Interest on the floating rate notes accrued at LIBOR plus 6% and was payable quarterly on 15 March, 15 June, 15 September and 15 December. The notes were denominated in Pounds Sterling and secured on the share capital and substantially all of the assets of the issuer and guarantors (DFS Furniture Company Limited and DFS Trading Limited).

As part of the refinancing associated with the Company's admission to the London Stock Exchange, the 2018 notes were repaid in full on 12 March 2015 and a £200.0 million senior loan facility entered into on the same date. The senior loan facility bears interest at a rate of 3 month LIBOR plus 2.5% and is repayable in full on 12 March 2020. The senior loan facility is secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Company and DFS Furniture Holdings plc.

17 Other interest-bearing loans and borrowings continued

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2015			2014		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£m	**£m**	**£m**	£m	£m	£m
Less than one year	**1.6**	**(0.2)**	**1.4**	1.1	(0.2)	0.9
Between one and five years	**3.7**	**(0.1)**	**3.6**	3.0	(0.1)	2.9
More than five years	**–**	**–**	**–**	–	–	–
	5.3	**(0.3)**	**5.0**	4.1	(0.3)	3.8

18 Employee benefits

Defined contribution pension plans

The Group operates a number of defined contribution pension plans under which contributions by the employees and the Group are administered by trustees in funds separate from the Group's assets. The costs of these schemes are charged to the income statement as they become payable under the rules of the scheme. The total pension cost of the Group for the year was £2.2m (2014: £2.2m).

19 Provisions

	Guarantee provision £m	Property provisions £m	Total £m
Balance at 2 August 2014	8.5	1.7	10.2
Provisions made during the year	6.5	–	6.5
Provisions used during the year	(6.2)	(0.1)	(6.3)
Unwind of discount	–	0.1	0.1
Balance at 1 August 2015	**8.8**	**1.7**	**10.5**
Current	5.9	0.2	6.1
Non-current	2.9	1.5	4.4
	8.8	**1.7**	**10.5**

The guarantee provision reflects the estimated cost of the guarantee provided to retail customers. Property provisions relate to onerous contracts and other obligations in respect of the Group's property leases.

20 Dividends

The following dividends were recognised during the year:

	2015 £m	2014 £m
Nil (2014: £0.03) per qualifying ordinary share	**–**	1.3

Dividends paid to non-controlling interests in the year were £0.9m (2014: £nil).

On 7 October 2015 the Directors declared an interim dividend of 3.1p per ordinary share and recommended a final dividend of 6.2p per ordinary share in respect of the financial period ended 1 August 2015, resulting in a total proposed dividend of £19.8m. It is intended that both dividends will be paid on 30 December 2015. DFS Furniture plc shares will trade ex-dividend from 10 December 2015 and the record date will be 11 December 2015. These dividends have not therefore been recognised as a liability in these financial statements.

21 Capital and reserves

Share capital

Ordinary shares of £1 each	Number of shares 2015 '000	Number of shares 2014 '000	Ordinary shares 2015 £m	Ordinary shares 2014 £m
Allotted, called up and fully paid				
At the start of the financial period	**42,615**	42,615	**42.6**	42.6
Issued during the year	**192,708**	–	**192.7**	–
Consolidation to ordinary shares of £1.50 each	**(235,323)**	–	**(235.3)**	–
At the end of the financial period	**–**	42,615	**–**	42.6

Ordinary shares of £1.50 each	Number of shares 2015 '000	Number of shares 2014 '000	Ordinary shares 2015 £m	Ordinary shares 2014 £m
Allotted, called up and fully paid				
At the start of the financial period	**–**	–	**–**	–
Consolidation of ordinary shares of £1 each	**156,882**	–	**235.3**	–
Issued during the period	**56,148**	–	**84.2**	–
At the end of the financial period	**213,030**	–	**319.5**	–

At 3 August 2014 the Company had in issue 42,615,218 ordinary shares of £1 each. On 17 February 2015 a further 192,708,003 £1 ordinary shares were issued to capitalise principal and accrued interest on outstanding loans from parent companies. No gain or loss arose from this transaction as the carrying value of the shareholder loan reflected its fair value. One further £1 ordinary share was issued on 22 February 2015 and the resulting total of 235,323,222 ordinary shares of £1 each were then consolidated to 156,882,148 ordinary shares of £1.50 each.

On 10 March 2015 a total of 17,717,081 ordinary shares of £1.50 each were issued to senior management and certain other employees of the Group in exchange for their minority interests in the issued share capital of DFS Investments Limited, a subsidiary undertaking of the Company which has subsequently been placed into Members Voluntary Liquidation.

On 11 March 2015 a further 38,431,372 ordinary shares of £1.50 each were issued for cash consideration of £98.0m, conditional to the Admission of the Company's shares to trading on the London Stock Exchange. This brought the total shares in issue at 2 August 2015 to 213,030,601 ordinary shares of £1.50 each.

Share premium

The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. The balance of £59.0m arose during the year on the issue ordinary shares on 11 March 2015 as noted above.

Merger reserve

The merger reserve arose on the issue of shares in the Company in exchange for minority interests in the issued share capital of a subsidiary company on 10 March 2015 as noted above.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

22 Financial instruments: categories and fair value

	2015 £m	2014 £m
Financial assets		
Derivatives in designated hedging relationships	**2.4**	0.1
Loans and receivables	**12.0**	13.8
Cash	**40.7**	53.8
Financial liabilities		
Derivatives in designated hedging relationships	**(0.8)**	(3.1)
Senior loan facility	**(197.9)**	–
Senior secured notes	**–**	(306.6)
Amortised cost	**(150.0)**	(345.6)
Finance lease obligations	**(5.0)**	(3.8)

All derivatives are categorised as Level 2 under the requirements of IFRS 7 as they are valued using techniques based significantly on observed market data.

Except as detailed below, the directors consider that the fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's balance sheet.

	2015		2014	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Senior secured notes				
Fixed rates notes due August 2018	**–**	**–**	200.0	208.5
Floating rate notes due August 2018	**–**	**–**	110.0	110.6
	–	**–**	310.0	319.1

The fair values of the senior secured notes are their market values at the balance sheet date. Market values include accrued interest and changes in credit risk and interest rate risk and are therefore different to the reported carrying amounts.

23 Financial instruments: risk management

The objectives, policies and processes governing the treasury activities of the Group are reviewed and approved by the Board. The Group's documented treasury policy includes details of authorised counterparties, instrument types and transaction limits and principles for the management of liquidity, interest and foreign exchange risks. As part of its strategy for the management of these risks the Group uses derivative financial instruments. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Liquidity risk

The Group manages its cash and borrowing requirements to ensure that it has sufficient liquid resources to meet its obligations as they fall due while making efficient use of the Group's financial resources.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities:

2015

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	139.5	–	–	–	139.5
Finance lease liabilities	1.6	1.6	2.1	–	5.3
Senior loan facility	6.1	6.1	216.9	–	229.1
Other liabilities	6.0	3.1	0.6	1.9	11.6
	153.2	10.8	219.6	1.9	385.5
Derivatives: net settled	2.8	2.8	7.6	–	13.2
Derivatives: gross settled					
Cash inflows	(72.4)	–	–	–	(72.4)
Cash out flows	72.0	–	–	–	72.0
Total cash flows	155.6	13.6	227.2	1.9	398.3

2014

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	335.4	–	–	–	335.4
Finance lease liabilities	1.1	1.1	1.9	–	4.1
Senior secured notes	22.4	22.4	362.4	–	407.2
Other liabilities	5.7	3.1	0.6	2.1	11.5
	364.6	26.6	364.9	2.1	758.2
Derivatives: gross settled					
Cash inflows	(72.4)	(10.7)	–	–	(83.1)
Cash out flows	75.7	10.6	–	–	86.3
Total cash flows	367.9	26.5	364.9	2.1	761.4

The Group has a £30.0m revolving credit facility in place until March 2020 which is as yet unutilised.

Interest rate risk management

The Group's operating profit is affected by the cost of providing interest free credit to its customers. A fall in LIBOR rates would have a positive impact on operating profit and a rise in LIBOR rates would impact operating profit negatively. An increase by one percentage point would reduce the Group's revenue by 0.4 percentage points. However, any fall in LIBOR rates at present would largely be offset by LIBOR 'floor' mechanisms used by the external providers of credit to the Group's customers.

The Group is exposed to interest rate risk on its senior loan facility, which bears interest at a floating rate of 3 month GBP LIBOR plus 2.50%. In order to provide some certainty over the future cash flows associated with this debt, the Group has entered into four participating interest rate swaps. The effect of these instruments is to fix the interest rate payable on the senior loan facility to a maximum level while allowing the Group to retain some benefit on a proportion of the facility where 3 month LIBOR remains below 1.39%. The swaps cover the full £200.0m of the senior loan facility for its duration until March 2020.

23 Financial instruments: risk management continued

Interest rate swaps

	2015 £m	2014 £m
Derivatives in designated hedging relationships	**1.3**	–

Foreign exchange risk management

The Group is exposed to the risks of exchange rate fluctuations on the purchase of products denominated in foreign currencies. Currency requirements are assessed by analysis of historic purchasing patterns by month, adjusted as appropriate to take into account current trading expectations. The Group's treasury policy allows for the use of forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases up to 18 months in advance. These contracts are designated as cash flow hedges.

The table below summarises the forward foreign exchange contracts outstanding at the period end:

	2015		2014	
	Notional amount £m	Fair value £m	Notional amount £m	Fair value £m
Derivatives in designated hedging relationships				
US Dollar	**72.0**	**0.3**	86.3	(3.0)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2015 £m	2014 £m	2015 £m	2014 £m
US Dollar	**0.1**	–	**(0.8)**	(0.6)
Euro	**8.0**	8.3	**(0.3)**	(0.7)

Foreign currency sensitivity analysis

The Group's primary foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% weakening of these currencies against Sterling, assuming all other variables were unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the cash flow hedging reserve in equity.

Positive figures represent an increase in profit or equity.

	Income statement		Equity	
	2015 £m	2014 £m	2015 £m	2014 £m
US Dollar	**0.1**	0.1	**(7.2)**	(8.3)
Euro	**(0.8)**	(0.8)	**–**	–

A 10% strengthening of the above currencies against the Sterling at the period end would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

23 Financial instruments: risk management continued

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

Investments of cash, borrowings and derivative instruments are transacted only through counterparties meeting the credit rating and investment criteria specified in the Group's treasury policy. The Group's exposure and the credit ratings of its counterparties are regularly reviewed. Concentrations of risk are mitigated through the use of multiple counterparties and by counterparty limits which are reviewed and approved by the Board.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Capital management

The capital structure of the Group consists of debt, as analysed in note 26, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shown in the consolidated statement of changes in equity. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not restricted by any externally imposed capital requirements.

24 Share based payments

The Group has two share based payment schemes in operation:

Long Term Incentive Plan (LTIP)

The LTIP is a discretionary executive reward plan that allows the Group to grant conditional share awards or nil-cost options to selected executives at the discretion of the Remuneration Committee. The scheme is focused on the senior leadership roles in the Group, including Executive Directors. The maximum value of LTIP awards granted to an individual is 150% of base salary, although the Remuneration Committee may in exceptional circumstances increase this to 300%.

LTIP awards vest after a three year performance period (other than those granted shortly after Admission which will vest in July 2017) subject to the achievement of performance measures based on earnings per share and total shareholder return targets. Further information on LTIP performance targets and awards made to Directors is given in the Directors' Remuneration Report on pages 53 to 73.

Restricted Share Plan (RSP)

The RSP is also a discretionary reward plan under which conditional share awards or nil-cost options may be granted to individuals in key executive roles in the Group, excluding Executive Directors and other recipients of LTIP awards. Awards may not exceed 50% of an individual's salary for a particular financial year.

RSP awards vest after a three year performance period (other than those granted shortly after Admission which will vest in July 2017) and are not subject to other performance conditions.

The first awards under both schemes were granted shortly after Admission and are summarised below; no awards vested or were exercised during the period and at 1 August 2015 no outstanding awards were exercisable.

	LTIP No.	RSP No.
Outstanding at the beginning of the year	–	–
Granted	625,603	131,414
Outstanding at the end of the period	**625,603**	**131,414**
Weighted average remaining contractual life	**24 months**	**24 months**

24 Share based payments continued

Fair value calculations

Both the LTIP and RSP awards are accounted for as equity-settled under IFRS 2. The fair value of LTIP awards which are subject to a market based performance condition (total shareholder return) is calculated using a Monte Carlo option pricing model. RSP awards and LTIP awards subject to a non-market based performance condition (earnings per share) are valued using a Black-Scholes option pricing model. The inputs to these models for awards granted during the financial period are detailed below:

	LTIP	RSP
Grant date	16 March 2015	16 March 2015
Share price at date of grant	£2.71	£2.71
Exercise price	Nil	Nil
Volatility	23.3%	23.3%
Expected life	2.4 years	2.4 years
Risk free rate	0.54%	0.54%
Dividend yield	2.31%	2.31%
Fair value per share		
Market based performance condition	£1.34	n/a
Non-market based performance condition/no performance condition	£2.71	£.2.71

As the Company had only limited share price history at the date of grant, expected volatility was based on a proxy volatility determined from the median volatility of a group of appropriate comparator companies within the FSTE All Share index. For the same reason, a similar approach was followed to derive the dividend yield. Expected life has been assumed to equate to the vesting period of the awards.

The total share based payment expense included in administration costs was £0.6m (2014: £0.3m) comprising £0.2m (2014: £nil) related to the LTIP and RSP schemes described above and £0.4m (2014: £0.3m) of accelerated charges in connection with the Company's IPO which have been presented as non-underlying costs.

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2015 £m	2014 £m
Less than one year	**58.1**	54.3
Between one and five years	**222.5**	208.1
More than five years	**382.4**	420.5
	663.0	682.9

The Group has entered into operating leases in respect of stores, warehouses and equipment. These non-cancellable leases have remaining terms of between 3 months and 20 years. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

During the year £56.7m was recognised as an expense in the income statement in respect of operating leases (2014: £51.6m). At 1 August 2015, future rentals receivable under non-cancellable leases where the Group is the lessor were £13.6m (2014: £14.3m).

26 Net debt

	2014 £m	Cash flow £m	Other non-cash changes £m	**2015 £m**
Cash in hand, at bank	53.8	(13.1)	–	**40.7**
Cash and cash equivalents	53.8	(13.1)	–	**40.7**
Senior secured notes	(306.6)	310.0	(3.4)	**–**
Senior loan facility	–	(200.0)	2.1	**(197.9)**
Finance lease liabilities	(3.8)	0.9	(2.1)	**(5.0)**
Total net debt	(256.6)	97.8	(3.4)	**(162.2)**

27 Related parties

Key Management Personnel

At 1 August 2015, Directors of the Company held 3.2% of its issued ordinary share capital, and a further 1.6% was held by other key management personnel.

The compensation of key management personnel (including the Directors) is as follows:

	2015 £m	2014 £m
Emoluments	**2.7**	2.7
Company contributions to money purchase schemes	**0.2**	0.2
	2.9	2.9

The Chief Executive Officer waived his entitlement to a pension contribution from the Group and instead a donation of £50,000 (2014: £50,000) was made to a registered charity of which he is one of the trustees.

Majority shareholder

During the financial period the Group paid £66,667 (2014: £80,000) in management fees to its majority shareholder, Advent Diamond (Luxembourg) Sarl.

28 Post balance sheet event

On 1 October 2015, the Group acquired the trade and assets of DFS Spain for cash consideration of £1.5m. As this acquisition only occurred six days before the date of this annual report, fair value calculations have not yet been prepared and are therefore not disclosed in these financial statements.

29 Controlling party

At 1 August 2015, Advent Diamond (Luxembourg) Sarl ("the Advent Shareholder") held 53.2% of the Company's issued share capital and was therefore the majority shareholder and controlling party of the Group. The Chairman is deemed to be a concert party of the Advent Shareholder. A relationship agreement between the Company, the Chairman and the Advent Shareholder was put in place with effect from the Admission of the Company's shares to trading on the London Stock Exchange on 11 March 2015. This agreement, together with relevant Listing Rules and Companies Act requirements, is designed to enable the Company to carry on an independent business as its main activity and ensure that all transactions and relationships between the Company and the Advent Shareholder and its associates are at arm's length and on a normal commercial basis.

Company balance sheet

At 1 August 2015

	Note	2015 £m	2014 £m
Fixed assets			
Investments	31	**235.5**	42.6
Current assets			
Amounts due from Group companies	32	**98.0**	–
Net assets		**333.5**	42.6
Capital and reserves			
Called up share capital	33	**319.5**	42.6
Share premium		**59.0**	–
Retained earnings		**(45.0)**	–
Equity shareholders' funds	34	**333.5**	42.6

These financial statements were approved by the board of directors on 7 October 2015 and were signed on its behalf by:

Ian Filby
Chief Executive Officer

Bill Barnes
Director

Notes to the Company financial statements

30 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK GAAP accounting standards under the historical cost accounting rules.

Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account. The Company's loss for the period was £45.2m (2014: profit of £1.3m).

The Company has applied the exemption available under FRS 1 (revised 1996) not to present its own cash flow statement since a consolidated cash flow statement has been presented in this annual report for the Group headed by the Company.

Going concern

The Company heads a group which is highly cash generative, with sufficient medium and long term facilities in place to enable it to meet its obligations as they fall due. The directors are therefore satisfied that the Company will be able to continue in operational existence for the foreseeable future and have therefore continued to prepare the Company's financial statements on the going concern basis.

Investments

Investments are stated at cost, less provision for any impairment.

Taxation

The charge for taxation is based on the profit for the period which takes into account deferred tax balances.

Deferred taxation is recognised, with discounting where relevant, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except where otherwise required by FRS 19 Deferred Tax.

Share based payments

Awards (options or conditional shares) granted by the Company over its own shares to the employees of subsidiary companies are recognised in the Company's own financial statements as an increase in the cost of investment in subsidiaries. The amount recognised is equivalent to the equity-settled share based payment charge recognised in the consolidated financial statements. The corresponding credit is recognised directly in equity.

31 Investments

	Shares in subsidiary undertakings	
	2015 £m	2014 £m
Cost and net book value		
At the start of the financial period	**42.6**	42.6
Additions	**192.9**	–
At the end of the financial period	**235.5**	42.6

Details of the Company's investments are given in note 10. The increase in shares in subsidiary undertakings in the year arose on the Group reorganisation that took place in connection with the Admission of the Company's ordinary shares to trading on the London Stock Exchange.

32 Debtors

	2015 £m	2014 £m
Amounts due from subsidiary undertakings	**98.0**	–

33 Share capital and reserves

Details of the Company's share capital and reserves are given in note 21.

	Retained earnings	
	2015 £m	2014 £m
At the start of the financial period	**–**	–
Retained loss for the period	**(45.2)**	–
Share based payments	**0.2**	–
At the end of the financial period	**(45.0)**	–

Dividends from subsidiary companies will be paid to the Company to create sufficient reserves to pay intended dividends. In accordance with Companies Act requirements, the Company will lodge interim accounts with Companies House prior to payment of any dividends.

34 Shareholders' funds

	Shareholders' funds	
	2015 £m	2014 £m
At the start of the financial period	**42.6**	42.6
Retained (loss)/profit for the period	**(45.2)**	1.3
Share based payments	**0.2**	–
Issue of new share capital	**335.9**	–
Dividends paid	**–**	(1.3)
At the end of the financial period	**333.5**	42.6

35 Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(c) of FRS 8 *Related Party Transactions* not to disclosure transactions with other Group companies.

Shareholder information

Contacts:

Chief Executive Officer
Ian Filby

Finance Director
Bill Barnes

Company Secretary
Paul Walker

Head of Investor Relations
Mike Schmidt

Corporate website
www.dfscorporate.co.uk

Registered office
DFS Furniture plc
1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
DN6 7NA

Corporate advisers
Auditor
KPMG LLP

Remuneration adviser
PricewaterhouseCoopers LLP

Brokers
UBS Limited

Solicitor
Weil, Gotshal & Manges

Registrar
Equiniti

Shareholder enquiries

The Company's registrar is Equiniti. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them of your change of address or other personal information. Their address details are:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Equiniti is a trading name of Equiniti Limited.

Equiniti helpline: 0871 384 2030 (calls to this number are charged at 10p per minute plus your phone company's access charge). Overseas holders should contact +44 (0)121 415 7047.

Lines are open 8.30am to 5.30pm, Monday to Friday (excluding public holidays).

Shareholders are able to manage their shareholding online and facilities include electronic communications, account enquiries, amendment of address and dividend mandate instructions.

For institutional investor enquiries, please contact:
FTI Consulting
200 Aldersgate
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Financial Calendar

2015 full year results	8 October 2015
Record date for 2015 final dividend	11 December 2015
Annual General Meeting	4 December 2015
Payment date for 2015 final dividend	30 December 2015
2016 half year results	March 2016
Payment date for 2016 interim dividend	June 2016

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