6 October 2016 **For immediate release**

DFS Furniture plc

Preliminary Results

RECORD FINANCIAL RESULTS AND POSITIVE OPERATIONAL PROGRESS

DFS Furniture plc, (the "Group"), the market leading retailer of upholstered furniture in the United Kingdom today announces its preliminary results for the 52 weeks ended 30 July 2016 (prior year: 52 weeks ended 1 August 2015)

Financial Highlights:

- Gross sales up 7.4% to £980.4 million (FY15: £913.1 million)
- Revenue up 7.1% to £756.0 million (FY15: £706.1 million)
- Underlying EBITDA up 5.8% to £94.4 million (FY15: £89.2 million)
- Profit before tax £64.5 million (FY15 underlying: £33.3 million)
- Continued strong cash generation : 1.45x net debt / adjusted EBITDA
- Adjusted underlying EPS up 28.1% to 23.7p (FY15: 18.5p)
- Final dividend of 7.5p per share proposed giving a total of 11.0p for the year (+18.3%; FY15: 9.3p)
- Further special capital return to shareholders expected later in FY17

Operational Highlights:

- Proven growth strategy on track:
  - Broadening our appeal
    - 35% growth in branded upholstery orders through DFS
    - Sofa Workshop ranges performing well in DFS stores
  - UK stores
    - Three new 10-15,000 sq. ft. DFS stores opened in the UK and ROI
    - DFS small store trial opening in Bromley, with further store in Crawley to open shortly
  - International
    - Netherlands stores trading in line with our expectations with third store opened post year end
  - Full utilisation of retail space
    - Eleven Customer Distribution Centres operating at year end
    - Twelve Dwell co-located stores performing strongly; potential for over 40 Dwell stores in total
  - Online
    - Continued double-digit growth in gross sales, profits and site traffic
- Continued strong increases in customer satisfaction scores; average post-purchase NPS above 80%; established customer NPS rising from 21.9% to 31.2%
- Positive customer and employee response to partnership with Team GB for Rio Olympics

DFS Chairman Richard Baker said:

"The tried and tested DFS growth strategy has delivered another set of record results and puts us in an excellent position, as the market leader, to continue to generate shareholder value. Our unique and flexible business model, the quality and commitment of our people, our family culture and our focus on customer satisfaction remain the key factors behind our continuing success."

DFS Chief Executive Officer Ian Filby said:

"It is naturally pleasing to again report record results that demonstrate the robustness of our business model, the effectiveness of our growth strategy and the excellence of our products and our people. Together these unique assets give DFS the proven ability to achieve consistent outperformance of the retail furniture market over the long-term."

Key Performance Indicators

The performance measures below are those applicable to the Group for the period under review. We report KPIs over a twelve month period, in order to balance the effect of seasonality and short term fluctuations which can affect our market from time to time. FY15 measures include part of the period prior to the completion of the Group's IPO on 11 March 2015. Other comparative measures typically presented by public companies such as earnings per share for the prior year reflect historical shareholding structures and are not representative of underlying performance, but will become more relevant for the next financial year.

	FY 16	**FY 15**	***Year on year change***
Financial KPIs			
Gross sales	£980.4m	£913.1m	*+7.4%*
Revenue	£756.0m	£706.1m	*+7.1%*
Underlying EBITDA	£94.4m	£89.2m	*+5.8%*
Underlying profit before tax	£64.5m	£33.3m	
Free cash flow	£75.6m	£70.7m	
Cash conversion	80.1%	79.2%	
Return on capital employed	21.2%	21.2%	
Non Financial KPIs			
Number of DFS stores (UK & RoI)	109	105	
Net Promoter Score – post purchase – established customer	 83.9% 31.2%	 78.8% 21.9%	
Growth in exclusive brand sales	+35%	+75%	
Online growth rate	+15.6%	+17.5%	
Stores with converted warehouse space	19	8	

Analyst Presentation

DFS will be hosting an analyst presentation at 9.45am today. The presentation slides and a listen only web-cast facility will be available through the Group's corporate website: www.dfscorporate.co.uk. There will be a telephone dial-in facility available on +44 (01452) 569393 with passcode 83315235. The presentation slides will be made available on the Group's website: www.dfscorporate.co.uk. A replay facility will be available for two weeks after the event. To access the replay please dial +44 (0)1452 550000 and use passcode 83315235.

Enquiries:

DFS (enquiries via FTI)	**FTI Consulting**
Ian Filby (CEO)	Jonathon Brill
Nicola Bancroft (CFO)	Georgina Goodhew
Mike Schmidt (Director of Corporate Finance)	Tom Hufton
	Eleanor Purdon
	+44 (0) 20 3727 1000
	dfsfurniture@fticonsulting.com

About DFS Furniture plc

DFS is the clear market leading retailer of upholstered furniture in the United Kingdom. We design, manufacture, sell and deliver to our customers an extensive range of upholstered furniture products. The business operates a retail network of upholstered furniture stores in the United Kingdom and Europe, together with an online channel. These have been established and developed gradually over more than 47 years of operating history. We attract customers to our stores and website through our substantial and continued investment in nationwide marketing activities and our reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options.

CHAIRMAN’S STATEMENT

Growth strategy on track

I am delighted to report that our financial and operational progress remains on track. These excellent results reflect the executive management team’s successful implementation of multiple strategic initiatives that have delivered ahead of our expectations in a number of areas, enabling us once again to outperform the furniture retail market as a whole. Such outperformance has been a consistent feature of the DFS track record in all the varied market conditions the business has encountered throughout its long operating history.

Our markets

The key macroeconomic indicators of consumer confidence, housing market activity and consumer credit availability remained generally favourable throughout the year, enabling the UK retail furniture market to continue its recovery from the low point it reached in 2011, in the wake of the global financial crisis. The market still remains, however, some 20% smaller by value than at its peak in 2007, potentially indicating further scope for growth in the longer term once current economic uncertainties are resolved.

Results and dividend

The business performed strongly throughout the year to deliver continued record levels of revenues, profits and cash flow. The strong cash generation that is such an important feature of our business enables the Board to recommend payment of a final dividend of 7.5 pence per share (FY15: 6.2 pence), an increase of 21.0%. Together with the increased interim dividend of 3.5 pence (FY15: 3.1. pence) paid in June, this makes a total dividend for the year of 11.0 pence (FY15: 9.3 pence), a rise of 18.3%, in line with our commitment to deliver excellent returns to our shareholders through a consistently progressive dividend policy.

Given the strong progress in reducing our financial leverage and current positive trading momentum, the Board is also pleased to confirm it currently expects that the business will be in a position, at the interim results in March 2017, to announce a further special capital return to shareholders anticipated to occur prior to the current financial year end in July 2017. In the interests of prudence, the return would depend on the capital requirements of the business, in line with the detailed guidance given within the Financial Review.

People

Our whole family of some 4,000 people deserve our sincere thanks for their hard work in delivering another record set of results. Their commitment to delivering outstanding service to our customers at every stage of their experience with DFS is endorsed by record levels of customer satisfaction, as measured by our Net Promoter Scores.

I am delighted to welcome Nicola Bancroft to our Board as Chief Financial Officer, following the retirement of Bill Barnes after almost 13 years. Bill leaves with our thanks and our very best wishes for the future. Nicola and Bill have worked closely together for the last three years and the handover of responsibilities has therefore been seamless and smooth. I am particularly pleased that we now have equal representation of women and men on our Board.

Conclusion

DFS has weathered many forms of political and economic turbulence during its 47 years of operating history, and I have confidence that we will continue to be well positioned despite the uncertainties inevitably surrounding the EU Referendum. Our business model, scale, vertical integration and highly flexible cost base all provide resilience against potentially weaker trading conditions, relative to the market. We will continue to pursue our proven long-term growth strategy, leveraging our excellent cash flow to invest in the business for the future, and I am confident that this will continue to deliver long-term profitable growth and cash returns for the benefit of all our stakeholders.

Richard Baker
Chairman

CHIEF EXECUTIVE'S OPERATING REVIEW

Our strong sales growth was sustained throughout the year, as many of our strategic initiatives continued to deliver ahead of our expectations within a healthy furniture market environment. This performance enabled us to deliver profit before tax at the upper end of market expectations despite the increased operating costs arising from our investment for the future in the development of Dwell, Sofa Workshop and DFS internationally. The business also remains highly cash generative, enabling us to fund our investments in store openings and refurbishments, and an accelerated programme of retail space conversion, while reducing gearing and increasing returns to our shareholders.

Growth strategy update

Broadening our appeal to customers

We remain committed to "creating and making sofas that every home loves and can afford", and have focused on extending our appeal to an even broader range of customers so as to consolidate our position as the UK market leader in upholstered furniture across all customer segments.

Our ranges of Exclusive Brands have performed well ahead of expectations, with a 35% increase in total sales orders over the year as a whole. Highlights included the introduction of a number of new models under the House Beautiful brand, and the continued outstanding success of the French Connection Zinc range. Our close supplier relationships and vertical integration insights have enabled us to introduce a seven-day express delivery option across the Zinc sofa range.

We extended our partnership agreements with French Connection, House Beautiful and Country Living during the year, and are also achieving encouraging results from the sale of sofas from our own Sofa Workshop Dillon and Ellie ranges through DFS stores.

UK and Republic of Ireland DFS store roll-out

Our well-established programme of adding new 10-15,000 sq. ft. DFS stores at the rate of three to five per annum has continued to plan, with the successful opening of three new stores at Christchurch and Kettering in the UK and Limerick in the Republic of Ireland. Our established customer catchment area model, leveraging our comprehensive delivery postcode data, enables us to make a highly accurate assessment of new store opportunities to target new stores likely to deliver substantial incremental EBITDA, and achieve rapid payback within two years. Progress in opening new stores this financial year is well-advanced with two new stores opened in Truro and Salisbury, and further openings planned in the next six months.

Following the success of our initial trial of a smaller 2,500 sq. ft. store last year in the Westfield shopping centre in Stratford, London, we opened a further small store in Bromley in April 2016 and will shortly open a third store in this format in Crawley, extending the trial outside the M25. The development of this smaller concept is made possible by our market-leading website and innovative "Swoosh" furniture visualisation technology, allowing us to demonstrate the comfort of our products to customers with just one unit from each range in store, while using large screens to show our complete range of sizes, types, coverings and colour options.

International expansion

We continue to make progress in The Netherlands, where we opened a second store in Rotterdam's Alexandrium shopping mall and retail park in September 2015. At 10,000 sq ft this store is smaller than our initial trial opening in Cruquius and is achieving comparable results, giving us reassurance that store performance is replicable and predictable in new locations. Cruquius also achieved satisfactory growth in sales year-on-year.

As expected, our investment in long-term brand-building for DFS in The Netherlands was reflected in operating costs, net of incremental revenue, of approximately £2 million during the year, and we expect to maintain a similar £2 - 3 million of net investment in the current financial year. In September 2016 we opened a 3,300 sq ft store in Amsterdam as our first trial in The Netherlands of a smaller format store in a shopping centre location. We intend to maintain a measured approach to additional store openings as we strengthen customer awareness and reputation in this market, with the long-term aim of building the scale needed to support national TV marketing based on the proven model of DFS in the UK.

DFS Spain, acquired in October 2015, performed well during the year following the refit of its showroom in Murcia in January 2016. However, since our brand primarily appeals to the 800,000-strong British expatriate community in Spain, recent trading in this business has understandably seen some impact from the uncertainty arising from the EU referendum vote.

Retail space optimisation

We have established a successful model for Dwell to occupy store warehousing space converted for retail use within the DFS estate. This has two positive results. First, the new Dwell stores generate higher revenue and profits than we have been able to achieve by using converted space to sell ranges of beds and dining furniture. Secondly, the first twelve Dwell stores opened have also generated a c.2% like-for-like increase in DFS bookings within the associated DFS stores, as these stores have benefited from increased footfall through new customers and an increased frequency of return visits.

The success of the Dwell store-in-store concept has led us to accelerate our investment in the Customer Distribution Centre ("CDC") conversion programme. This programme releases additional retail space by removing DFS's warehouse operations from stores and consolidating them into larger, purpose-built, off-site facilities. A further six CDCs opened during the year, giving us a total of eleven at the year-end which serve approximately half of our store estate. We now expect to complete the programme with the opening of a further eight CDCs during the new financial year.

On completion of the CDC conversion programme and store-in-store roll-out we will have over 40 Dwell stores giving us nationwide coverage, together with more than five new Sofa Workshop stores, whilst in the remainder of the DFS estate we will utilise the remaining expanded retail space to carry additional ranges of beds and dining furniture. Whereas previously we have guided to incremental EBITDA per CDC of c. £500k, we now expect each of the CDC conversions will generate £650k-£700k of incremental EBITDA including both the benefit of the incremental Dwell profitability and also the impact of DFS LFL sales growth.

The roll-out of this programme involves significant pre-opening costs in the short term, as new sales staff are recruited and trained and we scale up our supply chain and head office to support the new stores. With the scale and pace of roll-out this financial year, we believe the incremental benefits we are currently seeing will be offset by implementation costs however from FY18 and into FY19 we expect there will be a £3-4 million increase in EBITDA in aggregate above the previous guidance given for this growth lever.

Omnichannel

Today the web is the natural starting point for most people researching a potential furniture purchase and a vital gateway and complement to our physical stores. Our website dfs.co.uk remains a strong leader, continuing to attract over 40% of upholstery sector web traffic over the course of the year.

Continued investment in our web channel this year has included the upgrading of our product viewer and room planning apps, the development of a new online payment system, and the introduction of an online order tracking service that allows customers to follow the progress of their new furniture through every step from placing their order to its installation in their home. Our mobile and tablet sites have remained a focus for our development reflecting the changing mix of devices our customers use to visit our site. Subsequent to the end of the financial year we also successfully replatformed our website to continue to allow us to grow our scale and add incremental functionality.

We have also enjoyed continued double-digit growth in sales completed online, making a valuable contribution to overall Group sales growth.

The integration of online technology with our stores has also continued during the financial year, with roll-out of 'Swoosh' furniture visualisation technology in over 70% of the DFS estate, with all stores planned to have the technology before our key Winter Sale trading period. This allows us to project the full range of models, colours and materials on a video wall in store, enabling customers to see exactly how their chosen product will look in their homes, and helping our store staff to sell the full breadth of the DFS range.

Customer service

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

I am pleased to report a further improvement in our post-purchase NPS to 83.9% (FY15: 78.8%) during the year. As I indicated in our last annual report, we have placed increasing emphasis on our ability to deliver established customer satisfaction – the willingness of customers to recommend our products to their friends or family six months after making their own purchase. This established customer satisfaction (surveyed six months post-delivery) showed a substantial improvement to 31.2%, compared with 21.9% in the prior year. All our management and customer-facing staff are now incentivised according to the results achieved in these established customer NPS.

Management

I would like to join the Chairman in thanking Bill Barnes for his great contribution to DFS as our Group Finance Director since 2003, and to wish him a very long and happy retirement.

As well as welcoming Nicola Bancroft to her new role as Chief Financial Officer, I would like to welcome Toni Wood to our Executive Committee as Chief Marketing Officer. Toni joins us from Costa Coffee, where she was Global Brand & Digital Director, and has previously held senior marketing roles at The Jordans & Ryvita Company, Findus and Procter & Gamble.

Corporate responsibility

We have continued to work hard to be a responsible and sustainable business that puts something back into the communities where we operate. Our Energy Management Policy has continued to reduce our environmental impact by reducing emissions from our delivery vehicles and company car fleet, and by upgrading store lighting through the installation of low-energy LED equipment. Our ISO 14001 environmental accreditation was extended during the year to cover DFS retail stores as well as our head office in Doncaster.

In the community, we have continued our partnership with the British Heart Foundation (BHF) both in fundraising through the successful sofa recycling scheme and in training and raising awareness among our people. All new starters at DFS receive training in CPR skills which may prove literally life-saving. We are proud to have raised £3.4 million for BHF during the year and also to have raised more than £750,000 for BBC Children in Need.

Team GB Partnership

We were delighted to play a part in the historic and well-deserved success of Team GB in the Rio 2016 Olympics through our sponsorship as Team GB's official homeware partner. In this role we were responsible for making Team GB's base in Rio a comfortable home-from-home for our athletes. It was naturally a source of particular pride and pleasure that all our participating Brand Ambassadors – Adam Peaty, Laura Trott and Max Whitlock – won gold medals during the games: successes which we were able to celebrate on digital billboards across the UK highlighting our partnership.

As well as helping to enhance the profile of DFS through connected advertising, the partnership enabled us to engage our staff with the athletes' philosophy of how marginal gains in many areas can add up to a noticeable improvement in overall performance. We held a number of internal events to drive staff engagement across the business, including holding our very own DFS Olympics in Doncaster, and were grateful to our Brand Ambassador Denise Lewis, the 2000 gold medallist in the heptathlon, for helping to build excitement and support in the run-up to the games by undertaking a nationwide tour of our stores and factories.

Outlook

The relatively short trading period inevitably makes it hard to predict the impact of the EU Referendum on the furniture retail market however we are reassured that the Group's trading in the last fourteen weeks has not indicated any weakening of demand to date. We recognise that in 2017 retailing of furniture in the UK faces an increased risk of a market slowdown with additional cost pressures from foreign exchange movements, whilst it is likely that the retail environment will remain intensely competitive. However, with its proven resilient operating model the Group remains very well positioned to mitigate economic headwinds and achieve continued growth in its share of the UK retail furniture market.

Overall we believe DFS 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

FINANCIAL REVIEW

I am delighted to present my first financial review as CFO and to report on another successful year for DFS. My thanks to my predecessor Bill Barnes and to the rest of the Board for their support in achieving a smooth handover of responsibilities.

This review covers the financial year to 30 July 2016, our first full financial year since becoming a public company in March 2015. As a different pre-IPO capital structure was in place for the majority of the previous year, the table below is presented in order to show an underlying comparative position:

	Underlying £m	**Non underlying £m**	**FY16 Total £m**	Underlying £m	Non underlying £m	FY15 Total £m
EBITDA	**94.4**	**-**	**94.4**	89.2	(11.6)	77.6
Depreciation and amortisation	**(18.6)**	**-**	**(18.6)**	(17.0)	-	(17.0)
Operating profit	**75.8**	**-**	**75.8**	72.2	(11.6)	60.6
Net finance expense	**(11.3)**	**-**	**(11.3)**	(38.9)	(11.0)	(49.9)
Profit/(loss) before tax	**64.5**	**-**	**64.5**	33.3	(22.6)	10.7
Taxation	**(14.2)**	**9.9**	**(4.3)**	(10.4)	2.9	(7.5)
Profit/(loss) for the year	**50.3**	**9.9**	**60.2**	22.9	(19.7)	3.2
Adjusted for:						
Shareholder loan interest	**-**			16.6		
Adjusted profit after tax	**50.3**			39.5		
Earnings per share	**23.7p**			18.5p		

Sales and revenue

Group gross sales for the full year increased by 7.4% to £980.4 million (FY15: £913.1 million), including a 6.1% increase in DFS sales as well as increased contributions from Dwell and Sofa Workshop. This growth was ahead of the 7.0% reported at the half year as a result of the acceleration of the conversion of in-store warehouses into new retail space, predominantly new Dwell stores.

Group revenue grew by 7.1% to £756.0 million (FY15: £706.1 million). The slightly different growth rate to gross sales reflects increased uptake of interest free credit by Dwell and Sofa Workshop customers and a change in the rate of insurance premium tax increasing the cost of certain aftercare services.

Gross margin

Gross profit has continued to increase at a faster rate than revenue, up 9.9% to £134.3 million (FY15: £122.3 million). This reflects a small improvement in gross margin on goods sold, consistent with our previous guidance that planned investments in price points is now complete. We also continue to benefit from the spreading of our marketing costs over a wider revenue base as the business continues to grow.

Currently prevailing US Dollar and Euro foreign exchange rates, particularly the US Dollar which is the currency denomination in which we purchase c. $120 million annually of finished goods, present us with some challenges in sustaining this progress. Active management of our sourcing, cost base and range mix will, we believe, already offset approximately two thirds of the gross impact in the financial year, with a £4 million adverse net impact remaining to be addressed. We continue to work to seek to offset the remainder of the impact within the financial year.

Looking further ahead, the actions we are taking together with the scale of our operations, geographical mix of our sourcing and our significant UK own-manufacturing capability provide us with significant advantages compared to many other retailers in our sector.

Central costs

Underlying administrative expenses rose by £6.8 million to £39.9 million for the full year. This arose from a number of factors:

In line with our accounting policy, in FY15 £2.8 million of first year costs relating to international and acquired business start-up activity were included within non-underlying items, reducing reported underlying administrative costs by this amount last year. These businesses are now presented entirely within underlying operations.

The accelerated expansion of our subsidiary businesses through our ongoing retail space optimisation programme has also resulted in increased costs of c.£1.3 million arising in advance of sales growth.

The remaining increase is due to additional costs associated with our new status as a publicly listed company, including employee share based remuneration charges, performance-related bonuses and additional training and compliance costs.

For the new financial year, we anticipate a further increase in share based payment charges and some continuation of investment for growth, totalling c.£2 million.

Operating profit and EBITDA

The net impact of the sales and margin effects noted above was a 5.8% increase in underlying EBITDA for the year to £94.4 million (FY15: £89.2 million), with the underlying EBITDA margin decreasing slightly to 12.5% (FY15: 12.6%) as a result of the increase in central costs noted above. Underlying operating profit rose 5.0% to £75.8 million (FY15: £72.2million).

Finance costs

Interest payable primarily relates to the Group’s senior bank facility of £200.0 million (together with an undrawn revolving credit facility of £30.0 million). As we noted in last year’s annual report, the new capital structure in place following the IPO has significantly reduced underlying finance costs.

Tax

As reported at the half year, the Group has now concluded a long-running negotiation with HMRC in respect of the amount of shareholder loan interest allowable for corporation tax in the period of Advent International’s ownership. The potential benefit of this had not previously been recognised and accordingly a prior year tax credit of £9.9 million has been recognised in the income statement for the current year and is shown as a non-underlying item. Corporation tax due in respect of historical periods in relation to this of £5.9 million has been received in full and is included in the cash flow statement.

Excluding this one-off credit, and the impact of a change in the tax rate applied in the calculation of the Group’s deferred tax asset, the underlying effective tax rate for the year was 20.5% (FY15: 21.5%), slightly higher than the UK Corporation Tax rate applicable in the period of 20.0% (FY15: 20.7%).

Earnings per share

Underlying earnings per share ("EPS") for the year was 23.7 pence. Basic earnings per share was 28.3 pence (FY15: 4.3 pence). The statutory EPS figures for last year were impacted by the pre-IPO capital structure being in place for the majority of the year. Using the more comparable adjusted earnings of £39.5 million as shown in the table above and the same number of shares in issue as for this year's EPS calculation results in an adjusted underlying EPS for the year to July 2015 of 18.5 pence per share.

Capital expenditure

Cash capital expenditure for the year was £24.5 million (FY15: £20.8 million). We have continued our programme of new store openings and maintained our ongoing investment in the refit of existing stores to sustain a high quality retail environment. Additional capital expenditure was made in FY16 in support of the accelerated roll out of the CDC programme, including the expansion of Dwell. We have also undertaken further development of our market-leading retail website and made significant investments in new in-store technologies such as 'Swoosh'.

We anticipate that capital expenditure will show a similar increase in the year ahead to £28-30 million (and reducing thereafter) reflecting significantly more CDC and retail space conversions than in FY16, as well as maintaining our current rate of new store openings (3-5 new stores per annum) and investment in other growth initiatives.

Cash flow and balance sheet

The Group continues to maintain a robust balance sheet to support future growth. We closed the year with cash of £66.7 million (FY15: £40.7 million), giving a net debt position of £137.1 million (FY15: £162.2 million) and achieving a gearing ratio of 1.45 times underlying EBITDA. This strong performance included the payment of a total of £27.3 million in dividends (comprising interim and final dividends for FY15 as well as the interim dividend for FY16) and £3.7 million for the purchase of 1.5 million of our own shares. The shares bought back are held in treasury for the purposes of satisfying employee share awards.

Dividend

The continued strength of our cash flow allows DFS consistently to both reduce leverage and to return cash to shareholders as part of our total shareholder return. In line with our previously stated dividend policy of a pay-out ratio of 45-50% of profit after tax the Board has therefore proposed a final dividend of 7.5 pence per share taking total dividends for FY16 to 11.0 pence per share, an increase on the prior year of 18.3%.

Over the medium term the Board intends to operate leverage broadly in the range of 1.0 to 1.5 times net debt to underlying LTM EBITDA. To the extent there is surplus cash within the business, after taking into account capital requirements of the business, the Board expects to return this to shareholders.

As outlined in the Chairman's statement, the Board's current intention is to undertake a special capital return during FY17 while targeting net debt to underlying EBITDA at approximately 1.5 times at the end of the financial year. The final amount and form of this return will be announced alongside the interim results and will be subject to the likely capital needs of the business.

The Board's intention is for this return to form a sustainable and recurring increment to the Group's Total Shareholder Return.

Nicola Bancroft
Chief Financial Officer

Consolidated income statement

	Note	**Underlying £m**	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Gross sales	*2*	**980.4**	**-**	**980.4**	913.1	-	913.1
Revenue	*2*	**756.0**	**-**	**756.0**	706.1	-	706.1
Cost of sales		**(621.7)**	**-**	**(621.7)**	(583.8)	-	(583.8)
Gross profit		**134.3**	**-**	**134.3**	122.3	-	122.3
Administrative expenses		**(39.9)**	**-**	**(39.9)**	(33.1)	(11.6)	(44.7)
Operating profit before depreciation and amortisation		**94.4**	**-**	**94.4**	89.2	(11.6)	77.6
Depreciation		**(16.4)**	**-**	**(16.4)**	(14.3)	-	(14.3)
Amortisation		**(2.2)**	**-**	**(2.2)**	(2.7)	-	(2.7)
Operating profit	*3*	**75.8**	**-**	**75.8**	72.2	(11.6)	60.6
Finance income		**0.3**	**-**	**0.3**	0.1	-	0.1
Finance expenses	*4*	**(11.6)**	**-**	**(11.6)**	(39.0)	(11.0)	(50.0)
Profit before tax		**64.5**	**-**	**64.5**	33.3	(22.6)	10.7
Taxation		**(14.1)**	**9.9**	**(4.2)**	(10.4)	2.9	(7.5)
Profit/(loss) for the period		**50.4**	**9.9**	**60.3**	22.9	(19.7)	3.2
Attributable to:							
Owners of the Company		**50.4**	**9.9**	**60.3**	24.4	(19.7)	4.7
Non-controlling interests		**-**	**-**	**-**	(1.5)	-	(1.5)
		50.4	**9.9**	**60.3**	22.9	(19.7)	3.2
Statutory earnings per share							
Basic	*5*	**23.7p**	**4.6p**	**28.3p**	22.4p	(18.1)p	4.3p
Diluted	*5*	**23.5p**	**4.6p**	**28.1p**	22.3p	(18.0)p	4.3p

Consolidated statement of comprehensive income

	2016 £m	2015 £m
Profit for the year	**60.3**	3.2
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	**(0.6)**	7.0
Net change in fair value of cash flow hedges reclassified to profit or loss	**(4.1)**	(2.3)
Income tax on items that are/may be reclassified subsequently to profit or loss	**0.9**	(0.9)
Other comprehensive income/(expense) for the period, net of income tax	**(3.8)**	3.8
Total comprehensive income/(expense) for the period	**56.5**	7.0

Attributable to:		
Owners of the Company	**56.5**	8.5
Non-controlling interests	**-**	(1.5)
	56.5	7.0

Consolidated balance sheet

	2016 £m	2015 £m
Non-current assets		
Property, plant and equipment	**65.1**	57.6
Intangible assets	**491.2**	489.3
Other financial assets	**-**	1.3
Deferred tax assets	**9.1**	12.1
	565.4	560.3
Current assets		
Inventories	**34.9**	28.3
Other financial assets	**3.1**	1.1
Trade and other receivables	**26.4**	25.3
Cash and cash equivalents	**66.7**	40.7
	131.1	95.4
Total assets	**696.5**	655.7
Current liabilities		
Trade payables and other liabilities	**(159.3)**	(145.2)
Provisions	**(6.6)**	(6.1)
Other financial liabilities	**(0.1)**	(0.8)
Current tax liabilities	**(3.0)**	(8.2)
	(169.0)	(160.3)
Non-current liabilities		
Interest bearing loans and borrowings	**(198.3)**	(197.9)
Provisions	**(5.1)**	(4.4)
Other financial liabilities	**(6.1)**	-
Other liabilities	**(67.4)**	(69.2)
	(276.9)	(271.5)
Total liabilities	**(445.9)**	(431.8)
Net assets	**250.6**	223.9
Equity attributable to equity holders of the parent		
Share capital	**319.5**	319.5
Share premium	**40.4**	40.4
Merger reserve	**18.6**	18.6
Treasury shares	**(3.7)**	-
Cash flow hedging reserve	**(3.0)**	1.7
Retained earnings	**(121.2)**	(156.3)
Total equity	**250.6**	223.9

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Cash flow hedging reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 2 August 2014	**42.6**	**-**	**-**	**-**	**(3.0)**	**(113.5)**	**(0.9)**	**(74.8)**
Loss 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 period	-	-	-	-	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**
Profit for the year	-	-	-	-	-	60.3	-	60.3
Other comprehensive income/(expense)	-	-	-	-	(4.7)	0.9	-	(3.8)
Total comprehensive income/(expense) for the period	-	-	-	-	(4.7)	61.2	-	56.5
Dividends	-	-	-	-	-	(27.3)	-	(27.3)
Purchase of own shares	-	-	-	(3.7)	-	-	-	(3.7)
Share based payments	-	-	-	-	-	1.2	-	1.2
Balance at 30 July 2016	**319.5**	**40.4**	**18.6**	**(3.7)**	**(3.0)**	**(121.2)**	-	**250.6**

Consolidated cash flow statement

	2016 **£m**	2015 £m
Operating profit	**75.8**	60.6
Adjustments for:		
Depreciation, amortisation and impairment	**18.6**	17.0
Gain on sale of property, plant and equipment	**(0.6)**	(0.8)
Share based payment expense	**1.2**	0.6
Increase in trade and other receivables	**(1.1)**	(1.6)
(Increase)/decrease in inventories	**(6.6)**	0.5
Increase in trade and other payables	**11.6**	2.4
Increase in provisions	**1.2**	0.2
	100.1	78.9
Tax paid	**(11.4)**	(8.4)
Non-underlying prior year tax credit received	**5.9**	-
Net cash from operating activities	**94.6**	70.5
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**0.8**	0.9
Interest received	**0.3**	0.1
Acquisition of business	**(1.5)**	-
Acquisition of property, plant and equipment	**(21.9)**	(19.0)
Acquisition of other intangible assets	**(2.6)**	(1.8)
Net cash from investing activities	**(24.9)**	(19.8)
Cash flows from financing activities		
Interest paid	**(8.7)**	(41.9)
Exceptional finance costs	**-**	(10.4)
Proceeds from new loan	**-**	200.0
Repayment of borrowings	**-**	(310.0)
Proceeds on issue of new shares	**-**	98.0
Settlement of partly paid share capital	**-**	2.3
Payment of deferred consideration on acquisition	**(2.3)**	-
Payment of finance lease liabilities	**(1.7)**	(0.9)
Purchase of own shares	**(3.7)**	-
Dividends paid	**(27.3)**	(0.9)
Net cash from financing activities	**(43.7)**	(63.8)
Net increase/(decrease) in cash and cash equivalents	**26.0**	(13.1)
Cash and cash equivalents at beginning of period	**40.7**	53.8
Cash and cash equivalents at end of period	**66.7**	40.7

Notes to the condensed consolidated financial statements

1 Basis of preparation

The condensed 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 30 July 2016 (last year 52 weeks to 1 August 2015).

The financial information included in these condensed consolidated financial statements does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the 52 weeks ended 1 August 2015 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The auditor's report for those accounts was unqualified, did not included a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.Accounting policies

Going concern

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £200.0 million senior loan facility maturing in 2020 and an as yet undrawn revolving credit facility of £30.0 million in place until March 2020.

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. The directors are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the interim 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**	
	2016	2015	**2016**	2015	**2016**	2015
	£m	£m	**£m**	£m	**£m**	£m
Retail	**980.4**	913.1	**1.2**	0.6	**981.6**	913.7
Other segments	**-**	-	**91.0**	92.7	**91.0**	92.7
Eliminations	**-**	-	**(92.2)**	(93.3)	**(92.2)**	(93.3)
Gross sales	**980.4**	913.1	**-**	-	**980.4**	913.1

	2016	2015
	£m	£m
Total segments gross sales	**980.4**	913.1
Less: value added and other sales taxes	**(152.0)**	(141.4)
Less: costs of interest free credit and aftercare services	**(72.4)**	(65.6)
Revenue	**756.0**	706.1

2 Segmental Analysis (continued)

	2016 £m	2015 £m
Retail underlying EBITDA	**87.4**	82.4
Other segments underlying EBITDA	**7.0**	6.8
	94.4	89.2
Depreciation & amortisation	**(18.6)**	(17.0)
Non-underlying items (note 3)	**-**	(11.6)
Operating profit	**75.8**	60.6
Finance income	**0.3**	0.1
Finance expenses	**(11.6)**	(39.0)
Exceptional refinancing costs	**-**	(11.0)
Profit before tax	**64.5**	10.7

A geographical analysis of revenue is presented below:

	2016 £m	2015 £m
United Kingdom	**734.2**	689.7
Europe	**21.8**	16.4
Total revenue	**756.0**	706.1

3 Operating profit

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

	2016 £m	2015 £m
Depreciation on tangible assets	**16.4**	14.3
Net gain on disposal of property, plant and equipment	**(0.6)**	(0.8)
Amortisation of intangible assets	**2.2**	2.7
Cost of inventories recognised as an expense	**315.2**	295.8
Write down of inventories to net realisable value	**0.4**	0.8
Operating lease rentals	**58.9**	56.7

Non-underlying items

Items that are material in size, unusual or non-recurring in nature as disclosed separately in the income statement in order to provide an indication of the Group’s underlying business performance. Non-underlying items relating to the reported financial period are as follows:

	2016 £m	2015 £m
Accelerated share based payments charge	**-**	0.1
International and acquired business set-up costs	**-**	2.8
Non-recurring and exceptional legal and professional costs	**-**	8.7
	-	11.6

4 Finance expense

	2016 **£m**	2015 £m
Interest payable on senior secured notes	**-**	(14.2)
Interest payable on senior loan facility	**(7.9)**	(2.8)
Bank fees	**(0.3)**	(0.5)
Fair value lease adjustment unwind	**(3.0)**	(3.0)
Interest payable on parent company loan	**-**	(17.0)
Interest payable on 17% cumulative redeemable preference shares	**-**	(0.1)
Interest payable on 8% vendor loan notes	**-**	(0.2)
Unwind of discount on provisions	**(0.1)**	(0.1)
Finance lease interest	**(0.3)**	(0.3)
Other interest	**-**	(0.8)
Total finance expense	**(11.6)**	(39.0)

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

5 Earnings per share

	2016 **Pence**	2015 pence
Basic earnings per share	**28.3**	4.3
Diluted earnings per share	**28.1**	4.3

	2016 **£m**	2015 £m
Profit attributable to equity holders of the parent company	**60.3**	4.7

	2016 **£m**	2015 £m
Weighted average number of shares for basic earnings per share	**212,896,904**	108,753,074
Dilutive effect of employee share based payment awards	**1,222,417**	380,479
Weighted average number of shares for diluted earnings per share	**214,119,321**	109,133,553

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.

	2016 **£m**	2015 £m
Profit attributable to equity holders of the parent company	**60.3**	4.7
Non-underlying items	**-**	22.6
Tax effect of non-underlying items	**(9.9)**	(2.9)
Underlying profit/(loss) attributable to equity holders of the parent	**50.4**	24.4

	2016 **Pence**	2015 pence
Underlying basic earnings per share	**23.7**	22.4
Underlying diluted earnings per share	**23.5**	22.3

6 Dividends

			2016 £m	2015 £m
Interim ordinary dividend for the period ended 1 August 2015	3.1p	paid	**6.6**	-
Final ordinary dividend for the period ended 1 August 2015	6.2p	paid	**13.2**	-
Interim ordinary dividend for the period ended 30 July 2016	3.5p	Paid	**7.5**	-
			27.3	-

The directors recommend a final dividend of 7.5 pence per share in respect of the financial period ended 30 July 2016, resulting in a total proposed dividend of £16.0 million. Subject to shareholder approval it is intended that this dividend will be paid on 28 December 2016. DFS Furniture plc shares will trade ex-dividend from 8 December 2016 and the record date will be 9 December 2016. This dividend has not therefore been recognised as a liability in these financial statements.

7 Business combinations

On 1 October 2015, the Group acquired the trade and assets of DFS Spain for cash consideration of £1.5 million.

8 Financial instruments

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.

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.

9 Capital expenditure

For the 52 weeks to 30 July 2016, acquisition of property, plant and equipment (including those acquired under finance leases) totalled £24.1 million (2015: £21.1 million). Acquisitions of intangible assets (computer software) totalled £2.6 million (2015: £1.8 million).

At 30 July 2016 the Group had contracted capital commitments of £3.4 million (2015: £2.1 million) for which no provision has been made in the financial statements.

10 Net debt

	2015 £m	Cash flow £m	Other non-cash changes £m	2016 £m
Cash in hand, at bank	40.7	26.0	-	**66.7**
Cash and cash equivalents	40.7	26.0	-	**66.7**
Senior loan facility	(197.9)	-	(0.4)	**(198.3)**
Finance lease liabilities	(5.0)	1.7	(2.2)	**(5.5)**
Total net debt	(162.2)	27.7	(2.6)	**(137.1)**

11 Annual General Meeting

The Annual General Meeting will be held on Friday 2 December 2016 at 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA. The Annual Report and Accounts and Notice of Meeting will be sent to shareholders and copies will be available from the Company’s registered office: 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA and on the Company’s website at www.dfscorporate.co.uk.

This interim report, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at www.dfscorporate.co.uk

This interim report contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Company and the industry in which the Company operates. These statements may be identified by words such as "may", "will", "shall", "anticipate", "believe", "intend", "project", "goal", "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions for the negative thereof; or by forward-looking nature of discussions of strategy, plans or intentions; or by their context. No representation is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. All statements regarding the future are subject to inherent risks and uncertainties and various factors that would cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company nor any other person accepts any responsibility for the accuracy of the opinions expressed in this interim report or the underlying assumptions. Past performance is not an indication of future results and past performance should not be taken as a representation that trends or activities underlying past performance will continue in the future. The forward-looking statements in this interim report speak only as at the date of this interim report and the Company expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in the Company's expectations in regard thereto or any change in events, conditions or circumstances on which any statement is based after the date of this interim report or to update or to keep current any other information contained in this interim report or to provide any additional information in relation to such forward-looking statements. Undue reliance should not therefore be placed on such forward-looking statements.