14 March 2019 **For immediate release**

DFS Furniture plc ("DFS" and the "Group")

Interim Results Announcement

OPERATIONAL AND FINANCIAL PERFORMANCE ON TRACK

DFS Furniture plc (the "Group"), the market leading retailer of living room and upholstered furniture in the United Kingdom, today announces its interim results for the 22 weeks ended 30 December 2018 (prior year comparative period: 22 weeks ended 30 December 2017).

Financial Summary†:

- Group revenue up 29.1% to £422.3 million (FY18: £327.1 million)
- Revenue adjusted to include the acquisition of Sofology on a pro-forma basis up 9.9% to £422.3m (FY18: £384.3m)
- Underlying pro-forma EBITDA up 23.8% to £32.8 million (FY18: £26.5 million)
- Underlying pro-forma profit before tax and brand amortisation up 83.9% to £16.0 million (FY18: £8.7 million)
- Reported profit before tax more than doubled to £14.1 million (FY18: £6.2 million)
- Underlying pro-forma EPS up 90.0% to 5.7p (FY18: 3.0p)
- Reported EPS up 126.1% to 5.2p (FY18: 2.3p)
- Improved profitability reduces leverage: 1.9x net debt / underlying LTM EBITDA (July 2018: 2.1x)
- Interim dividend of 3.7p per share declared (FY18: 3.7p)

Operational Summary:

- Evolution of our strategy in line with our aim to lead sofa retailing in the digital age
- Like-for-like sales growth across all brands
- Net opening of three showrooms across the Group and strong online growth supported by continued investment in web platform and digital engagement tools
- Investment in operational technologies such as AI-enabled delivery scheduling to develop Group infrastructure
- On track to deliver expected Group synergies from Sofology acquisition
- Improved performance in the Netherlands with national TV marketing and refinement of local product offer
- Continued preparations for the UK's exit from the EU: consumer confidence and border delays identified as primary risks, mitigating actions ongoing

† For explanation of underlying and pro forma measures and other APMs refer to "Alternative Performance Measures ("APMs") and other explanatory information" below.

Tim Stacey, Group Chief Executive Officer said:

"We are pleased with the performance for the first five months of the financial year across the Group, with all four of our brands achieving like-for-like revenue growth. The benefits of our investments in our online channels, delivery networks and the development of our brands help mitigate the impact of a market which we expect to remain particularly challenging in 2019 given the current political and economic uncertainty. Notwithstanding a softer start to 2019, and assuming no weakening of this environment, our profit expectations for the financial year remain unchanged."

Key Performance Indicators

	22 weeks Dec 18	22 weeks Dec 17	% change	LTM[1] Dec 18	LTM[1] Jul 18	% change
Reported						
Gross sales[2]	£546.5m	£424.6m	+28.7%	£1,247.5m	£1,125.6m	+10.8%
Revenue	£422.3m	£327.1m	+29.1%	£965.7m	£870.5m	+10.9%
EBITDA[3]	£31.5m	£22.2m	+41.9%	£75.5m	£66.2m	+14.0%
Profit before tax	£14.1m	£6.2m	+127.4%	£33.7m	£25.8m	+30.6%
Earnings per share	5.2p	2.3p	+126.1%	11.8p	8.9p	+32.6%
Dividend per share	3.7p	3.7p	-	11.2p	11.2p	-
Underlying pro-forma[4]						
Revenue on a pro-forma basis	£422.3m	£384.3m	+9.9%	£965.7m	£927.7m	+4.1%
Underlying pro-forma EBITDA[6]	£32.8m	£26.5m	+23.8%	£84.0m	£77.7m	+8.1%
Underlying pro-forma profit before tax & amortisation[7]	£16.0m	£8.7m	+83.9%	£43.7m	£36.4m	+20.1%
Underlying pro-forma earnings per share[8]	5.7p	3.0p	+90.0%	15.5p	12.8p	+21.1%
Underlying						
Underlying EBITDA[6]	£32.8m	£24.9m	+31.7%	£84.0m	£76.1m	+10.4%
Free cash flow[9]	£25.6m	£11.9m	+115.1%	£74.1m	£60.4m	+22.7%
Cash conversion[10]	78.0%	47.8%	+30.2%pt	88.2%	79.4%	+8.8%pt

[1-10] For definitions and explanations of KPIs including Alternative Performance Measures, refer to "Alternative Performance Measures ("APMs") and other explanatory information" below.

Reported measures are those for the Group without adjustment for non-underlying items or acquisitions. Underlying measures are Reported measures as adjusted for non-underlying items[5]. Underlying pro-forma measures are Underlying measures as adjusted to include Sofology for the whole of comparative period.

Alternative Performance Measures ("APMs") and other explanatory information

In the reporting of financial information, the Directors employ a number of APMs in addition to those defined or specified under EU-adopted International Financial Reporting Standards. The Directors consider these APMs provide additional useful information for understanding the performance and position of the Group and aid comparability of information between reporting periods by adjusting for non-underlying items.

Further details of APMs presented in this interim statement, including the Key Performance Indicator table above are as follows:

Like-for-like revenue is revenue from all online and telephone channels and those retail showrooms which have been open for at least one full financial year and not identified as impacted by new showroom openings in the current or comparative period.

Notes to Key Performance Indicators:

Interim results for the 22 weeks ended 30 December 2018 are presented with a comparative period of the 22 weeks ended 30 December 2017. Sofology was acquired on 30 November 2017 and therefore contributed for only one month of the comparative period.

[1] **LTM/Last Twelve Months** means the 52 weeks ended 30 December 2018 and the 52 weeks ended 28 July 2018 (last full financial year).

[2] **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.

[3] **EBITDA** means earnings before interest, taxation, depreciation and amortisation.

[4] **Revenue/EBITDA on a pro forma basis** means the Sofology business revenues and profits are included for the whole of the 22 and 52 week periods referenced.

[5] **Non-underlying items** are certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance. Non-underlying operating items were £1.3m in the 22 weeks to December 2018, £2.7m in the 22 weeks to December 2017 and £9.9m in FY18. These costs primarily relate to direct acquisition costs and integration costs of acquired businesses. In addition £1.5m of non-underlying financing costs were incurred in 22 weeks to December 2017/FY18 in connection with the refinancing of the Group's borrowings.

[6] **Underlying EBITDA** means earnings before interest, taxation, depreciation and amortisation, as adjusted for non-underlying items.

[7] **Underlying profit before tax and brand amortisation** means profit before tax adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology, Dwell and Sofa Workshop. Brand amortisation charges were £0.6m in the five months to December 2018, £0.2m in the five months to December 2017 and £1.1m in FY18.

[8] **Underlying earnings per share** means post tax earnings per share as adjusted for non-underlying items.

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

[10] **Cash conversion** is free cash flow expressed as a percentage of Underlying EBITDA.

Enquiries:

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Analysts presentation

DFS will be hosting an analyst presentation at 9.00am today at Avenue 1 & 2, London Stock Exchange, 10 Paternoster Row, London EC4M 7LS. A live audio webcast and the presentation slides will be available on the Group's website: www.dfscorporate.co.uk.

About DFS Furniture plc

The Group 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 an omnichannel retail network of living room furniture showrooms and web sites in the United Kingdom and other European countries, trading through four leading brands. The Group has been established and developed gradually over nearly 50 years of operating history. We attract customers 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.

CHIEF EXECUTIVE'S OPERATING REVIEW

We are pleased to report a solid sales performance for the five months despite the challenging underlying consumer environment. The consistency of performance across the Group was particularly encouraging, with all brands achieving like-for-like revenue growth and the continued strong performance of our online channels. We do however remain concerned by the near term political and economic uncertainty that has and will likely continue to impact consumer sentiment.

Results

The Group achieved revenue growth of 29.1% in the five month trading period to 30 December 2018. Adjusting to include the acquisition of Sofology on a pro-forma basis, revenue grew by 9.9%.

All brands delivered like-for-like revenue growth and collectively like-for-like revenues across the Group were up 6.6%. Our online channels continued to perform strongly with revenues increasing by 22.6%, benefiting from our sustained investment and development focus. Whilst we believe trading in the period was bolstered by deferred purchases from the final quarter of the prior year (given the hot weather at that time) and to a lesser extent from port related issues which delayed delivery of goods into the current financial year we are still pleased with our top line performance.

Reported profit before tax for the five months more than doubled to £14.1m. Adjusting on a pro-forma basis to also include the results of Sofology in the comparative period, underlying EBITDA increased 23.8% to £32.8m and underlying profit before tax and amortisation increased 83.9% to £16.0m.

Gross profit margin for the Group was diluted by the inclusion of five full months of Sofology trading compared to one month in the prior year, together with the growth in Sofa Workshop and Dwell. However, we saw a steady gross margin in the DFS brand with the benefit of improved foreign exchange rates offset by product cost pressure, while Group synergy benefits and average order value increases contributed to Sofology's growing gross margin. Our operating costs grew with revenues and we have invested in some of our central functions to help drive the strategic growth initiatives discussed below.

The Board has declared an interim dividend of 3.7 pence per share (FY18: 3.7 pence), payable on 19 June 2019 to shareholders on the register at 31 May 2019.

Strategy development

Our strategy since IPO has remained consistent, driving significant growth in revenues and developing our operations while continuing strong cash generation. Informed by detailed customer and market research, we have reflected on our market position today, our inherent business model strengths and the changing consumer landscape we are seeing. These reflections are outlined below and as a consequence we have evolved our strategic priorities.

Inherent business model strengths

We have a strong business model today with inherent advantages relative to competitors.

According to independent market research our Group has over a 31% share in the upholstery sub-sector of the living room furniture market and we are over three times the size of our nearest competitor. This scale provides us with cost advantages through leveraging our buying power with raw material and finished goods suppliers and optimising final mile logistics costs as a result of our customer post code density.

Our DFS brand is celebrating its fiftieth year. From this history we have learned what works (and what doesn't work) throughout the customer journey and we continually seek to further adapt and improve our offering. We focus strongly on our people, emphasising training and fair, performance-driven reward, and have been recognised as a 'Sunday Times Top 25 Big Company To Work For'.

We have a strong, well invested and growing online capability that we develop and enhance continually. Our mobile website customer satisfaction score is well ahead of the industry benchmark and last year we were the first UK sofa retailer to launch augmented reality functionality on a mobile website allowing customers to visualise a sofa in any room in their home. Our showroom estate continues to benefit from regular refurbishments and technological enhancements. Furthermore, the efficiency of our channel agnostic distribution network has improved with the use of artificial intelligence assisted scheduling and routing software which has helped to mitigate material labour rate and fuel price increases.

Our business maintains end to end control of our customer journey from design and manufacture through to delivery and post-sale customer service. Through operating across the whole value chain we can optimise manufacturing quality, reduce lead times, deliver efficiently and on time ensuring customer expectations are met whilst driving shareholder value creation. Evidencing this our established customer NPS has grown from 21.9 in FY15 to 34.0 over the last 12 months.

Our made to order business model, relatively short lead times and supplier credit terms also enable us to operate with negative working capital and strong cash generation.

Driving strong returns

As a result of the above we have market leading operating margins, strong free cash flows (which we expect to be typically over 70% of underlying EBITDA), historically good rates of return on capital employed (average 18.5% over the last three financial years) and have grown our market share organically and through acquisition to create a leading portfolio of complementary brands. While the market environment remains challenging, we believe we are well positioned to prosper in the longer term.

Macro retail trends

We are, however, not complacent and cannot stand still. The market is rapidly changing and our customers are researching and transacting online with ever-growing expectations. Traditional seasonal purchasing cycles are shifting with new sales periods, such as Black Friday, starting to emerge. Furthermore, regulatory and market driven headwinds such as business rate rises, increases to statutory pension rates, employment costs (including the apprenticeship levy) and raw material price inflation are materially impacting retailers' cost bases.

Customer journey and insight

Based on customer research and direct insight, we know over 85% of potential customers research their sofa purchase online. Notwithstanding this, the primary reason for selecting a sofa is comfort and over 90% of our customers still visit one of our showrooms to sit, touch and feel the products before ordering. For most of our customers the transaction is a significant investment and they value our local showroom presence, our colleagues' expertise, advice and recommendations and feel re-assured by our fifteen-year guarantee and in-house repair service. Our business model is already set up to satisfy all elements of the customer journey in the digital age but we must remain on the front foot to maximise the opportunities available to us, and to compete effectively with new market entrants.

Our aim
Our aim is to lead sofa retailing in the digital age. We intend to strengthen our position in the sofa segment of the furniture market and embrace the opportunities and challenges of the digital age. To achieve this, we will evolve our strategy around some key principles: focusing on what the customer truly values on the buying journey and prioritising investments based on those that generate the highest returns.

Our strategy is centered on three inter-related pillars across which we see £40m of incremental profit opportunity in the medium term:

1 Drive the DFS core business
With 117 showrooms in the UK and Ireland and a market leading website, the DFS brand has the sector-leading omnichannel proposition which is supported by nearly 4,000 employees across our showrooms, online team, manufacturing operations, warehousing, delivery and post sales servicing teams and support centre functions.

We have a unique and differentiated sofa offering. In addition to strong promotional and core DFS ranges, we have partnerships with a number of leading lifestyle brands which together allow us to hold a leading share with all customer segments that we identify. During the last twelve months we have engaged with our world class external data science partner, Beyond Analysis, to develop new data-led optimisation of range distribution and selection. We have also set up an innovation team to develop new customer propositions, and we have started trialing new ranges through online customer panels before piloting them through physical showroom presence.

Continued investment in our web platform and digital engagement tools has supported another year of strong growth with DFS online revenue up 21.1% year on year. We have been optimising our mobile site, have launched a customer service ‘chat bot’ and established a mobile engagement team, all of which help to ensure our Foresee mobile website customer satisfaction score of 75% remains well above the benchmark of 68% for the sector. Mobile traffic was up 9% year on year (now representing over 60% of all website traffic) and mobile web order intake was up 72% year on year.

Over recent years we have made significant investment in new DFS showrooms, opening between three and five standard showrooms a year. Having established strong national coverage across the UK, we will now focus our investment on increasing the efficiency of our existing estate and in omnichannel technologies. We will, however, continue to test and learn with smaller format showrooms, and develop new services to engage customers while providing a seamless customer journey across all channels.

We will measure our success through delivering like-for-like omnichannel revenue growth and increasing DFS’s brand contribution margin.

2 Build the platforms for growth
DFS’s market leading operating margins are a result of both sales intensity and operational gearing driven by both scale and expertise.

We have invested significantly in creating our CDC final mile logistics network and worked with our leading artificial intelligence partner Satalia to build our scheduling, route planning and optimisation tool ‘Apollo’. This tool has helped drive efficiency improvements resulting in our average delivery costs remaining broadly flat over a five-year period despite significant levels of input cost inflation. We have achieved this whilst providing what we believe to be the best in class two-person sofa delivery and installation service in the industry. With the DFS CDC programme complete we are now looking to develop our systems and processes to enable further Group-wide benefits in the medium term. Good progress is being made in this regard, including a new stock management system and an in day customer order tracking solution.

We have leveraged DFS's existing showroom estate to introduce 33 Dwell and 10 Sofa Workshop showrooms. This creates a national presence for these brands without increasing our property costs and leveraging Group platforms. During FY18 we were able to start reducing our underlying property costs through lease renegotiations and over the next five years we are targeting a further £5-7m of annualised cost savings across the 42 leases that will expire over that period. Our Group scale creates opportunity for material rent savings over the medium to long term and we see opportunities to further co-locate our brands to ensure we are optimising our existing showroom estate.

To date we have delivered £1.5m of synergies with Sofology which have come from a combination of utilising the Group's enhanced buying power, sharing of best practices and introduction of new products and services. We remain on track to deliver our targeted annualised synergies of £4m by the end of this financial year.

We will measure our overall success in this area through achieving the identified property cost reductions, increasing Group delivery efficiency and reducing other operating costs.

3 Unlock new growth

Sofology

The development of Sofology to become a national chain is a clear priority for us, building on its strong and distinct customer proposition. We have put in place a new leadership team, made good progress on synergies and, as noted above, are pleased with the brand's trading performance with total revenues for the five-month period (on a pro forma basis) up 21.1% year on year (like-for-like revenues up 14.2%) and EBITDA is up 96.8% (on a pro forma basis) to £6.1m for the five month period. The five new showrooms opened in FY18 and FY19 are trading well.

Given the significant gaps in the Sofology network (including 28 of the top 50 DFS showroom locations) we see clear potential to increase the existing estate of 42 showrooms to between 65 and 70 over the medium term. Some showrooms could be co-located using existing Group retail assets. We also have a number of new sites already identified and plan to phase the openings as and when the right property deals arise from landlord negotiations.

Sofology has been on the front foot when it comes to creating an omni-channel customer journey. Through a MySofology account a customer can obtain additional product information, log favourites and build baskets on their phones while visiting a showroom, either independently or with a sales colleague, before then checking out immediately or later at home. The status of an order can also be tracked, payments made and delivery slots booked through a customer's MySofology account. We see further opportunities to build on this brand's innovative proposition.

Sofa Workshop and Dwell

We are making good progress with the Sofa Workshop and Dwell brands and, through utilising DFS's existing estate and assets acquired from the Multiyork administration, both brands now have national scale. Both brands achieved positive like-for-like growth through their online and physical estates (32 and 36 showrooms respectively) and delivered combined revenues of £28.6 million for the five month period, an increase of 24.3% on the comparative period.

We see a small number of remaining pockets of space across the UK appropriate to open new Dwell and Sofa Workshop showrooms increasing each of their estates to 40-45 showrooms. There is also the opportunity to share the Group's digital and marketing expertise to drive profitable sales growth.

Netherlands

Following on from the national TV marketing campaign and 'tax-free' promotion in the Netherlands that we ran in FY18 we have been testing additional marketing and promotional campaigns. We have also been refining our product offering to further adapt it for the local market. The trading results are encouraging and across the 50 weeks from the start of the initial TV campaign like-for-like sales have increased 29.0% (this is inclusive of trading through the hot weather period experienced over the summer of 2018). Having gained further insight from these campaigns we believe we will see a reduced operating loss in FY19 to £1m-£1.5m and we are targeting a break-even position in the near term based on the existing showroom portfolio.

We will continue to report on revenues and brand contribution and growing our return on capital employed to measure progress to evidence our progress.

Measuring our success

We intend to take a balanced approach to assess the overall success of the strategy and over time we will target and report on the following areas:

- **Customer satisfaction** – As evidenced by our established customer NPS;
- **Our people** – We will measure our progress with reference to our colleague engagement score;
- **Innovation** – Evidenced by new process and product introductions that are generating positive financial returns;
- **Market position** – We expect our investment will strengthen our share position in this challenging environment, positioning us strongly for the long-term; and
- **Financial returns** – Growing revenues and profits with a focus on Group ROCE which will lead to strong cash flow conversion.

Impact of the UK's Exit Process from the EU

Following the update that we gave alongside our full-year results in October, we have continued our work to assess and mitigate the potential impact from the current UK process to exit the EU. Given the range of possible outcomes continues to be broad it is impossible for us to be specific as to the impact of this process on either short term trading or long-term prospects. Notwithstanding this uncertainty, we have been reviewing and implementing mitigation on six potential aspects in particular, which may have an adverse impact on our Group:

1) Consumer demand – Consumers' willingness to make a purchase of upholstery is strongly linked to consumer confidence. The continuing significant uncertainty has obviously impacted consumer confidence. We believe that the underlying growth in our market over 2017 and 2018 has likely been between -1% to -2.5% per year, whereas a long-term average growth rate for the market is typically over 2%. A one per cent. change in our sales growth assumption would increase or reduce revenues by c. £10m, and consequently could have an impact on profits and cash generation of £4m. We will continue to monitor the levels of consumer confidence going forward to ensure that we 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 in our made-to-order model. Across the year we on average import goods representing c.£10m of revenues each week, thus an increase in lead times could have a direct impact on profit and cash generation in the first financial year following delays starting. We do however believe it is unlikely that there will be universal delays across all our points of entry, and likewise imports from the Far East are less likely to be impacted. We have analysed the import routes for all our finished goods to ensure that we balance the points of entry and the forms of transportation (containers or Ro-Ro), and we intend to remain vigilant should the need to switch transportation routes arise. We have ensured our suppliers each have in place the necessary permissions for accelerated customs clearances and we have also encouraged the use of container routes where customs clearance can take place while 'on water'. Our analysis shows that over 85% of our imports by volume are already taking place using containerised freight forwarders holding AEO status. We also import raw materials (principally timber and fabric) to manufacture finished goods and we have requested that our partner suppliers to increase the near-shore 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 and data protection. We are reviewing any impacts on our ability to trade using this approach, however, to date we have not identified any material issues in our existing approach that we will need to overcome.

4) Tariffs – 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. The UK Government has also indicated that they will defer the payment of duty due on all imports from the point of entry to being accounted for as part of the companies' VAT returns, which we believe will give the Group an average annual cash benefit of over £3m, which will help mitigate the working capital impact of any border delays. 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. We do not believe these requirements will be costly to implement, however it may reduce the focus that we are able to devote on other growth activities.

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. In the absence of any hedging, each 1 cent movement in the US dollar exchange rate has approximately a £1 million impact on PBT, prior to any mitigating actions.

6) Our people – we employ a number of EU nationals in our UK operations, principally in manufacturing and distribution roles, and we are aware that many other companies involved in these activities are significantly dependent on EU staff. We also employ UK nationals in our EU operations in Ireland, Spain and also supporting the Netherlands. We have seen reassurances from governments regarding the status of overseas nationals following 29 March 2019, and thus we believe that it is unlikely that there will be an immediate near term impact on our Group. We are however aware of a longer-term risk that EU nationals leave the UK and we therefore see wage inflation as companies compete to attract workers with appropriate skills and experience. To help mitigate this risk we continue to work hard on our employee engagement, to seek to ensure we continue to benefit from employee loyalty, and relatively low turnover.

In summary, we believe the two principal immediate risks in the near term are consumer confidence and border delays. While we have sought to mitigate these, their ultimate impact is uncertain and have the potential to affect our overall financial performance in the year. We will continue our preparations to minimise the disruption as part of our regular risk mitigation process, until the UK and EU's path forward is clear.

Thank you
I would like to take this opportunity to thank our 5,000+ colleagues who work with tremendous dedication, application and enthusiasm across our Group. I feel incredibly honoured and proud to lead our business and am looking forward to delivering our strategy in the right way for our customers, colleagues and shareholders over the medium term.

CFO Retirement
As we announced in January, our CFO Nicola Bancroft will be retiring from the Board later this year. Over the last six years, Nicola has made an enormous contribution to the success of the Group and we thank her for her dedication and service.

As we communicated in our January trading statement Mike Schmidt, currently Chief Development Officer, will become Interim Chief Financial Officer from 1 April 2019 while a succession process is conducted by the Board.

Outlook
We are pleased with the performance for the first five months of the financial year across the Group, with all four of our brands achieving like-for-like revenue growth. The benefits of our investments in our online channels, delivery networks and the development of our brands help mitigate the impact of a market which we expect to remain particularly challenging in 2019 given the current political and economic uncertainty. Although identifying underlying growth rates over short term periods is extremely difficult, we note that year on year order intake in the second half of the financial year to date has been lower than the first half. Assuming no further weakening of this environment, our profit expectations for the financial year remain unchanged.

We believe once again that the Group is building market share in adverse trading conditions and we continue to invest in our key strategic initiatives. This places the Group in a strong position as the industry increasingly transitions to an omnichannel sales model and will allow us to drive attractive long-term returns and cash generation for our shareholders.

Tim Stacey
Chief Executive Officer

FINANCIAL REVIEW

The Group traded in line with our profit expectations for the interim period, with positive revenue growth in all brands and continued strong cash generation. The progress we have made in realising the synergy benefits from the acquisition of Sofology has also been in line with our plans.

Overview

As announced in October, the Group has changed its accounting reference date to 30 June and accordingly FY19 will be an eleven month period to 30 June 2019. In order to more quickly establish reporting history at the new half year date, these interim results are for the five month period ended 30 December 2018, and comparatives for the five months to 30 December 2017 are provided in the summary financial statements and also used for the purposes of the analysis below.

The Sofology acquisition has now annualised and has made a full contribution in the current period but only one month in the comparative period. 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 and these are discussed separately in the analysis below. Brand contribution, which is struck before property or central costs, remains our preferred measure of segment profitability.

22 weeks to 30 December 2018	DFS £m	Other brands £m	Existing Group £m	Sofology £m	Total £m
Gross sales	394.5	35.1	429.6	116.9	546.5
Revenue	301.3	28.6	329.9	92.4	422.3
Cost of sales	(123.4)	(12.8)	(136.2)	(45.1)	(181.3)
Gross profit	177.9	15.8	193.7	47.3	241.0
Selling and distribution costs (excl. property costs)	(100.1)	(10.9)	(111.0)	(24.7)	(135.7)
Brand contribution	77.8	4.9	82.7	22.6	105.3
Property costs			(35.8)	(9.3)	(45.1)
Underlying administrative expenses			(20.2)	(7.2)	(27.4)
Underlying EBITDA			26.7	6.1	32.8

22 weeks to 30 December 2017	DFS £m	Other brands £m	Existing Group £m	Sofology £m	Total £m
Gross sales	372.0	28.2	400.2	24.4	424.6
Revenue	284.9	23.0	307.9	19.2	327.1
Cost of sales	(116.3)	(9.9)	(126.2)	(9.7)	(135.9)
Gross profit	168.6	13.1	181.7	9.5	191.2
Selling and distribution costs (excl. property costs)	(97.3)	(9.1)	(106.4)	(4.7)	(111.1)
Brand contribution	71.3	4.0	75.3	4.8	80.1
Property costs			(35.1)	(1.8)	(36.9)
Underlying administrative expenses			(17.3)	(1.0)	(18.3)
Underlying EBITDA			22.9	2.0	24.9

EXCLUDING SOFOLOGY

Gross sales and revenue

At the time of our full year results in October 2018, we noted a modest recovery in the market with all of our brands achieving positive like for like order intake at the start of the new financial year. This was partly enhanced by deferred demand from the last quarter of FY18 when the hot weather had caused some customers to delay their purchase.

As a consequence, gross sales for the five months excluding Sofology rose by 7.3% to £429.6 million (FY18: £400.2 million) and revenue was £329.9 million (FY18: £307.9 million), an increase of 7.1%.

Gross profit

Gross profit increased by 6.6% to £193.7 million (FY18: £181.7 million), giving a gross margin percentage of 58.7% (FY18: 59.0%). The DFS brand gross margin percentage was in line with the comparative period with inflationary cost pressures being balanced by positive foreign exchange movements. The Group continues to maintain USD hedging cover for 18 months ahead. Slightly reduced margin rates at the smaller brands together with their increased participation resulted in gross profit for the pre-acquisition group overall rising at a slower rate than revenue.

Operating Costs and brand contribution

Selling and distribution costs increased by 4.3% to £111.0 million (FY18: £106.4 million) as a consequence of the increased trading activity. These costs decreased slightly as a percentage of revenue reflecting our continuing focus on operational efficiency.

Accordingly, brand contribution for the Group excluding Sofology rose by 9.8% to £82.7 million (FY18: £75.3 million).

Property costs and administrative expenses

Property costs increased very slightly to £35.8 million (FY18: £35.1 million), with the impact of new showroom openings in the current and prior year being largely balanced by rent reductions achieved through landlord negotiations. With the growth in trading year on year, property costs decreased as a percentage of revenue.

Underlying administrative expenses increased by £2.9 million to £20.2 million (FY18: £17.3 million), with investment in additional capability to deliver group-wide growth initiatives together with associated team restructuring costs.

Underlying EBITDA

The increased leverage of fixed costs as a result of higher trading volumes meant that even with the additional administration costs underlying EBITDA for the Group excluding Sofology increased by a higher percentage than brand contribution, rising by 16.6% to £26.7 million (FY18: £22.9 million).

SOFOLOGY

Sofology's performance continued to be very positive with strong trading and improved profitability as the benefits of Group synergies developed, with the gross margin percentage increasing from 50.3% for the eight months post acquisition period in FY18 to 51.2% for the current five month period.

We have made good progress in realising the expected near term synergy benefits of the acquisition for the Group, with £1.5 million of benefit achieved at the end of the interim period. To date a cumulative total of £3.3 million of costs has been incurred in unlocking these benefits, of which £1.3 million arose in the five months to December 2018. We continue to anticipate a total of c.£3 million of such costs will be incurred in FY19 and we are on track to deliver the estimated £4 million annual benefit from these synergies from the beginning of FY20.

Sofology contributed £92.4 million to Group revenue in the period and generated brand contribution of £22.6 million and a profit before tax of £2.8 million.

We noted at the time of our year end results that the determination of any deferred consideration payable on the acquisition was ongoing. This process has yet to be completed, however the Group's expectations of the amount payable have not changed and the provision of £5.0 million recognised in FY18 has been retained.

COMBINED GROUP

Revenue and profit
Total Group revenue for the five month period was £422.3 million, an increase of 29.1% on the previous year (FY18: £327.1 million). On a pro-forma basis, adjusting to include Sofology revenue for the full comparative period, Group revenue increased by 9.9%.

Although the Sofology gross margin percentage improved as noted above, it remains at a lower rate than other Group brands and its increased participation therefore has a dilutive effect on Group gross margin which decreased to 57.1% (FY18: 58.5%).

Underlying Group EBITDA grew by 31.7% to £32.8 million (FY18: £24.9 million).

Group depreciation and amortisation charges of £12.7 million (FY18: £10.2 million) included £0.6 million of amortisation charges in respect of acquired brand names; the increase on the prior year reflects charges arising on Sofology assets.

Group underlying operating profit increased by 36.7% to £20.1 million (FY18: £14.7 million).

Non-underlying costs
As noted above, £1.3 million of non-underlying costs were incurred in the period in connection with the integration of Sofology and we anticipate the total for FY19 will be in the region of £3 million.

Operating profit after non-underlying costs was £18.8 million, an increase of 56.7% on the previous year (FY18: £12.0 million).

Finance costs
The Group has continued to make use of its £230.0 million revolving credit facility to efficiently flex borrowings to short term requirements. Net underlying finance costs increased slightly to £4.7 million (FY18: £4.3 million) as the higher gearing ratio in the second half of FY18 resulted in a small increase the rate of interest payable on the facility.

Tax
The tax charge recognised in the interim financial statements has been calculated using the expected effective tax rate for the full year of 21.1% (FY18: 20.7%). As in previous years, this is higher than the applicable UK Corporation Tax rate of 19.0% (FY18: 19.0%), primarily due to disallowable depreciation on non-qualifying fixed assets, with the additional costs at Sofology increasing this effect compared to last financial year.

Earnings per share
Underlying basic earnings per share for the Group were 5.7 pence per share (FY18: 4.1 pence), an increase of 39.0% on last year. Including the post-tax effect of non-underlying costs of £1.0 million (FY18: £3.8 million), reported basic earnings per share more than doubled to 5.2 pence per share (FY18: 2.3 pence).

Capital expenditure

Cash capital expenditure for the period of £13.9 million (FY18: £12.3 million) was in line with our previous guidance of £24-26 million for FY19. Last year we began to source commercial vehicles under finance lease arrangements and we have continued this approach in FY19, allowing us to match cash expenditure to the benefits being derived.

The Group will continue to prioritise the allocation of capital to areas where we see the highest rates of return and before committing to substantial investment will seek to ensure returns are proven to exceed our internal hurdle rates. Where we invest in growth we conduct post-investment reviews to assess the actual returns on the spend that we have made to inform our future investment decisions. We will also continue to ensure an appropriate, but disciplined, level of maintenance spend on our existing showrooms and infrastructure.

Cash flow and balance sheet

The Group continues to be highly cash generative. The increase in profitability combined with a reduction in inventory held resulted in net cash from operating activities for the period more than doubling to £35.3 million (FY18: £17.3 million).

Free cash flow (measured as underlying EBITDA, less capital expenditure and working capital movements) followed a similar pattern, increasing to £25.6 million (FY18: £11.9 million) which corresponded to a cash conversion of 78.0%, in line with the 79.4% reported for the year to July 2018.

Closing net debt of £158.1 million at December 2018 represents a significant year-on-year reduction in absolute terms (December 2017: £184.4m). Net debt remains similar compared to July 2018, reflecting typical operational seasonality and the timing of the final dividend payment. With increased profitability however our gearing ratio has strengthened to 1.9 times from the year end position of 2.1 times. The Board continues to target a return to a gearing ratio of 1.5 times or less over the near term as we complete the paydown of acquisition related debt.

IFRS 16

We have continued our work on the adoption of IFRS 16 by the Group, which will take effect from the start of FY20. The Group intends to follow the modified retrospective transition methodology which means that comparative figures for FY19 will not be restated. We will provide further details of the impact of this significant accounting change with our full year results later this year.

Dividend

The Board has declared an interim dividend of 3.7 pence per share (FY18: 3.7 pence), payable on 19 June 2019 to shareholders on the register at 31 May 2019. While the timing of the period end has altered to reflect operational benefits, the Board has chosen to keep the timing of our dividend payments the same in order to match them to natural cash peaks that occur in our business.

Nicola Bancroft
Chief Financial Officer

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

a) The condensed set of financial statements has been prepared in accordance with IAS 34;

b) The interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first five months and description of the principal risks and uncertainties for the remaining six months of the year); and

c) The interim management report includes a fair review of the information required by DT 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Tim Stacey	**Nicola Bancroft**
Chief Executive Officer	*Chief Financial Officer*

14 March 2019

INDEPENDENT REVIEW REPORT TO DFS FURNITURE PLC

Conclusion
We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the five months ended 30 December 2018 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the five months ended 30 December 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Whilst the company has previously produced a half-yearly report containing a condensed set of financial statements, those financial statements have not previously been subject to a review by an independent auditor. As a consequence, the review procedures set out above have not been performed in respect of the comparative period for the five months ended 30 December 2017.

The impact of uncertainties due to the UK exiting the European Union on our review
Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities
This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Chris Hearld
for and on behalf of KPMG LLP

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

14 March 2019

Unaudited condensed consolidated income statement

		22 weeks to 30 December 2018			22 weeks to 30 December 2017			52 weeks to 28 July 2018		
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross sales	*2*	**546.5**	-	**546.5**	424.6	-	424.6	1,125.6	-	1,125.6
Revenue	*2*	**422.3**	-	**422.3**	327.1	-	327.1	870.5	-	870.5
Cost of sales		**(181.3)**	-	**(181.3)**	(135.9)	-	(135.9)	(363.6)	-	(363.6)
Gross profit		**241.0**	-	**241.0**	191.2	-	191.2	506.9	-	506.9
Selling and distribution costs		**(180.8)**	-	**(180.8)**	(148.0)	-	(148.0)	(380.6)	-	(380.6)
Administrative expenses		**(27.4)**	**(1.3)**	**(28.7)**	(18.3)	(2.7)	(21.0)	(50.2)	(9.9)	(60.1)
Operating profit before depreciation and amortisation		**32.8**	**(1.3)**	**31.5**	24.9	(2.7)	22.2	76.1	(9.9)	66.2
Depreciation		**(10.5)**	-	**(10.5)**	(8.9)	-	(8.9)	(24.1)	-	(24.1)
Amortisation		**(2.2)**	-	**(2.2)**	(1.3)	-	(1.3)	(4.2)	-	(4.2)
Operating profit	*3*	**20.1**	**(1.3)**	**18.8**	14.7	(2.7)	12.0	47.8	(9.9)	37.9
Finance income		**0.1**	-	**0.1**	0.1	-	0.1	0.1	-	0.1
Finance expenses	*4*	**(4.8)**	-	**(4.8)**	(4.4)	(1.5)	(5.9)	(10.7)	(1.5)	(12.2)
Profit before tax		**15.4**	**(1.3)**	**14.1**	10.4	(4.2)	6.2	37.2	(11.4)	25.8
Taxation	*5*	**(3.3)**	**0.3**	**(3.0)**	(1.8)	0.4	(1.4)	(7.7)	0.7	(7.0)
Profit for the period		**12.1**	**(1.0)**	**11.1**	8.6	(3.8)	4.8	29.5	(10.7)	18.8

Statutory earnings per share										
Basic	*6*	**5.7p**	**(0.5)p**	**5.2p**	4.1p	(1.8)p	2.3p	14.0p	(5.1)p	8.9p
Diluted	*6*	**5.7p**	**(0.5)p**	**5.2p**	4.1p	(1.8)p	2.3p	13.9p	(5.0)p	8.9p

Unaudited condensed consolidated statement of comprehensive income

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
Profit for the period	**11.1**	4.8	18.8
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	**6.3**	(1.1)	4.7
Net change in fair value of cash flow hedges reclassified to profit or loss	**(2.1)**	2.4	6.3
Income tax on items that are/may be reclassified subsequently to profit or loss	**(0.8)**	(0.2)	(1.6)
Other comprehensive income for the period, net of income tax	**3.4**	1.1	9.4
Total comprehensive income for the period	**14.5**	5.9	28.2

Unaudited condensed consolidated balance sheet

	30 December 2018 £m	30 December 2017 £m	28 July 2018 £m
Non-current assets			
Property, plant and equipment	**93.5**	95.7	91.1
Intangible assets	**536.9**	533.7	537.0
Other financial assets	**0.8**	-	1.6
Deferred tax assets	**6.6**	7.5	8.0
	637.8	636.9	637.7
Current assets			
Inventories	**50.4**	51.2	54.4
Other financial assets	**8.4**	0.1	3.7
Trade and other receivables	**26.6**	27.3	31.2
Cash and cash equivalents	**44.5**	17.9	47.2
	129.9	96.5	136.5
Total assets	**767.7**	733.4	774.2
Current liabilities			
Trade payables and other liabilities	**(235.8)**	(216.1)	(228.5)
Provisions	**(4.8)**	(5.1)	(4.9)
Other financial liabilities	**-**	(3.5)	(0.1)
Current tax liabilities	**(2.6)**	(0.9)	(2.7)
	(243.2)	(225.6)	(236.2)
Non-current liabilities			
Interest bearing loans and borrowings	**(190.8)**	(193.6)	(195.7)
Provisions	**(5.9)**	(6.0)	(5.9)
Other financial liabilities	**(1.0)**	(2.3)	(1.1)
Other liabilities	**(74.6)**	(69.6)	(82.9)
	(272.3)	(271.5)	(285.6)
Total liabilities	**(515.5)**	(497.1)	(521.8)
Net assets	**252.2**	236.3	252.4
Equity attributable to equity holders of the parent			
Share capital	**319.5**	319.5	319.5
Share premium	**40.4**	40.4	40.4
Merger reserve	**18.6**	18.6	18.6
Treasury shares	**(2.1)**	(3.7)	(3.3)
Cash flow hedging reserve	**8.2**	(5.7)	4.0
Retained earnings	**(132.4)**	(132.8)	(126.8)
Total equity	**252.2**	236.3	252.4

Unaudited condensed 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 29 July 2017	319.5	40.4	18.6	(3.7)	(7.0)	(122.7)	245.1
Profit for the period	-	-	-	-	-	4.8	4.8
Other comprehensive income/(expense)	-	-	-	-	1.3	(0.2)	1.1
Total comprehensive income/(expense) for the period	-	-	-	-	1.3	4.6	5.9
Dividends	-	-	-	-	-	(15.9)	(15.9)
Share based payments	-	-	-	-	-	1.2	1.2
Balance at 30 December 2017	**319.5**	**40.4**	**18.6**	**(3.7)**	**(5.7)**	**(132.8)**	**236.3**
Balance at 28 July 2018	319.5	40.4	18.6	(3.3)	4.0	(126.8)	252.4
Profit for the period	-	-	-	-	-	11.1	11.1
Other comprehensive income/(expense)	-	-	-	-	4.2	(0.8)	3.4
Total comprehensive income/(expense) for the period	-	-	-	-	4.2	10.3	14.5
Dividends	-	-	-	-	-	(15.9)	(15.9)
Treasury shares issued	-	-	-	1.2	-	(1.2)	-
Share based payments	-	-	-	-	-	1.2	1.2
Balance at 30 December 2018	**319.5**	**40.4**	**18.6**	**(2.1)**	**8.2**	**(132.4)**	**252.2**

Unaudited condensed consolidated cash flow statement

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
Operating profit	**18.8**	12.0	37.9
Adjustments for:			
Depreciation, amortisation and impairment	**12.7**	10.2	28.3
Gain on sale of property, plant and equipment	**(0.4)**	(0.3)	(0.9)
Accrued acquisition consideration	**-**	-	5.0
Share based payment expense	**1.2**	1.2	2.8
Decrease/(increase) in trade and other receivables	**4.6**	2.0	(1.7)
Decrease/(increase) in inventories	**4.0**	(1.6)	(4.7)
(Decrease)/increase in trade and other payables	**(3.0)**	(1.7)	11.0
Decrease in provisions	**(0.1)**	(0.6)	(1.1)
	37.8	21.2	76.6
Tax paid	**(2.5)**	(3.9)	(9.1)
Net cash from operating activities	**35.3**	17.3	67.5
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**0.8**	0.3	1.0
Interest received	**0.1**	0.1	0.1
Acquisition of subsidiaries	**-**	(20.1)	(20.1)
Acquisition of businesses	**-**	(1.2)	(1.2)
Acquisition of property, plant and equipment	**(11.8)**	(10.5)	(17.3)
Acquisition of other intangible assets	**(2.1)**	(1.8)	(4.7)
Net cash from investing activities	**(13.0)**	(33.2)	(42.2)
Cash flows from financing activities			
Proceeds from new loan	**-**	195.0	197.0
Interest paid	**(3.9)**	(3.5)	(7.4)
Exceptional refinancing costs	**-**	(1.9)	(1.9)
Repayment of borrowings	**(5.0)**	(200.0)	(200.0)
Payment of finance lease liabilities	**(0.2)**	(0.9)	(3.1)
Dividends paid	**(15.9)**	(15.9)	(23.7)
Net cash from financing activities	**(25.0)**	(27.2)	(39.1)
Net decrease in cash and cash equivalents	**(2.7)**	(43.1)	(13.8)
Cash and cash equivalents at beginning of period	**47.2**	61.0	61.0
Cash and cash equivalents at end of period	**44.5**	17.9	47.2

Notes to the unaudited condensed consolidated financial statements

1. Basis of preparation

This unaudited condensed consolidated interim financial information for DFS Furniture plc ("the Company") and its subsidiaries (together, "the Group") was approved for release on 14 March 2019.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Disclosure and Transparency Rules of the Financial Conduct Authority, and comprise the results for the 22 weeks ended 30 December 2018, the 22 weeks ended 30 December 2017, and the 52 weeks ended 28 July 2018. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the 52 weeks ended 28 July 2018.

The financial information included in this interim statement of results does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the 52 weeks ended 28 July 2018 have been reported on by the Company's auditor 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. The auditor's review report for the 22 weeks ended 30 December 2018 is attached. No review report has been issued by the auditor for the comparative period.

Going concern

On the basis of their assessment of the Group's financial position, forecasts and projections and available medium and long term facilities, including a £230.0 million revolving credit facility in place until August 2022, 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. Principal accounting policies

The accounting policies adopted in preparing the condensed consolidated interim financial statements are consistent with the policies applied in the Group's financial statements for the 52 weeks ended 28 July 2018, which were prepared under IFRS as adopted by the European Union, other than the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from Customers* which are both effective for the Group from the beginning of the current financial year. Further details of the adoption of these new standards are set out below. There are no other new standards, amendments to existing standards or interpretations that are effective for the first time in the financial year beginning 29 July 2018 that have a material impact on the Group's results.

IFRS 9 Financial Instruments

IFRS 9 supersedes IAS 39 for accounting requirements on the classification, recognition and measurement of financial instruments. The key changes and their impact for the Group are as follows:

- The classification of the Group's financial assets and liabilities have been reviewed in accordance with the requirements of IFRS 9 and no impact on the financial statements has been identified.
- IFRS 9 specifies a forward-looking 'expected credit loss' model for the impairment of financial assets measured at amortised cost. Applying this basis to the Group's financial assets had no material impact on reported balances.

Notes to the unaudited condensed consolidated financial statements

- The Group's hedging arrangements continue to qualify for hedge accounting under IFRS 9, however the Group has made the accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for the current financial year.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the basis of revenue recognition on the allocation of transaction price to performance obligations. The Group's revenue recognition was already in accordance with the principles of IFRS 15 and accordingly there has been no impact on reported results of adopting the new standard.

IFRS 16 Leases

IFRS 16 will apply to the Group from 1 July 2019, the start of the next financial year, and will have a significant impact on the Group's financial statements. The standard requires recognition on the balance sheet of a right of use asset for the majority of the Group's operating leases, with a corresponding liability for the present value of the lease payments. Rental payments currently recognised in the income statement will be replaced by amortisation of the right of use asset and an finance cost for the unwinding of the discount on the liability. The minimum lease commitments under the Group's operating leases is disclosed in Note 25 of the Group's annual report for the year ended 28 July 2018.

The Group intends to apply the modified restrospective transition methodology, which means that the cumulative effect of adopting IFRS 16 as at 1 July 2019 will be recognised as an adjustment to opening balance sheet reserves and comparative figures for the current financial year will not be restated.

The Group is currently completing a detailed project to collate and validate required data and implement appropriate processes and IT systems to support the implementation of the standard. The complexity of the standard and the sensitivity of the calculations to key assumptions such as discount rates and lease length mean that it is not yet practicable to fully quantify the effect on the Group's financial statements; further details will be provided in the Group's next annual report.

Alternative performance measures

The Group defined non-underlying items as those that are material in size, unusual or non-recurring in nature and presents these separately in the income statement in order to provide an indiciation of the Group's underlying business performance without distortion from significant non-trading events. The Group has chosen to present certain underlying profit and earnings per share measures, adjusted for these non-underlying items. These alternative performance measures are not recognised profit measures under EU-adopted IFRS and may not be directly comparable with 'adjusted' profit measures used by other companies.

Significant judgements and estimates

The application of the Group's accounting policies requires judgments, estimates and assumptions to be made that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, but may differ from actual results. In preparing these interim financial statements, the significant judgements and estimates were consistent with those applied to the consolidated financial statements for the 52 weeks ended 28 July 2018.

Notes to the unaudited condensed consolidated financial statements

3. 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**		
	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m	**22 weeks to 30 December 2018 £m**	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m	**22 weeks to 30 December 2018 £m**	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
DFS	**394.5**	372.0	898.5	**-**	-	-	**394.5**	372.0	898.5
Sofology	**116.9**	24.4	155.2	**-**	-	-	**116.9**	24.4	155.2
Other segments	**35.1**	28.2	71.9	**0.2**	0.2	0.6	**35.3**	28.4	72.5
Eliminations	**-**	-	-	**(0.2)**	(0.2)	(0.6)	**(0.2)**	(0.2)	(0.6)
Gross sales	**546.5**	424.6	1,125.6	**-**	**-**	-	**546.5**	424.6	1,125.6

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2017 £m
Total segments gross sales	**546.5**	424.6	1,125.6
Less: value added and other sales taxes	**(86.3)**	(66.3)	(175.8)
Less: costs of interest free credit and aftercare services	**(37.9)**	(31.2)	(79.3)
Revenue	**422.3**	327.1	870.5

22 weeks to 30 December 2018	**DFS £m**	**Sofology £m**	**Other £m**	**Total £m**
Revenue	**301.3**	**92.4**	**28.6**	**422.3**
Cost of sales	**(123.4)**	**(45.1)**	**(12.8)**	**(181.3)**
Gross profit	**177.9**	**47.3**	**15.8**	**241.0**
Selling and distribution costs (excluding property costs)	**(100.1)**	**(24.7)**	**(10.9)**	**(135.7)**
Brand contribution (segment profit)	**77.8**	**22.6**	**4.9**	**105.3**
Property costs				**(45.1)**
Underlying administrative expenses				**(27.4)**
Underlying EBITDA				**32.8**

Notes to the unaudited condensed consolidated financial statements

3. Segmental analysis *(continued)*

22 weeks to 30 December 2017	DFS £m	Sofology £m	Other £m	Total £m
Revenue	284.9	19.2	23.0	327.1
Cost of sales	(116.3)	(9.7)	(9.9)	(135.9)
Gross profit	168.6	9.5	13.1	191.2
Selling and distribution costs (excluding property costs)	(97.3)	(4.7)	(9.1)	(111.1)
Brand contribution (segment profit)	71.3	4.8	4.0	80.1
Property costs				(36.9)
Underlying administrative expenses				(18.3)
Underlying EBITDA				24.9

52 weeks to 28 July 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 and 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

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
Underlying EBITDA	**32.8**	24.9	76.1
Non-underlying items	**(1.3)**	(2.7)	(9.9)
Depreciation & amortisation	**(12.7)**	(10.2)	(28.3)
Operating profit	**18.8**	12.0	37.9
Finance income	**0.1**	0.1	0.1
Finance expenses	**(4.8)**	(5.9)	(12.2)
Profit before tax	**14.1**	6.2	25.8

A geographical analysis of revenue is presented below:

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
United Kingdom	**408.7**	314.1	839.7
Europe	**13.6**	13.0	30.8
Total revenue	**422.3**	327.1	870.5

Notes to the unaudited condensed consolidated financial statements

3. Segmental analysis *(continued)*

Segment assets and liabilities

	Assets			Liabilities		
	30 December 2018 £m	30 December 2017 £m	28 July 2018 £m	**30 December 2018 £m**	30 December 2017 £m	28 July 2018 £m
DFS	**654.4**	632.5	662.4	**(251.2)**	(234.1)	(249.6)
Sofology	**90.7**	80.4	87.3	**(62.4)**	(51.2)	(61.7)
Other segments	**34.8**	31.6	33.5	**(35.5)**	(30.2)	(33.2)
Total segments	**779.9**	744.5	783.2	**(349.1)**	(315.5)	(344.5)
Loans and financing	**-**	-	-	**(190.8)**	(193.6)	(195.7)
Financial assets/(liabilities)	**9.2**	0.1	5.3	**(1.0)**	(5.8)	(1.2)
Current tax	**-**	-	-	**(2.6)**	(0.9)	(2.7)
Deferred tax	**6.6**	7.5	8.0	**-**	-	-
Eliminations	**(28.0)**	(18.7)	(22.3)	**28.0**	18.7	22.3
Total Group	**767.7**	733.4	774.2	**(515.5)**	(497.1)	(521.8)

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.

	Additions to non-current assets			Depreciation and amortisation		
	30 December 2018 £m	30 December 2017 £m	28 July 2018 £m	**30 December 2018 £m**	30 December 2017 £m	28 July 2018 £m
DFS	**12.4**	10.7	20.7	**9.4**	8.9	21.4
Sofology	**2.2**	0.8	2.3	**2.1**	0.4	4.3
Other segments	**0.8**	1.9	4.1	**1.2**	0.9	2.6
Total Group	**15.4**	13.4	27.1	**12.7**	10.2	28.3

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

4. Operating profit

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

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
Depreciation on tangible assets	**10.5**	8.9	24.1
Net gain on disposal of property, plant and equipment	**(0.4)**	(0.3)	(0.9)
Amortisation of brand name intangible assets	**0.6**	0.2	1.1
Amortisation of software and other intangible assets	**1.6**	1.1	3.1
Cost of inventories recognised as an expense	**183.8**	137.2	371.2
Write down of inventories to net realisable value	**0.6**	0.3	0.6
Other cost of sales variances	**(3.1)**	(1.6)	(8.2)
Operating lease rentals	**33.5**	27.9	74.2
Non-underlying items:			
Acquisition related professional fees	**-**	2.2	2.6
Additional acquisition consideration	**-**	-	5.0
Integration costs	**1.3**	0.3	2.0
Restructuring costs	**-**	0.2	0.3
	1.3	2.7	9.9

Acquisition related fees, additional consideration and integration costs arose on the Group's acquisitions of Sofology Limited and certain assets from Multiyork (see note 7). Restructuring costs relate to the closure of the Group's national distribution centre.

Notes to the unaudited condensed consolidated financial statements

5. Finance expense

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
Interest payable on senior loan facility	**-**	(0.1)	(0.1)
Interest payable on senior revolving credit facility	**(3.2)**	(2.8)	(7.0)
Bank fees	**(0.1)**	(0.2)	(0.1)
Fair value lease adjustment unwind	**(1.2)**	(1.2)	(3.0)
Unwind of discount on provisions	**(0.1)**	-	(0.1)
Finance lease interest	**(0.2)**	(0.1)	(0.4)
Underlying finance expense	**(4.8)**	(4.4)	(10.7)
Non-underlying refinancing costs	**-**	(1.5)	(1.5)
Total finance expense	**(4.8)**	(5.9)	(12.2)

Non-underlying finance costs in the prior period relate to the refinancing of the Group's senior loan facility in August 2017.

6. Taxation

The tax charge recognised in the interim financial statements has been calculated on the basis of the expected effective tax rate for the 22 weeks to 30 December 2018 of 21.1% (22 weeks to 30 December 2017: 22.25%).

7. Earnings per share

	22 weeks to 30 December 2018 pence	22 weeks to 30 December 2017 pence	52 weeks to 28 July 2018 pence
Basic earnings per share	**5.2**	2.3	8.9
Diluted earnings per share	**5.2**	2.3	8.9

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
Profit attributable to equity holders of the parent company	**11.1**	4.8	18.8

	22 weeks to 30 December 2018 No.	22 weeks to 30 December 2017 No.	52 weeks to 28 July 2018 No.
Weighted average number of shares for basic earnings per share	**211,818,926**	211,591,754	211,631,564
Dilutive effect of employee share based payment awards	**2,129,479**	781,676	1,301,607
Weighted average number of shares for diluted earnings per share	**213,948,405**	212,373,430	212,933,171

Notes to the unaudited condensed consolidated financial statements

7. Earnings per share *(continued)*

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.

	22 weeks to 30 December 2018 £m	22 weeks to 30 December 2017 £m	52 weeks to 29 July 2018 £m
Profit attributable to equity holders of the parent company	**11.1**	4.8	18.8
Non-underlying items loss after tax	**1.0**	3.8	10.7
Underlying profit attributable to equity holders of the parent company	**12.1**	8.6	29.5

	22 weeks to 30 December 2018 pence	22 weeks to 30 December 2017 pence	52 weeks to 29 July 2018 pence
Underlying basic earnings per share	**5.7**	4.1	14.0
Underlying diluted earnings per share	**5.7**	4.1	13.9

8. 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 consideration payable was £26.0 million, with deferred contingent consideration payable based on underlying earnings before interest, tax, depreciation and amortisation for the 12 months ended 30 September 2018. An additional £5.0m was accrued in FY18 as an estimate of the additional consideration that could be payable and this has been retained while the determination of the final amount is concluded.

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.

Acquisition related costs charged as non-underlying administrative expenses in the income statement are detailed in note 4.

Notes to the unaudited condensed consolidated financial statements

8. Business combinations *(continued)*

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

Recognised amounts if 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 assets	(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

In the period from 1 December 2017 to 30 December 2017, Sofology Limited contributed £19.2 million to reported Group revenue and a profit before tax of £1.7 million.

9. Dividends

	Pence per ordinary share	**22 weeks to 30 December 2018 £m**	22 weeks to 30 December 2017 £m	52 weeks to 28 July 2018 £m
Final ordinary dividend for FY17	7.5p	**-**	15.9	15.9
Interim ordinary dividend for FY18	3.7p	**-**	-	7.8
Final ordinary dividend for FY18	7.5p	**15.9**	-	-
		15.9	15.9	23.7

The directors have declared an interim dividend for the period ended 30 June 2019 of 3.7p per ordinary share to be paid on 19 June 2019. DFS Furniture plc shares will trade ex-dividend from 30 May 2019 and the record date will be 31 May 2019.

10. 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.

Notes to the unaudited condensed consolidated financial statements

11. Risks and uncertainties

The directors have considered the principal risks and uncertainties as presented in the Group's annual report for the 52 weeks ended 28 July 2018 and determined that these risks remain relevant for the remaining 26 weeks of the current financial year. These risks comprise: Economy and consumer market conditions; Customer proposition; Regulatory environment; Brexit; Integration of acquired businesses; People; Website and IT systems; Supply chain; Property and retail store network; Financial risk and liquidity; and Consumer finance. Further details of these risks can be found on pages 12 to 17 of the Group's annual report and accounts, a copy of which is available on the Group's website at www.dfscorporate.co.uk.

12. Seasonality of operations

The Group's business is subject to sales order peaks due to the effects of promotional periods and, historically, a significant proportion of its annual revenue has been derived from orders generated during specific promotional periods. Promotional periods are generally aligned with periods over which consumers seek to make more purchases.

The Group's most important trading periods in terms of order volumes have been in the promotional periods during the post-Christmas winter sale, Easter, the pre-Christmas guaranteed delivery period, and other public bank holidays. These increases in its order volumes (as opposed to its revenue, which is recognised upon completion of delivery, typically between three and 12 weeks after orders are placed) have generally been influenced, inter alia, by increases in the Group's spending on marketing and promotions in the period immediately prior to, and during, these promotional periods.

As a result of this seasonality of operations the results for the first half of the financial year are normally smaller than the second half.

13. Capital expenditure

For the 22 weeks to 30 December 2018, acquisition of property, plant and equipment (including those acquired under finance leases) totalled £13.3 million (22 weeks to 30 December 2017: £11.6 million). Acquisitions of intangible assets (computer software) totalled £2.1 million (22 weeks to 30 December 2017: £1.8 million). Net proceeds on the sale of assets in the period were £0.8 million (22 weeks to 30 December 2017: £0.3 million).

At 30 December 2018 the Group had contracted capital commitments of £3.1 million (30 December 2017: £5.4 million) for which no provision has been made in the financial statements.

Notes to the unaudited condensed consolidated financial statements

14. Net debt

	28 July 2018 £m	**Cash flow £m**	**Acquisitions £m**	**Other non-cash changes £m**	**30 December 2018 £m**
Cash in hand, at bank	47.2	(2.7)	-	-	**44.5**
Cash and cash equivalents	47.2	(2.7)	-	-	**44.5**
Senior revolving credit facility	(195.7)	5.0	-	(0.1)	**(190.8)**
Finance lease liabilities	(10.5)	0.2	-	(1.5)	**(11.8)**
Total net debt	(159.0)	2.5	-	(1.6)	**(158.1)**

	29 July 2017 £m	Cash flow £m	Acquisitions £m	Other non-cash changes £m	30 December 2017 £m
Cash in hand, at bank	61.0	(49.0)	5.9	-	17.9
Cash and cash equivalents	61.0	(49.0)	5.9	-	17.9
Senior loan facility	(198.8)	200.0	-	(1.2)	-
Senior revolving credit facility	-	(195.0)	-	1.4	(193.6)
Finance lease liabilities	(6.7)	0.9	(1.8)	(1.1)	(8.7)
Total net debt	(144.5)	(43.1)	4.1	(0.9)	(184.4)

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.