4 October 2018 **For immediate release**

DFS Furniture plc

Preliminary Results

SOLID OPERATIONAL AND STRATEGIC PROGRESS WITH TRADING PERFORMANCE IMPACTED BY EXCEPTIONALLY HOT WEATHER IN FOURTH QUARTER

DFS Furniture plc (the "Group"), the market leading retailer of living room and upholstered furniture in the United Kingdom today announces its preliminary results for the 52 weeks ended 28 July 2018 (prior year: 52 weeks ended 29 July 2017).

Financial Summary:

- Group revenue including acquisitions up 14.1% to £870.5 million (FY17: £762.7 million)
- Revenue before acquisitions down 2.0% to £747.7m (FY17: £762.7m)
- Underlying EBITDA down 7.6% to £76.1 million (FY17: £82.4 million)
- Underlying profit before tax and brand amortisation down 23.7% to £38.3 million (FY17: £50.2 million)
- Reported profit before tax down 48.5% to £25.8 million (FY17: £50.1 million)
- Underlying EPS down 25.1% to 14.0p (FY17: 18.7p)
- Reported EPS after acquisition costs down 52.4% to 8.9p (FY17: 18.7p)
- Higher leverage from lower profitability and cost of acquisitions: 2.1x net debt / underlying EBITDA (FY17: 1.75x)
- Final dividend of 7.5p per share proposed, maintaining total ordinary dividend at 11.2p for the year (FY17: 11.2p)

Operational Summary:

- Strategic progress continued across all brand businesses despite fourth quarter environment:
  - Omnichannel
    - Strong +15.1% growth in Group online revenues
    - Improved mobile site and app capabilities including launches of UK sector's first augmented reality web technology and cross-channel order build
  - Broadening our appeal to customers
    - Continued progress in DFS brand appeal metrics
    - Good growth in DFS partnership brands, helped by Joules launch
    - Sofology trading positively with good momentum on realising synergies
    - First (and to date only) sofa retailer to secure British Standards Kitemark
  - Store network development
    - Three new 10-15,000 sq. ft. DFS stores opened and trading successfully
    - Small store DFS trials opened in Chelmsford and Guildford
  - Retail space and distribution cost efficiency
    - Completion of UK CDC network, leading to lower costs per order
    - Four DFS and Sofology UK store leases renegotiated, leading to material rent reductions

- International development
  - Netherlands TV marketing trial lengthened to account for heatwave disruption
  - Spain trading profitably following annualisation of second store opening
- Progress on group operating platform continues; opportunity to grow from current sector-leading Group EBITDA margins of 8.7%
- Continuation of very strong DFS customer satisfaction scores; post-purchase NPS of 84.9% (FY17: 85.2%); established customer NPS (surveyed 6 months post order) rising from 34.2% to 35.8%

DFS Chief Executive Officer Ian Filby said:

"We have continued working to develop the Group's strategic and market position; however financial results for the year reflected the exceptional downturn in market demand we saw in the fourth quarter.

"We are pleased to note that the market has recovered since the start of the new financial year, with the Group seeing like-for-like order growth across all brands over the first nine weeks. We believe, however, we are benefiting from deferred purchases in the prior financial year and overall we expect the market to remain subdued into 2019, constrained by political risk and weak consumer sentiment. Notwithstanding this we believe the Group is well positioned to become stronger in this current environment, boosted by investment and acquisition benefits, and we have excellent prospects for profitable growth and attractive cash flow generation over the longer term."

Key Performance Indicators

	FY18	FY17	YoY change
Financial KPIs			
Gross sales[1]	£1,125.6m	£990.8m	+13.6%
Revenue	£870.5m	£762.7m	+14.1%
Revenue before acquisitions	£747.7m	£762.7m	-2.0%
Underlying EBITDA[2]	£76.1m	£82.4m	-7.6%
Underlying EBITDA before acquisitions[2]	£72.6m	£82.4m	-11.9%
Reported profit before tax	£25.8m	£50.1m	-48.5%
Underlying profit before tax and brand amortisation[3]	£38.3m	£50.2m	-23.7%
Underlying earnings per share[4]	14.0p	18.7p	-25.1%
Earnings per share	8.9p	18.7p	-52.4%
Free cash flow[5]	£60.4m	£57.0m	+6.0%
Cash conversion[6]	79.4%	69.2%	+10.2%pt
Dividend	11.2p	11.2p	-
Non-financial KPIs			
Number of UK & ROI DFS stores	116	113	
Post purchase Net Promoter Score	84.9%	85.2%	
Established Customer Net Promoter Score	35.8%	34.2%	
Group Online revenue growth rate	+15.1%	+11.1%	
Growth in partnership brand sales	+7%	+20%	
Average no. of stores with converted warehouse space[7]	44	36	

Notes:

[1] Gross sales represents 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.

[2] Underlying EBITDA means 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 prior period underlying performance. Underlying EBITDA before acquisitions means Underlying EBITDA excluding the performance of acquired businesses.

[3] Brand amortisation of £1.1m in FY18 and £0.1m in FY17 associated with the amortisation of the acquired brands of Sofology, Dwell and Sofa Workshop

[4] Underlying earnings per share means post tax earnings per share as adjusted for certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's prior period underlying performance.

[5] Free cash flow is the sum of Underlying EBITDA, less gross capital expenditure and changes in working capital.

[6] Cash conversion is free cash flow expressed as a percentage of Underlying EBITDA

[7] Weighted average number of DFS stores during the financial period where former warehouse space has been converted into retail space.

Analyst Presentation

DFS will be hosting an analyst presentation at 10.30am today. The presentation slides and a listen only web-cast facility will be available through the Group's corporate website: www.dfscorporate.co.uk. The presentation slides will be made available on the Group's website: www.dfscorporate.co.uk.

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About DFS Furniture plc

DFS is the clear market leading retailer of living room furniture in the United Kingdom. We design, manufacture, sell and deliver to our customers an extensive range of furniture products. The business operates a retail network of living room furniture stores in the United Kingdom and Europe, together with an online channel. These have been established and developed gradually over 48 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.

CHAIR'S STATEMENT

Overview

My first full year as Chair has seen two important developments for the Group. In November 2017 we acquired Sofology – a significant addition to the Group which extends our stable of furniture brands. More recently we have announced that Tim Stacey will succeed Ian Filby as Chief Executive later this year to lead the Group forward in the next stage of its development.

In last year's report we noted that the trading environment for the Group had become markedly tougher, with weaker consumer confidence impacting sales particularly in the second half of last year. The start of this year saw some improvement in this picture and at the time of our half year results our expectations for the full year continued to be that the Group would deliver modest EBITDA profit growth. However, continued economic uncertainty for consumers, compounded by some exceptional hot weather over key trading periods in the final quarter, resulted in sales and profits for the full year falling below our expectations.

While retailers will inevitably feel the short term effects of external factors, we are focussed on evolving our strategy to acknowledge the long term structural changes in our market and the changing expectations of our customers, including the role that online and, in particular, mobile technology plays. The number of retailers entering CVAs or administration in recent months serves as a stark reminder of the dangers of failing to keep pace.

Over the medium term, the current weakness in the market does present the Group with opportunities, which we can exploit through an unrelenting focus on understanding and satisfying the needs of our customers. It also requires a sharp focus on the returns from our capital expenditure.

People

I am delighted that after an extensive and demanding process an internal candidate has been appointed as our new Chief Executive, and this illustrates how Ian Filby has built a team with growing strength and depth during his tenure. Ian has been an exemplary leader over the last eight years and his continued availability and support over the coming year will be invaluable as Tim Stacey develops the senior management structure which is now in place. Tim has already met with many external stakeholders as part of his induction to his new role and will present his assessment of our strategy to shareholders with the half year results early next year.

The colleagues in our shops, warehouses, offices, and delivery and service vehicles are dedicated, enthusiastic and proud of the Group's market-leading position. We will continue to support their efforts by building on the extensive training which they receive and improving the information systems to allow the Group to become ever more agile and well informed.

Board

Following the departure of Gwyn Burr earlier in the year, I am pleased to welcome Alison Hutchinson to the Board. Alison will take on the role of Remuneration Committee Chair from 1 October 2018. My thanks also go to Luke Mayhew for the admirable role he has played in the interim in leading the Committee through this year's remuneration review.

Julie Southern has announced her decision not to stand for re-election at this year's AGM and an active search is now underway for her successor as a non-executive and Chair of the Audit Committee.

During the year, the Board has maintained an active agenda with a particular focus on operational performance, strategy and risk.

Dividend

The Board has carefully considered the balance between regular dividends supported by the performance, expectations and capital needs of the Group and the return of capital where there is a surplus. We anticipate that value created over time will be delivered to shareholders through a combination of ordinary dividends, special returns and capital growth.

Notwithstanding the current subdued sales environment, our longer term expectations for the future earnings and cash needs of the business have enabled the Board to recommend maintaining a final dividend of 7.5 pence (FY17: 7.5 pence), taking the full year ordinary dividend to 11.2 pence (FY17: 11.2 pence). The Financial Review provides further information on our dividend policy.

Looking forward

The Group continues to face a particularly uncertain UK consumer market in the run up to Brexit in March next year; the associated risks around this are discussed more fully in the Chief Executive's review.

The Board considers that the Group can look through short term market uncertainties and remain committed to the growth of the Group with some confidence. The executive team has begun the new financial year with great enthusiasm and recognises the opportunity to build upon the unique capabilities of the Group as the UK's largest upholstery retailer (and manufacturer) under the leadership of Tim Stacey.

Ian Durant
Chair of the Board

CHIEF EXECUTIVE'S REVIEW

We have continued working to develop our Group's strategic and market position; however, financial results for the year reflected the impact of the exceptional downturn in market demand we saw in the fourth quarter.

Overview

Our financial results for the year reflect a solid trading performance over the first three quarters, and the impact of the sustained market slowdown we saw in the fourth quarter. This sudden change in market environment was caused by the combination of very hot weather and the distraction caused by major public events. This was compounded by the impact of container shipping delays at Felixstowe, one of our major ports, which delayed some previously anticipated customer deliveries beyond the financial year end and still continues to cause disruption. Notwithstanding this, over the first three quarters we were satisfied with our financial performance in a challenging market and were pleased to see positive like-for-like order intake in the third quarter of the financial year. Throughout the year we have also sought to continue our strategic development and achieved some significant milestones.

Strategic update

Our Group has been transformed over the last twelve months through the acquisition of Sofology. We have commenced significant work to release the cost and revenue benefits of this new member of our Group.

DFS's performance has long been underpinned by an efficient operating platform, which we are working to develop further. Our scale enables us to realise cost advantages across a range of activities, from buying and advertising through to warehousing and two-man customer delivery. Following investment in technology and infrastructure, DFS's operating platform is now being leveraged in some areas by our subsidiaries Dwell and Sofa Workshop, and we have commenced work to broaden DFS's integration with Sofology. Critically the operating management of each brand will retain direct control over all aspects of the customer experience, thereby ensuring a distinctive brand proposition is maintained.

Our key strategic levers for the delivery of future growth continue to be those we set out at IPO. Progress in the year is described below:

Omnichannel

With the vast majority of sofa buyers carrying out significant research online, but also demanding a 'sit and feel test' in showrooms, we continue to believe a strong, integrated stores and web offer is critical to succeed in this segment. We have retained our strong online market leadership, with dfs.co.uk continuing to attract over 40% of all online specialist-sector traffic, and unique website visitor numbers continuing to grow across the Group. Online revenues once again grew strongly by 15.1%, a pleasing result given the challenging market backdrop.

We continue to invest in and optimise our omnichannel experience, particularly the mobile site where most of our web traffic originates. Our Sofology business has made significant progress with its omnichannel technology with the successful launch of its 'my sofology' app, which allows customers to receive additional information and build baskets on their phone in store, either independently or with sales colleague assistance, before then allowing them to check-out immediately or at home. On dfs.co.uk, we are delighted to be the first UK furniture brand to launch augmented reality furniture display on iOS 12 through the mobile web site.

Broadening our appeal to customers

While we are market leader with all customer segments that we identify we still see significant growth opportunity from broadening the Group's appeal, with 32% of all potential customers that are aware of DFS still choosing not to consider the brand.

Our DFS advertising approach has continued to score strongly with customers, driving record "brand love", "brand acceptability" and "brand consideration" scores. In making this progress, we

have also maintained 80% of all DFS advertising as having a pricing/promotional message, which has driven a strengthening of our perceived value and call to action.

We have continued to develop new ranges for DFS under the French Connection, Country Living and House Beautiful brands and successfully launched our new Joules ranges. We have also benefited from the sale of selected ranges from our own Sofa Workshop brand within the DFS store estate.

The acquisition of Sofology has added a strong, distinctive brand with c. £180m of annual revenues to the Group's portfolio. We see significant roll-out potential for Sofology with a large number of areas where DFS currently trades successfully remaining unserved by the Sofology store network. Leveraging the strength of the DFS Group operating platform will also create the potential for some £4 million of near-term synergy benefits in the purchasing of advertising, interest-free credit, upholstery and other services. In the medium to longer term there is scope for further cost and revenue synergies, and for better utilisation of both companies' warehousing facilities and delivery fleets, together with potential for further Group benefits through shared innovation in the future.

Having now owned Sofology for approximately ten months, we are encouraged by the operational performance to date. Through the Group's scale we remain on track to drive anticipated synergies, and our financial strength has allowed us to secure beneficial working capital terms. Assisted by our support, Sofology has been able to deploy significantly higher amounts of marketing, including the use of national TV advertising, which has driven material like-for-like growth year-on-year. While this trading momentum has been encouraging, from October 2018 we will begin to annualise the reintroduction of TV advertising.

With the end of the earn-out period now being reached, Jason Tyldesley Sofology's CEO and former majority shareholder has decided to leave the business. I am however delighted to welcome Sally Hopson, who has joined the Group to take on the Sofology CEO role. Sally brings tremendous experience to Sofology and the Group, with a proven record of success in the furniture business and wider retail, having previously held senior roles at Habitat, Asda and most recently Pets at Home.

Store network development

Our well-established programme of opening new 10-15,000 sq.ft. DFS stores in the UK and Republic of Ireland at the rate of three to five per annum has remained on track, with three new stores in Haverfordwest, Rugby and Wednesbury all opening in the first half on the year. We continue to develop our small format store operating model, with openings in Chelmsford and in Guildford during the year resulting in five in total.

We have three new DFS stores due to open in the 2019 financial year, maintaining our established rate of expansion. We intend to be more selective in future given the national roll-out opportunity in non-cannibalistic locations offered by Sofology.

We are also currently finalising submissions for planning consent at an initial three trial retail park locations within the UK to optimise the existing leased Group retail footprint. In these proven locations, through the use of mezzanine space, we intend to open new Sofology and Dwell stores, while maintaining a full-size DFS 'ground floor only' presence, without any material increase to passing rents. We are also discussing commercial terms with a key partner landlord to deliver three further new build standalone Sofology stores within existing DFS leasehold curtilage, at a limited incremental rental cost for the Group.

Retail space and distribution cost efficiency

I'm pleased to confirm that our accelerated programme of establishing Customer Distribution Centres ("CDCs") for final mile delivery to customers has now completed with the opening of our two final UK CDCs this year. At the year end, 45 stores had benefited from the conversion of their former warehouse space to retail use while the weighted average of converted stores operational through the year was 44. During the current financial year we are converting ex-warehouse space

in 16 stores to sell an extended range of DFS beds and dining furniture, and we will open one additional Dwell store in Farnborough.

We opened six new co-located Dwell stores, thus reaching a total of 36 Dwell stores across the UK. We also opened five new co-located Sofa Workshop stores. Sofa Workshop further grew through the acquisition of six standalone stores that formerly traded as Multiyork. At the end of the financial year there were therefore 31 Sofa Workshop stores operating, offering a true national footprint. We have been pleased at how quickly all these new stores have established themselves and we expect that Sofa Workshop and Dwell will generate attractive financial returns in the 2019 financial year as they leverage the Group operating platform and benefit from their increased store network scale.

We have continued to make progress in negotiations with landlords regarding our leased property estate, seeing significant rent reductions in five recently extended leases. We also took the difficult decision to close, following conversations with landlords, two legacy DFS stores in Darlington and Wetherby and one Dwell store at Westfield White City. Although all established DFS stores contribute towards profits, we are highly disciplined in ensuring we generate incremental profits and good returns on the lease adjusted capital employed. We intend to maintain this approach in future and where we believe stores do not generate an appropriate return we will either mothball or close those locations. The annualised combined benefit of the actions recently implemented will be to reduce our rental cost by over £2.0 million per annum, of which c. £1.2 million relates to leases renegotiated and extended.

Looking forward, with 42 leases now due to expire by the end of 2023, we continue to believe there will be a significant annualised property cost (rent and rates) benefit of £6-8 million to be realised through the renewal of leases.

International development

Our measured strategy of testing and learning in the Netherlands continues to progress. As we previously announced, we trialled TV marketing this Spring to assess the potential uplift from replicating the UK operations' broadcast marketing model. This proved initially encouraging however as the Netherlands experienced the same hot weather seen across the UK in the fourth quarter, we shall continue our trial for a further six months in order that we may fully assess this opportunity. This will fall within the scope of our budgeted operating loss in The Netherlands, which we expect to be in the range of £2-3 million for the coming year.

In Spain, our second store in Malaga is now fully established and, together with our first store in San Javier, we continue to be pleased by progress. Notwithstanding the uncertainties surrounding Brexit, the business has performed well and contributed to operating profit during the year.

Customer service

Delivering the highest standards of service to all our customers is explicit in our Group's values. Our approach relies both on proactive training and on careful monitoring of our Net Promoter Score ("NPS") which is linked to staff incentivisation, combined with a feedback system that allows us to accurately measure and track the satisfaction of customers throughout their purchase down to product, store, factory and employee level.

I am pleased to report another strong performance in our DFS overall post-purchase NPS of 84.9% during the year, broadly in line with 85.2% in the prior year, and an improvement in established customer satisfaction (surveyed six months after orders are placed) to 35.8%, compared with 34.2% in FY17.

The quality of our products has always been of great importance to us, and we are very proud that DFS has become the first (and to date only) retailer in the sector to have its upholstery products carry the prestigious British Standards Kitemark^{TM}.

Impact of the UK's Exit Process from the EU

We continue our work to assess and mitigate the likely impact from the current UK process to exit the EU. Given the range of possible scenarios it is impossible for us to be specific, however, we have been reviewing and continue to assess five potential aspects in particular, which may have an impact on our Group:

1) Consumer demand - we recognise the retail market for furniture may be volatile, so we intend to remain vigilant to signs that consumer demand is being affected, so that we may seek to respond appropriately and expediently

2) Border delays – while we have significant internal manufacturing activities and strong relationships with British manufacturers, just over half of finished good products that we sell are imported into the UK from mainland Europe or China. Although furniture goods will not 'spoil' as a result of any border delays, we would still see a deferral in revenue recognition in our made-to-order model and there would be an adverse impact to the customer proposition. We are trialling ways to accelerate the movement of goods internationally to mitigate some of these impacts. We also import raw materials (principally timber and fabric) to manufacture finished goods. We would expect our partner suppliers to increase the near-shore the supply of these

3) Increased regulatory burden and other friction - we operate our mainland EU activities using UK entities, and complying with European standards, including on passporting arrangements in financial services. We are reviewing any impacts on our ability to trade using this approach.

4) We do not currently expect to see a material tariff impact, as our finished goods currently largely attract a 0% tariff under WTO terms and our business has experience of operating within the tariff regime for Far East imports. Notwithstanding this there may be additional administrative and other cost burdens associated with the chain of custody requirements to avoid tariffs being imposed on raw materials imports.

5) Exchange rates - the exit process may prompt movements in the USD/GBP exchange rate, which would impact the cost of our Far East imports. We have increased Group hedging to cover our expected US Dollar requirements for the next eighteen months to give us increased time to respond to any such adverse trends

We will continue our preparations for all likely process outcomes as part of our regular risk mitigation process, until the UK and EU's path forward is clear.

Corporate responsibility

Our Group believes in responsible business conduct, and we work to raise our operational standards each year. We aim to interact with our customers, colleagues, shareholders, suppliers and the people in the communities in which we operate in a way that has a positive impact on society and the environment while supporting the Group's longer term commercial and strategic objectives. Our sofa recycling partnership with The British Heart Foundation generated close to £4 million this year and we are on target to raise £1.5 million for BBC Children in Need by 2019 through our "Give me Five" customer initiative. In addition we continue to support The Duke of Edinburgh's Award and numerous local charities through direct donations.

We are committed to promoting a positive health and safety culture throughout DFS and improving the environmental performance of our operations year-on-year. We have continued to invest in improving our processes and practices to ensure that we operate safe, secure and responsible workplaces no matter where they are.

We will introduce a timber sourcing policy in the current financial year, under which we will measure and report on the certification of timber sources to inform future improvements. We are also undertaking a review of our finished goods packaging to seek to minimise our impact on the environment.

We recognise investing in our team of more than 5,000 people is critical to our success. We have continued our programme of training and development of all our people, with a particular emphasis on leadership development across our retail organisations. We are also proud of our award-winning apprenticeship programme, which is providing us with a new generation of highly-skilled colleagues. We are pleased to receive external recognition for excellence in employee conditions by the continuation for the fifth year of our Top Employer certification from the Top Employers Institute, and also our recognition within the Sunday Times' Top 25 'Best Big Companies to Work For'.

CEO succession

DFS announced in May 2018 that I was planning to retire as CEO at the end of October 2018. I was delighted to see that the Board of Directors and Nomination Committee chose Tim Stacey, previously our Chief Operating Officer, to be my successor. Having worked with Tim for many years, I believe he is a strong choice with a good balance of omnichannel retail, people leadership, strategic development and financial analysis skills. This appointment reflects both the quality of the Group's senior leadership and the success of our philosophy of developing internal talent. I look forward to supporting him in this role as I take on the role of Non-Executive Chair of Sofology over the 12 months to October 2019.

Outlook

We have continued working to develop our Group's strategic and market position; however financial results for the year reflected the exceptional downturn in market demand we saw in the fourth quarter. Our online channels, together with our Sofology, Dwell and Sofa Workshop businesses, continue to grow and we will continue to progress our operational and strategic development. The financial returns of strategic investments in online, new stores and our distribution network are feeding through into our results and we expect these along with operating cost efficiencies to benefit the new financial year.

We are pleased to note that the market has recovered since the start of the new financial year, with the Group seeing like-for-like order growth across all brands over the first nine weeks. We believe however, we are benefiting from deferred purchases in the prior financial year and overall we expect the market to remain subdued into 2019, constrained by political risk and weak consumer sentiment. Notwithstanding this we believe we are well positioned to become stronger in this current environment, boosted by investment and acquisition benefits, and we have excellent prospects for profitable growth and attractive cash flow generation over the longer term.

Ian Filby
Chief Executive Officer

INTRODUCTORY THOUGHTS FROM TIM STACEY, CEO DESIGNATE

I feel hugely proud and honoured to be very shortly taking on the position of CEO at DFS. I have worked with Ian and the DFS team over the last seven years to grow our market-leading position and I see many exciting opportunities ahead. I'd like to take this opportunity to thank Ian for his continuing support and guidance, particularly over the last four months in helping me transition into my new role.

During this transition period I have taken some time to reflect on our strategic priorities. While I intend to present a more detailed update in our interim results in early 2019, I'd like to share some early reflections at this stage.

The five growth levers that we have followed to date have each had a clear business rationale and generated near-term returns. However, in today's market, I intend to increase the pace and focus on a few specific areas:

- We need to grow the core DFS business, driving like-for-like sales through the strengthening of our end to end customer proposition and by accelerating our omni-channel strategy;
- With the acquisition of Sofology, and the continued growth at Dwell and Sofa Workshop, it is now time to develop a true platform of services to be shared across the Group to reduce costs and increase capital efficiency; and
- We will exploit the revenue and earnings growth opportunities now presented by Sofology, Dwell and Sofa Workshop.

I'm also keen to ensure that our plans are underpinned by a deeper, evidence-based understanding of our customers across the Group portfolio. We will continue our work in building these foundations.

To deliver the plan I need great people around me and I'm delighted to have such a strong Executive Team in place, consisting of talent from within the Group, following the re-structuring of our key leadership positions to align with my appointment as CEO designate in August. I've also taken the opportunity to reinforce the executive team through the addition of Sally Hopson as CEO of Sofology. Sally brings a wealth of retail experience to the Group and will work with Ian Filby, in his new role as Chairman of Sofology, to build this growing business.

In summary I'm looking forward to taking up the mantle of CEO and to seizing the opportunities available to us to ensure the Group continues to flourish.

There is a real 'can do' attitude that pervades throughout the organisation and this provides me with great confidence that we will build on our position as the market leader by delighting our customers, providing a great working environment for our colleagues and as a result produce strong returns for our shareholders.

Tim Stacey
Chief Executive Designate

FINANCIAL REVIEW

We began the year well prepared for the continued challenging conditions in the UK living room furniture market, and the actions initiated in FY17 to improve our gross margin percentage have yielded positive results. The underlying weakness in the market was compounded in the last quarter of the year by a sustained period of hot weather which impacted key trading periods. The acquisition of Sofology represents a significant opportunity for the Group and the performance of the acquired business has been encouraging so far.

The Group successfully completed the acquisition of Sofology on 30 November 2017. Accordingly, the consolidated results presented in this annual report include 8 months' activity of the acquired business. In order to facilitate an understanding of underlying trading performance, the following table (which excludes non-underlying items) separates the results of Sofology from the pre-acquisition Group:

	DFS £m	Other brands £m	Existing Group £m	Sofology £m	Total £m
Gross sales	898.5	71.9	970.4	155.2	1,125.6
Revenue	689.2	58.5	747.7	122.8	870.5
Cost of sales	(276.7)	(25.9)	(302.6)	(61.0)	(363.6)
Gross profit	412.5	32.6	445.1	61.8	506.9
Selling and distribution costs (excl. property costs)	(223.9)	(22.3)	(246.2)	(35.3)	(281.5)
Brand contribution	188.6	10.3	198.9	26.5	225.4
Property costs			(84.8)	(14.3)	(99.1)
Underlying administrative expenses			(41.5)	(8.7)	(50.2)
Underlying EBITDA			72.6	3.5	76.1

As noted in the financial statements, with the expansion of the Group through a significant acquisition, we have taken the opportunity to enhance the presentation of our financial information by separating direct cost of sales from other selling and distribution costs on the face of the income statement. The table above further shows property costs separately in order to highlight brand contribution, our preferred measure of segment profitability.

PRE-ACQUISITION GROUP

Gross sales and revenue

At the half year we reported a 3.5% decrease in Group gross sales and revenue, reflecting the tougher market conditions that had begun in the latter part of FY17. The impact of this new environment began to annualise in the second half of this year, giving a lower percentage decrease for the full year of 2.0%.

We had planned for challenging trading conditions through the year; however, as set out above, the final quarter was significantly more challenging than expected which gave rise to a disappointing end to the year as we described in our July trading statement.

As a consequence, gross sales for the year excluding acquisitions were £970.4 million (FY17: £990.8 million) and revenue was £747.7 million (FY17: £762.7 million).

Gross profit

While we experienced a reduction in revenue, we continued to benefit from our ongoing actions to improve our sourcing and range mix and consequently the gross profit for the pre-acquisition Group of £445.1 million (FY17: £448.5 million) was only 0.8% below last year. This represents an increase of 70 basis points in gross margin percentage to 59.5% (FY17: 58.8%) across the full financial year, in line with the expectation we shared at the half year.

This improvement was despite the impact of less favourable US Dollar exchange rates, particularly in the first half of the year. We continue to fully hedge our US Dollar purchases, with cover currently in place for the Group up to 18 months ahead.

Operating Costs
The deflation in TV advertising costs that we noted at the half year continued for the majority of the second half, allowing us to make savings in promotional spend while maintaining our strong presence and share of voice. This deflationary trend annualised towards the end of the financial year and we anticipate some inflationary impacts as we move forward into FY19.

Other operating costs were broadly consistent as a proportion of revenue, reflecting the high degree of variability in our cost base. However, new store openings in the year (and annualisation of those opened last year) did contribute to a small increase in non-variable elements of employee and site costs. Total selling and distribution costs overall decreased by 0.5% to £246.2 million (FY17: £247.5 million).

Property costs and administrative expenses
New store and CDC openings resulted in an increase in property costs of £4.3 million to £84.8 million, which in an environment of negative like-for-like revenues generated an increase in these costs relative to revenue.

Underlying administrative expenses increased by 8.9% to £41.5 million (FY17: £38.1 million) reflecting increased share based payment charges and auto-enrolment pension costs as well as some annualisation of vacancies filled in the last year.

Underlying EBITDA
As a net consequence of the decrease in revenue and the other factors described above, underlying EBITDA for the pre-acquisition Group decreased by 11.9% to £72.6 million (FY17: £82.4 million).

ACQUISITIONS

Sofology
The Group's acquisition of Sofology Limited was formally completed on 30 November 2017, with initial cash consideration payable of £26 million, reflecting a debt-free, cash-free valuation of £25 million. After the recognition of an intangible asset of £13.8 million in respect of the Sofology brand name, goodwill arising on the transaction was £28.4 million. This figure represents an update on the provisional values available at the time of our interim results in March 2018.

The earnings period determining the value of any deferred consideration payable on the acquisition ended on 30 September 2018. Final results were still being prepared at the time of the publication of this annual report and there remains a high degree of uncertainty; however based on information available to date, some additional consideration may be payable and accordingly an accrual of £5.0 million has been recognised as a non-underlying expense. The performance of the acquired business has been encouraging and we are beginning to see some early benefits of the synergies we aim to realise. Sofology contributed £122.8 million to Group revenue in the year and generated brand contribution of £26.5 million and a loss before tax of £1.4 million. If Sofology had been part of the Group for the full financial year, it would have contributed a total of £180.0 million to reported Group revenue, brand contribution of £36.6 million and loss before tax of £4.1 million.

Multiyork
As announced on 22 December 2017, the Group agreed to acquire eight store leases and certain assets and intellectual property from Multiyork Furniture Limited on 27 December 2017, following that business entering administration for cash consideration, of £1.2 million.

COMBINED GROUP

Revenue and profit

Total Group revenue for the year, including acquisitions, was £870.5 million, an increase of 14.1% on the previous year (FY17: £762.7 million). The relative increase in gross profit of 13.0% to £506.9 million (FY17: £448.5 million) was slightly lower due to the dilutive effect of the Sofology gross margin percentage, which for FY18 was 50.3% - substantially lower than the 59.9% equivalent margin reported for the DFS brand. While this dilution will not be eliminated immediately, the development of buying synergies and improved exchange rates on US Dollar purchases, offset by some inflationary pressures, should overall result in an improved Group gross margin percentage for FY19. The projected US Dollar requirements of the Group for the next 18months are now fully hedged.

Underlying Group EBITDA of £76.1 million was 7.6% lower than the previous year (FY17: £82.4 million).

Group depreciation and amortisation charges increased to £28.3 million (FY17: £21.9 million). This was due to the combined effect of growth in the pre-acquisition Group reflecting the capital investment in the CDC and retail space optimisation programme over the last three years and additional charges for Sofology fixed assets. Amortisation charges include £1.1 million in respect of acquired brand names.

The increase in depreciation and amortisation charges in addition to the reduced operating margin of the Group resulted in a 21.0% decrease in underlying operating profit to £47.8 million (FY17: £60.5 million).

Non-underlying costs

A total of £9.9 million of non-underlying costs are included in administrative expenses comprising £2.6 million of professional fees relating to the Sofology and Multiyork acquisitions, £5.0 million estimated additional consideration for Sofology, £2.0m of integration costs incurred to date to drive the release of synergies and £0.3 million of restructuring costs relating primarily to the closure of our national distribution centre.

As we have previously guided, there will be further non-underlying expenses of c.£3 million incurred in FY19 in connection with the integration of Sofology to unlock the near-term synergy benefits that we see for the Group. We anticipate that we will be in a position to achieve the estimated £4 million annual benefit from these synergies from the beginning of FY20.

Operating profit after non-underlying costs was £37.9 million, a decrease of 37.4% on the previous year (FY17: £60.5 million).

Finance costs

At the start of the financial year the Group successfully refinanced its existing senior loan and revolving credit facilities with a new £230 million revolving credit facility. This has enabled us to flex the level of borrowings to more closely meet short term requirements, and minimise finance costs by using surplus cash to reduce borrowings instead of being held separately. The Group continues to manage interest rate risks associated with its borrowings through the use of appropriate hedging instruments.

As a consequence, notwithstanding the £21.3 million increase in net debt arising from the Sofology and Multiyork acquisitions, total net underlying finance costs of £10.7 million (FY17: £10.6 million) were in line with last year. In addition, £1.5 million of non-underlying finance costs were incurred in connection with the refinancing.

Tax

As in previous years, the underlying effective tax rate for the year of 20.7% (FY17: 21.1%) was higher than the applicable UK Corporation Tax rate of 19.0% (FY17: 19.67%), primarily due to disallowable depreciation on non-qualifying fixed assets. The higher total tax rate of 27.1% (FY17: 21.1%) reflects the non-deductible acquisition consideration and expenses incurred in the year.

Earnings per share
Underlying basic earnings per share for the Group were 14.0 pence per share (FY17: 18.7 pence), a decrease of 25.1% on last year. Including the effect of non-underlying operating and finance costs totalling £10.7 million, reported basic earnings per share decreased by 52.4% to 8.9 pence per share (FY17: 18.7 pence).

Capital expenditure
Although conversion of released retail space will continue through to FY20, the CDC warehouse opening programme was completed in the first half of FY18, and consequently cash capital expenditure reduced to £22.0 million (FY17: £28.3 million). This was slightly lower than our previous guidance of £24-26 million as during the year we began to source replacement commercial vehicles under finance lease arrangements. In FY19 we anticipate cash capital expenditure for the Group, including Sofology, to be £24-26 million.

The Board continues to place importance on enhancing the Group's return on capital employed. While we will continue to make an appropriate level of maintenance spend on our store estate and infrastructure and maintain a considered approach to our trial and innovation pipeline, we will focus the allocation of capital where there is a proven and positive return.

Cash flow and balance sheet
Although the decrease in profit had an inevitable impact, the Group continues to be highly cash generative, with net cash inflow from operating activities of £67.5 million (FY17: £74.8 million). Free cash flow (measured as underlying EBITDA, less capital expenditure and working capital movements) increased 6.0% on FY17 to £60.4 million (FY17: £57.0 million) primarily as a consequence of lower capital expenditure.

After £23.7 million of dividends paid to shareholders, and the costs of acquisitions closing net debt was £159.0 million (FY17: £144.5 million).This resulted in a gearing ratio of 2.1 times underlying EBITDA (FY17: 1.75 times). The Board continues to target a return to a gearing ratio of 1.5 times over the medium term.

The Group will adopt IFRS 16 in FY20 and this will have a significant impact on the reported gearing ratio of the Group as leasing obligations are recognised in full on the balance sheet. Our work in this area is continuing and we will provide further updates in the year ahead. This change in reported gearing will not affect covenants on our bank facilities which will continue to be calculated in accordance with the pre IFRS 16 methodology.

Dividend
The Board remains focused on delivering appropriate returns to shareholders whilst maintaining a robust balance sheet. Over the medium term the Board expects to target a dividend pay-out ratio of 45-50% of profit after tax and will continue to work towards its commitment to maintaining a capital structure of 1.5x net debt/EBITDA.

The Board has decided to recommend to shareholders a final dividend of 7.5 pence per share (FY17: 7.5 pence), resulting in a total dividend for the year of 11.2 pence, in line with FY17. This reflects the Board's confidence in the underlying performance of and outlook for the business.

The Board continues to monitor the overall level of net debt in light of recent acquisitions and future investment opportunities. To the extent that the Group has sustainable levels of capital in excess of anticipated requirements, the Board expects to return it to shareholders.

Change of Financial Reporting Period

As part of our work on transitioning Group reporting following the acquisition of Sofology we have completed a careful review of our Group's operational cycle and fit with financial reporting periods. This review has concluded that moving the Group's financial year to a 52 week period ending late June, would offer a number of benefits:

1) Manufacturing operations benefits - in order to maximise deliveries in each respective financial period the business has historically sought to delay manufacturing summer maintenance shutdowns for both our internal operations and also supplier partners through to early August. This has not been consistently possible with external suppliers, and is seen as less desirable by our manufacturing employees. A June financial period end would consistently be before any shutdown periods, improving year-on-year comparability of our financial results as well as allowing manufacturers to choose their optimal timing for annual shutdowns.

2) Improved comparability of period ends - We see consistent strong customer demand to receive orders ahead of Christmas as part of our Guaranteed Christmas Delivery campaign, which contrasts with customers' more variable willingness year-to-year to take delivery of orders at the end of January. We believe this consistent low point in the order bank allows more consistent measurement of trading performance in the half-year. Likewise we believe a similar comparability benefit will be seen in the change from July to June period ends, with the holiday period having differing degrees of impact on delivery of the order bank.

3) Timing of new store opening costs - Our experience indicates that the most immediate financial paybacks are generated by store openings made in time for the August Bank Holiday. In order to open a store in late August, the store fit-out and training of staff must commence during July, resulting in a loss in that month as no revenues are being generated by the store. Although we have previously chosen to open a number of stores to be ready for the August bank holiday (most recently Barnstaple), it does create a distorting impact on the prior financial year. A move to a June financial year end allows these pre-opening costs to be recognised in the same financial period that the store opens.

4) Alignment of acquired business - Following its acquisition by the Group, there is a need for Sofology to align its financial year end (historically December) with that of the Group. This can be achieved more straightforwardly through an 18 month long period of account to June 2019 than inserting an additional short accounting period in order to align to a July year end.

We will therefore adopt an accounting reference date for the Group of 30 June with immediate effect, meaning FY19 will be a 48 week financial period ending 30 June 2019.

We do not anticipate there will be a material difference in our financial performance over the 52 weeks to June 2019 relative to the 52 weeks to July 2019. To aid comparison however we publish below a summary of financial performance for the 52 weeks and 48 weeks ending 30 June 2018.

52 weeks ending 30 June 2018 (unaudited)

	DFS £m	Other brands £m	Existing Group £m	Sofology* £m	Total £m
Gross sales	902.0	71.4	973.4	132.1	**1,105.5**
Revenue	691.3	58.1	749.4	104.6	**854.0**
Cost of sales	(277.0)	(25.7)	(302.7)	(52.6)	**(355.3)**
Gross profit	414.3	32.4	446.7	52.0	**498.7**
Selling and distribution costs (excl. property costs)	(222.5)	(22.0)	(244.5)	(31.0)	**(275.5)**
Brand contribution	191.8	10.4	202.2	21.0	**223.2**
Property costs			(84.7)	(13.0)	**(97.7)**
Underlying administrative expenses			(41.6)	(7.2)	**(48.8)**
Underlying EBITDA			75.9	0.8	**76.7**

** Sofology shown for the seven months ending June 2018, since acquisition*
† *excludes amortisation of brand names*

48 weeks ending 30 June 2018 (unaudited)

	DFS £m	Other brands £m	Existing Group £m	Sofology* £m	Total £m
Gross sales	806.7	64.7	871.4	132.1	**1,003.5**
Revenue	618.0	52.6	670.6	104.6	**775.2**
Cost of sales	(249.6)	(23.3)	(272.9)	(52.6)	**(325.5)**
Gross profit	368.4	29.3	397.7	52.0	**449.7**
Selling and distribution costs (excl. property costs)	(207.6)	(20.6)	(228.2)	(31.0)	**(259.2)**
Brand contribution	160.8	8.7	169.5	21.0	**190.5**
Property costs			(78.1)	(13.0)	**(91.1)**
Underlying administrative expenses			(39.4)	(7.2)	**(46.6)**
Underlying EBITDA			52.0	0.8	**52.8**

** Sofology shown for the seven months ending June 2018, since acquisition*
† *excludes amortisation of brand names*

The strongly profitable financial results that can be implied for July 2018 and July 2017 partly reflects significant volumes of deliveries being made in the month, following the important Easter and May bank holiday periods. Lead times are also typically shorter in this period in order to minimise the customer impact of August manufacturing shutdowns and to ensure booked orders are recognised before year end. Operating costs are also typically low during the July period, with limited consumer demand events, minimal promotional marketing spend is incurred. Measuring July and August together shows a financial result that is not materially different to a typical two month period in the year.

Looking forward
As we move into a new financial year in what we anticipate to be continued challenging market conditions, we will retain our focus on maintaining our gross margin and controlling our costs while making appropriate investment in the growth of our business. The management of our cash will also be of importance in order to maintain the strength of our returns to shareholders and make the most efficient use of our borrowing facilities.

Nicola Bancroft
Chief Financial Officer

Consolidated income statement

	Note	2018 Underlying £m	2018 Non-underlying £m	2018 Total £m	2017 Total £m
Gross sales	*2*	**1,125.6**	**-**	**1,125.6**	990.8
Revenue	*2*	**870.5**	**-**	**870.5**	762.7
Cost of sales		**(363.6)**	**-**	**(363.6)**	(314.2)
Gross profit		**506.9**	**-**	**506.9**	448.5
Selling and distribution costs		**(380.6)**	**-**	**(380.6)**	(328.0)
Administrative expenses	*3*	**(50.2)**	**(9.9)**	**(60.1)**	(38.1)
Operating profit before depreciation and amortisation		**76.1**	**(9.9)**	**66.2**	82.4
Depreciation		**(24.1)**	**-**	**(24.1)**	(19.4)
Amortisation		**(4.2)**	**-**	**(4.2)**	(2.5)
Operating profit	*3*	**47.8**	**(9.9)**	**37.9**	60.5
Finance income		**0.1**	**-**	**0.1**	0.2
Finance expenses	*4*	**(10.7)**	**(1.5)**	**(12.2)**	(10.6)
Profit before tax		**37.2**	**(11.4)**	**25.8**	50.1
Taxation		**(7.7)**	**0.7**	**(7.0)**	(10.6)
Profit for the year		**29.5**	**(10.7)**	**18.8**	39.5

Earnings per share					
Basic	*5*	**14.0p**	**(5.1)p**	**8.9p**	18.7p
Diluted	*5*	**13.9p**	**(5.0)p**	**8.9p**	18.6p

Consolidated statement of comprehensive income

	2018 £m	2017 £m
Profit for the year	**18.8**	39.5
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	**4.7**	1.8
Net change in fair value of cash flow hedges reclassified to profit or loss	**6.3**	(5.8)
Income tax on items that are/may be reclassified subsequently to profit or loss	**(1.6)**	0.8
Other comprehensive expense for the period, net of income tax	**9.4**	(3.2)
Total comprehensive income for the period	**28.2**	36.3

Consolidated balance sheet

	2018 **£m**	2017 £m
Non-current assets		
Property, plant and equipment	**91.1**	74.2
Intangible assets	**537.0**	491.8
Other financial assets	**1.6**	-
Deferred tax assets	**8.0**	9.8
	637.7	575.8
Current assets		
Inventories	**54.4**	36.6
Other financial assets	**3.7**	-
Trade and other receivables	**31.2**	24.5
Cash and cash equivalents	**47.2**	61.0
	136.5	122.1
Total assets	**774.2**	697.9
Current liabilities		
Trade payables and other liabilities	**(228.5)**	(165.6)
Provisions	**(4.9)**	(5.1)
Other financial liabilities	**(0.1)**	(3.5)
Current tax liabilities	**(2.7)**	(3.8)
	(236.2)	(178.0)
Non-current liabilities		
Interest bearing loans and borrowings	**(195.7)**	(198.8)
Provisions	**(5.9)**	(5.2)
Other financial liabilities	**(1.1)**	(3.5)
Other liabilities	**(82.9)**	(67.3)
	(285.6)	(274.8)
Total liabilities	**(521.8)**	(452.8)
Net assets	**252.4**	245.1
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	**(3.3)**	(3.7)
Cash flow hedging reserve	**4.0**	(7.0)
Retained earnings	**(126.8)**	(122.7)
Total equity	**252.4**	245.1

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	Total equity £m
Balance at 30 July 2016	**319.5**	**40.4**	**18.6**	**(3.7)**	**(3.0)**	**(121.2)**	**250.6**
Profit for the year	-	-	-	-	-	39.5	39.5
Other comprehensive income/(expense)	-	-	-	-	(4.0)	0.8	(3.2)
Total comprehensive income/(expense) for the period	-	-	-	-	(4.0)	40.3	36.3
Dividends	-	-	-	-	-	(43.8)	(43.8)
Share based payments	-	-	-	-	-	2.0	2.0
Balance at 29 July 2017	**319.5**	**40.4**	**18.6**	**(3.7)**	**(7.0)**	**(122.7)**	**245.1**
Profit for the year	-	-	-	-	-	18.8	18.8
Other comprehensive income/(expense)	-	-	-	-	11.0	(1.6)	9.4
Total comprehensive income/(expense) for the period	-	-	-	-	11.0	17.2	28.2
Dividends	-	-	-	-	-	(23.7)	(23.7)
Treasury shares issued	-	-	-	0.4	-	(0.4)	-
Share based payments	-	-	-	-	-	2.8	2.8
Balance at 28 July 2018	**319.5**	**40.4**	**18.6**	**(3.3)**	**4.0**	**(126.8)**	**252.4**

Consolidated cash flow statement

	2018 £m	2017 £m
Operating profit	**37.9**	60.5
Adjustments for:		
Depreciation, amortisation and impairment	**28.3**	21.9
Gain on sale of property, plant and equipment	**(0.9)**	(0.8)
Accrued acquisition consideration	**5.0**	-
Share based payment expense	**2.8**	2.0
(Increase)/decrease in trade and other receivables	**(1.7)**	1.9
Increase in inventories	**(4.7)**	(1.7)
Increase in trade and other payables	**11.0**	2.2
Decrease in provisions	**(1.1)**	(1.5)
	76.6	84.5
Tax paid	**(9.1)**	(9.7)
Net cash from operating activities	**67.5**	74.8
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**1.0**	1.0
Interest received	**0.1**	0.2
Acquisition of subsidiaries	**(20.1)**	-
Acquisition of trade and assets	**(1.2)**	-
Acquisition of property, plant and equipment	**(17.3)**	(25.2)
Acquisition of other intangible assets	**(4.7)**	(3.1)
Net cash from investing activities	**(42.2)**	(27.1)
Cash flows from financing activities		
Proceeds from new loan	**197.0**	**-**
Interest paid	**(7.4)**	(7.3)
Exceptional refinancing costs	**(1.9)**	**-**
Repayment of borrowings	**(200.0)**	**-**
Payment of finance lease liabilities	**(3.1)**	(2.3)
Ordinary dividends paid	**(23.7)**	(23.7)
Special dividends paid	**-**	(20.1)
Net cash from financing activities	**(39.1)**	(53.4)
Net decrease in cash and cash equivalents	**(13.8)**	(5.7)
Cash and cash equivalents at beginning of period	**61.0**	66.7
Cash and cash equivalents at end of period	**47.2**	61.0

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 charges which are measured at their fair value. The financial statements are for the 52 weeks to 28 July 2018 (last year 52 weeks to 29 July 2017).

The financial information set out above does not constitute the company's statutory accounts for the years ended 28 July 2018 or 29 July 2017 but is derived from those accounts. Statutory accounts for the year ended 29 July 2017 have been delivered to the registrar of companies, and those for the year ended 28 July 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Presentation of financial statements

Following the acquisition of Sofology Limited, the directors have reflected on the continuing need to provide relevant financial information to shareholders as the Group grows and develops. As a consequence, with effect from the financial year commencing 30 July 2017 the analysis of operating expenses on the face of the income statement has been expanded to separate direct cost of sales (cost of goods, related costs of shipping) from other selling and distribution costs (advertising, wages and other store costs, delivery and customer service costs). Disclosures of amounts charged to operating profit in respect of cost of inventories has also been revised to align with the new presentation.

In addition, segmental analysis presented in accordance with IFRS 8 has been amended to provide a separate analysis of the Group's major brands in order to more closely reflect the way in which the enlarged Group reviews and manages its operations. The directors consider that this revised presentation will provide shareholders and other users of the financial statements with useful additional relevant information in order to evaluate the nature and financial effects of the different business activities in which the Group engages.

These changes have no effect on reported operating profit and all comparatives presented have been restated in line with the new presentation.

Going concern

The market in which the Group operates continues to present a number of challenges. Nevertheless the Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £230.0 million revolving credit facility in place until August 2022.

On the basis of their assessment of the Group's financial position, forecasts and projections the Company's directors are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

2 Segmental Analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Executive Board. Segment performance is assessed based upon brand contribution. Brand contribution is defined as underlying EBITDA (being earnings before interest and tax excluding depreciation charges and non-underlying items) excluding property costs and central administration costs.

The Group reviews and manages the performance of its operations on a retail brand basis, and the identified reportable segments and the nature of their business activities are as follows:

DFS: the manufacture and retailing of upholstered furniture and related products through DFS branded stores and websites.

Sofology: the retailing of upholstered furniture and related products through Sofology branded stores and website.

Other segment activities comprise the retailing of upholstered and other furniture and related products through other brands, including Dwell and Sofa Workshop.

Segment revenue and profit

	External sales		Internal sales		Total gross sales	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
DFS	**898.5**	925.0	**-**	-	**898.5**	925.0
Sofology	**155.2**	-	**-**	-	**155.2**	-
Other segments	**71.9**	65.8	**0.6**	0.6	**72.5**	66.4
Eliminations	**-**	-	**(0.6)**	(0.6)	**(0.6)**	(0.6)
Gross sales	**1,125.6**	990.8	**-**	-	**1,125.6**	990.8

	2018 £m	2017 £m
Total segments gross sales	**1,125.6**	990.8
Less: value added and other sales taxes	**(175.8)**	(153.8)
Less: costs of interest free credit and aftercare products	**(79.3)**	(74.3)
Revenue	**870.5**	762.7

2018	**DFS £m**	**Sofology £m**	**Other £m**	**TOTAL £m**
Revenue	689.2	122.8	58.5	870.5
Cost of sales	(276.7)	(61.0)	(25.9)	(363.6)
Gross profit	412.5	61.8	32.6	506.9
Selling & distribution costs (excluding property costs)	(223.9)	(35.3)	(22.3)	(281.5)
Brand contribution (segment profit)	**188.6**	**26.5**	**10.3**	**225.4**
Property costs				(99.1)
Underlying administrative expenses				(50.2)
Underlying EBITDA				76.1

2 Segmental Analysis (continued)

2017

	DFS £m	Sofology £m	Other £m	TOTAL £m
Revenue	709.2	-	53.5	762.7
Cost of sales	(289.3)	-	(24.9)	(314.2)
Gross profit	419.9	-	28.6	448.5
Selling & distribution costs (excluding property costs)	(227.4)	-	(20.1)	(247.5)
Brand contribution (segment profit)	**192.5**	**-**	**8.5**	**201.0**
Property costs				(80.5)
Underlying administrative expenses				(38.1)
Underlying EBITDA				82.4

	2018 £m	2017 £m
Underlying EBITDA	**76.1**	82.4
Non-underlying items	**(9.9)**	-
Depreciation & amortisation	**(28.3)**	(21.9)
Operating profit	**37.9**	60.5
Finance income	**0.1**	0.2
Finance expenses	**(12.2)**	(10.6)
Profit before tax	**25.8**	50.1

A geographical analysis of revenue is presented below:

	2018 £m	2017 £m
United Kingdom	**839.7**	736.6
Europe	**30.8**	26.1
Total revenue	**870.5**	762.7

Segment assets and liabilities

	Assets		**Liabilities**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
DFS	662.4	676.5	(249.6)	(233.5)
Sofology	87.3	-	(61.7)	-
Other segments	33.5	29.4	(33.2)	(27.5)
Total segments	**783.2**	705.9	**(344.5)**	(261.0)
Loans and financing	-	-	(195.7)	(198.8)
Financial assets/(liabilities)	5.3	-	(1.2)	(7.0)
Current tax	-	-	(2.7)	(3.8)
Deferred tax	8.0	9.8	-	-
Eliminations	(22.3)	(17.8)	22.3	17.8
Total Group	**774.2**	697.9	**(521.8)**	(452.8)

Segment assets comprises tangible and intangible non-current assets including goodwill and brand names, inventories, trade and other receivables, cash and cash equivalents. Segment liabilities comprises trade payables and current and non-current other liabilities and provisions.

2 Segmental Analysis (continued)

	Additions to non-current assets		**Depreciation and amortisation**	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
DFS	20.7	26.6	21.4	20.0
Sofology	2.3	-	4.3	-
Other segments	4.1	5.2	2.6	1.9
Total Group	**27.1**	31.8	**28.3**	21.9

Additions to non-current assets represents includes both tangible and intangible non-current assets but excludes amounts arising on acquisition.

3 Operating profit

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

	2018	2017
	£m	£m
Depreciation on tangible assets	**24.1**	19.4
Net gain on disposal of property, plant and equipment	**(0.9)**	(0.8)
Amortisation of intangible assets	**4.2**	2.5
Cost of inventories recognised as an expense	**371.2**	326.4
Write down of inventories to net realisable value	**0.6**	0.6
Other cost of sales variances	**(8.2)**	(12.8)
Operating lease rentals	**74.2**	61.6

Non-underlying items	**2018**	2017
	£m	£m
Acquisition related professional fees	**2.6**	**-**
Estimated additional consideration	**5.0**	**-**
Integration costs	**2.0**	**-**
Restructuring costs	**0.3**	**-**
	9.9	**-**

Acquisition related fees, additional consideration and integration costs arose on the Group's acquisitions of Sofology Limited and certain assets from Multiyork (note 9). Restructuring costs relate to the previously announced closure of our national distribution centre.

4 Finance expense

	2018	2017
	£m	£m
Interest payable on senior loan facility	**(0.1)**	(7.1)
Interest payable on senior revolving credit facility	**(7.0)**	-
Bank fees	**(0.1)**	(0.2)
Fair value lease adjustment unwind	**(3.0)**	(2.9)
Unwind of discount on provisions	**(0.1)**	(0.1)
Finance lease interest	**(0.4)**	(0.3)
Underlying finance expense	**(10.7)**	(10.6)
Non-underlying refinancing costs	**(1.5)**	-
Total finance expense	**(12.2)**	(10.6)

Non-underlying finance costs relate to the refinancing of the Group's borrowings.

5 Earnings per share

	2018 Pence	2017 Pence
Basic earnings per share	**8.9**	18.7
Diluted earnings per share	**8.9**	18.6

	2018 £m	2017 £m
Profit attributable to equity holders of the parent company	**18.8**	39.5

	2018 £m	2017 £m
Weighted average number of shares for basic earnings per share	**211,631,564**	211,530,721
Dilutive effect of employee share based payment awards	**1,301,607**	753,518
Weighted average number of shares for diluted earnings per share	**212,933,171**	212,284,239

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.

	2018 £m	2017 £m
Profit for the year attributable to equity holders of the parent company	**18.8**	39.5
Non-underlying loss after tax	**10.7**	-
Underlying profit for the year attributable to equity holders of the parent	**29.5**	39.5

	2018 Pence	2017 Pence
Underlying basic earnings per share	**14.0**	**18.7**
Underlying diluted earnings per share	**13.9**	**18.6**

6 Dividends

			2018 £m	2017 £m
Final ordinary dividend for FY16	6.2p	paid	**-**	15.9
Interim ordinary dividend for FY17	3.5p	paid	**-**	7.8
Special dividend for FY17	9.5p	paid	**-**	20.1
Final ordinary dividend for FY17	7.5p	paid	**15.9**	-
Interim ordinary dividend for FY18	3.7p	paid	**7.8**	-
			23.7	43.8

The directors recommend a final dividend of 7.5 pence per share in respect of the financial period ended 28 July 2018, resulting in a total proposed dividend of £15.9 million. Subject to shareholder approval it is intended that this dividend will be paid on 27 December 2018. DFS Furniture plc shares will trade ex-dividend from 6 December 2018 and the record date will be 7 December 2018. This dividend has not therefore been recognised as a liability in these financial statements.

7 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.

8 Capital expenditure

For the 52 weeks to 28 July 2018, additions of property, plant and equipment (including those acquired under finance leases) totalled £22.4 million (2017: £28.7 million). Additions of intangible assets (computer software) totalled £4.7 million (2017: £3.1 million).

At 28 July 2018 the Group had contracted capital commitments of £3.9 million (2017: £3.4 million) for which no provision has been made in the financial statements.

9 Business combinations

Sofology

On 30 November 2017 the Group acquired 100% of the issued share capital of Sofology Limited, a UK based living room furniture retailer with a focus on upholstered furniture. This acquisition has added a further strong distinctive brand to the Group's current portfolio, supporting the Group's existing strategy of developing its appeal to a broader range of customers.

Initial cash consideration payable was £26.0 million, (equivalent to £25 million on a debt-free, cash-free basis), with deferred contingent consideration payable based on underlying earnings before interest, tax, depreciation and amortisation for the 12 months ended 30 September 2018 (the "earn-out period"). Based on the immediate post-acquisition performance of the acquired business, the Directors estimated that no further consideration would be payable and this is reflected in the acquisition accounting.

At the date of this annual report, although the earn-out period has just ended the actual results for the 12 months to 30 September are not yet available and accounting confirmation procedures under the sale and purchase agreement have not yet commenced. Performance of the acquired business has strengthened over recent months and it is therefore possible that some additional consideration could become payable. While a high degree of uncertainty remains, the Directors have accrued £5.0 million as an estimate of additional consideration potentially payable which has been recognised in the income statement as a non-underlying expense. It is anticipated that the determination and settlement of the final amount due will occur during FY19, and any difference between the amount provided and the final amount paid will be recognised as a non-underlying expense or credit.

The goodwill of £28.4m arising from the acquisition is attributable to the established store network, workforce, designs and technologies of the acquired business and cost savings realised in the combined businesses through economies of scale and other synergies.

9 Business combinations (continued)

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

Recognised amounts of identifiable assets acquired and liabilities assumed **Provisional fair value**	**£m**
Property, plant & equipment	18.7
Intangible assets – software	1.3
Intangible assets – brand name	13.8
Inventories	13.1
Cash	5.9
Trade and other receivables	5.0
Trade payables and other liabilities	(51.7)
Fair value lease creditor	(7.4)
Deferred tax	(1.1)
Total identifiable net liabilities	(2.4)
Goodwill	28.4
Total consideration	26.0
Satisfied by:	
Cash consideration	26.0
Contingent consideration	-
Total consideration	26.0
Cash consideration	26.0
Less: cash and cash equivalent balances acquired	(5.9)
Net cash outflow arising on acquisition	20.1

Acquisition related costs of £2.5 million have been charged as non-underlying administrative expenses in the income statement.

In the period from 1 December 2017 to 28 July 2018, Sofology Limited contributed £122.8 million to reported Group revenue and a loss before tax of £1.4 million. Had Sofology Limited been consolidated from 30 July 2017, reported Group revenue would have been £927.7 million and underlying EBITDA would have been £77.7m. Profit before tax, including the costs of shareholder loans and non-underlying items would have been £23.1 million.

Multiyork

On 27 December 2018 the Group acquired eight store leases and certain assets and intellectual property from Multiyork Furniture Limited following that business entering administration. Cash consideration for this transaction, which has been accounted for as a business combination, was £1.2 million has been recognised as goodwill. In addition, £0.1million of related acquisition costs have been recognised in non-underlying administrative expenses.

10 Net debt

	2017 **£m**	**Cash flow** **£m**	**Acquisitions** **£m**	**Other non-cash changes** **£m**	**2018** **£m**
Cash in hand, at bank	61.0	(19.7)	5.9	**-**	**47.2**
Cash and cash equivalents	61.0	(19.7)	5.9	**-**	**47.2**
Senior loan facility	(198.8)	200.0	-	(1.2)	**-**
Senior revolving credit facility	-	(197.0)	-	1.3	**(195.7)**
Finance lease liabilities	(6.7)	3.1	(1.8)	(5.1)	**(10.5)**
Total net debt	(144.5)	(13.6)	4.1	(5.0)	**(159.0)**

11 Annual General Meeting

The Annual General Meeting will be held on Friday 30 November 2018 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.