DFS Furniture plc

Annual Report & Accounts 2019

DFS has a 50 year history of innovation within the furniture retail sector.

Strategic report

2–45

Corporate governance

46–95

Financial statements

96–132

We embrace change, innovate and understand our market and what our customers value.

Portfolio of complementary brands

We trade four separate brands: DFS, Dwell, Sofa Workshop and Sofology

Our brands are complementary – they appeal to different customer segments and allow us to target the majority of the market

Creative direction is managed by each brand team who operate independently from their own head offices

Vertical integration

We design, retail, manufacture, deliver and carry out after sales servicing

Each brand curates their own ranges, supported by specialist in-house design teams

We have a network of showrooms across the UK, Ireland and parts of Europe and market leading websites

We manufacture around a quarter of all Group sofas across our own five UK factories and wood mills

We operate our own distribution network which includes over 20 distribution centres, nearly 300 delivery vehicles and over 600 delivery colleagues who carefully install our products into our customers' homes

Our team of 280 service managers and technicians carry out servicing to address any after sales issues

What ma

Well invested platform and unrivalled scale

We invest in our business for the long term and with 34% UK market share across the Group we have a differentiated depth of resource

All our brands have a national network of well-invested showrooms which are staffed by our highly motivated and well-trained sales colleagues

We invest in our websites to ensure they keep inspiring our customers and make it easy for them to browse and buy online

Our delivery network benefits from innovative custom-built route mapping technology which improves operational efficiency and minimises fuel consumption

Our people

We would not be the market leader without our incredibly talented and enthusiastic 5,600 plus colleagues

We are proud to have been named a Sunday Times Best 25 Big Companies to work for

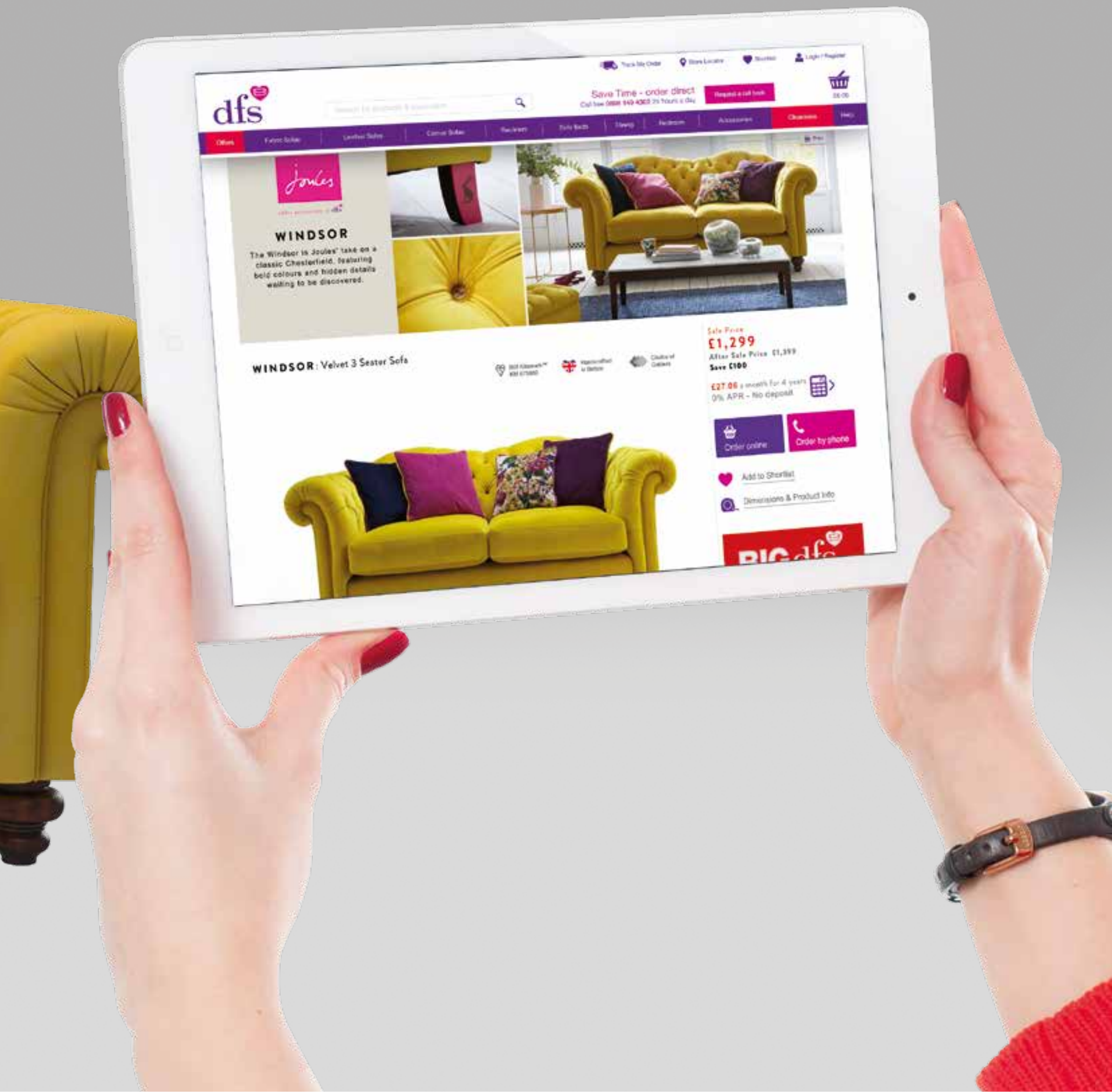
Our award-winning apprenticeship schemes support individuals to become highly skilled in specialist occupations

kes us unique

DFS Group at a glance

Windsor
The Windsor is Joules' take on a classic Chesterfield, featuring bold colours and hidden details waiting to be discovered.

Our strategy is to be the leading sofa retailer in the digital age.



Highlights

Good trading performance and strategic progress

Financial

The Group has changed its accounting reference date from 31 July to 30 June. FY19 is therefore a short accounting period of 48 weeks.

Basis of unaudited pro-forma results

In order to aid comparability with prior periods, unaudited pro-forma figures are presented below for the 52 weeks ended 30 June 2019, in addition to the audited statutory period of 48 weeks ended 30 June 2019.

These pro-forma figures are calculated by adding unaudited results per the Group management accounts for the 4 weeks to 28 July 2018 to the audited statutory results for the 48 weeks to 30 June 2019.

Group revenue

FY19 (52 weeks pro-forma)	£996.2m
FY19 (48 weeks)	£901.0m
FY18	£870.5m

Underlying EBITDA[1]

FY19 (52 weeks pro -forma)	£90.2m
FY19 (48 weeks)	£65.1m
FY18	£76.1m

Underlying profit before tax excluding amortisation of brand names[1]

FY19 (52 weeks pro-forma)	£50.2m
FY19 (48 weeks)	£28.2m
FY18	£38.3m

Profit before tax

FY19 (52 weeks pro-forma)	£43.6m
FY19 (48 weeks)	£22.4m
FY18	£25.8m

Earnings per share

FY19 (52 weeks pro-forma)	16.5p
FY19 (48 weeks)	8.6p
FY18	8.9p

Underlying earnings per share[1]

FY19 (52 weeks pro-forma)	18.4p
FY19 (48 weeks)	10.3p
FY18	14.0p

Leverage[1]

FY19 (52 weeks pro-forma)	1.95x
FY18	2.09x

Final dividend held at

FY19 (48 weeks)	7.5p
FY18	7.5p

1. Refer to pages 130 to 131 for further information on alternative performance measures.

Operational

Post Purchase NPS[2]

84.2%

FY18	84.9%

Established Customer NPS[2]

33.0%

FY18	35.8%

2. Net Promoter Scores are for the DFS brand.

Perle

- Good progress made following the launch of the new strategy to lead sofa retailing in the digital age:
  - **Drive the DFS Core:** Return to like-for-like growth in DFS, driven by double-digit growth in online sales supported by technology and product innovation
  - **Build the Platforms:** Shared use of logistics, manufacturing and property assets underway, with further opportunities being pursued
  - **Unlock New Growth:** 14.4% of pro-forma sales growth at Sofology and significant year-on-year profit improvement; Netherlands also showing encouraging signs
- Colleagues well-engaged in new strategy and DFS named a 'Top 25' Big Company to work for once again
- Customer satisfaction remains positive with all four group retail brands rated 'Excellent' on Trustpilot

We are the leading sofa retailing group in the UK – we operate across four brands, each appealing to different customer segments

Millbrook

- DFS is the leading retailer of sofas in the UK with a 50 year heritage
- Headquartered in Doncaster it operates 117 showrooms in the UK&ROI, eight across Spain and the Netherlands and a leading web platform
- The brand is promotionally led with broad reaching advertising campaigns that drive brand recall and focus on comfort and value for money
- Its customers tend to have average national income and a high proportion are young families
- Being the fifth highest spending UK retailer on advertising, it is often an anchor tenant driving significant footfall to destination retail parks
- DFS is the most commonly searched term online in the sector, ahead of even "sofa", and its website received an average of 1.7m unique visitors each month in the 12 months to June 2019
- Sofa orders are fulfilled on a made to order basis

Revenue

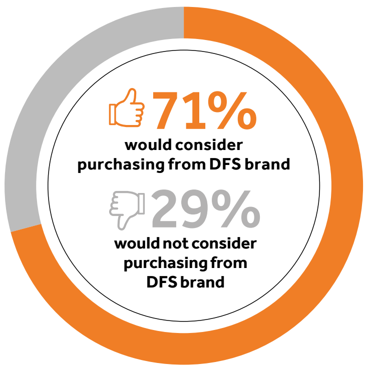
FY19	(52 weeks pro-forma)	£721.7m
FY19	(48 weeks)	£650.6m
FY18		£689.2m

Number of showrooms

125

FY18	124

Upholstery purchasers



UK upholstery market value 2019[1]

£3.2bn

1. GlobalData estimated market size (March 2019).

sofology

- Sofology is the third largest retailer of sofas in the UK
- Headquartered near Warrington it trades through its growing national footprint of 42 showrooms and its website
- Its marketing approach focuses on emphasing product design and quality
- The use of well known celebrities in its TV and digital adverts has helped build its brand awareness and distinctiveness
- The brand appeals to a slightly more affluent than average customer
- Utilises a strong omni-channel model that enables the customer to start building a basket in showroom for completion there and then or once they are back at home
- Its products are made to order

Revenue[2]

FY19 (52 weeks pro-forma)	£205.9m
FY19 (48 weeks)	£187.7m
FY18[2]	£179.9m

Number of showrooms

42

FY18	41

2. Includes pre-acquisition revenues from August 2017 to November 2017.

Perle

dwell

- Dwell sells stylish, modern furniture, lighting and home accessories
- Headquartered in London it operates online and from its 36 showrooms nationwide, 33 of which are co-located alongside DFS showrooms
- Its customers tend to be affluent and slightly older families in the 35-55 age range
- In contrast to the rest of the Group Dwell operates a stocked model from its Milton Keynes national distribution centre allowing for short customer lead times

Malmo

SOFA WORKSHOP
our craft, your creation

- Sofa Workshop is a premium retailer of exclusively British-made furniture
- Headquartered in Surrey it trades through 32 showrooms nationwide (ten of which are co-located next to DFS showrooms and the remainder predominantly on UK high streets) and its recently re-platformed website
- The product range is distinct through exceptional quality and by offering customers the option to bespoke much of the range in both dimensions and fabric coverings
- Its customers tend to be higher income families often with older children
- Its products are made to order in UK based partner workshops

Thurloe

Revenue

FY19 (52 weeks pro-forma)	£68.6m
FY19 (48 weeks)	£62.7m
FY18	£58.5m

Number of showrooms

68

FY18	67

Chair's statement

Setting the foundations for future growth

Ian Durant
Non-Executive Chair

2019 highlights

- The launch of the new Group Strategy – "leading sofa retailing in the digital age"
- Tim Stacey's first year as Chief Executive Officer
- Mike Schmidt appointed as Chief Financial Officer
- Full year dividend held at 11.2 pence per share

Overview

There have been a number of major developments for the Group this year, including the appointments of Tim Stacey as Group CEO and Mike Schmidt as Group CFO as well as several Non-Executive Board appointments.

In November 2018 Tim succeeded Ian Filby as CEO and in July 2019 Mike succeeded Nicola Bancroft as CFO. The new leadership team has shown great energy and enthusiasm in their initial months together and the Board looks forward to working closely with them.

In March 2019, we presented a new strategy for the Group. Pressures on the UK retail and consumer market and changes to shopping habits have been well publicised. The Group's strategy is designed to prepare DFS to navigate an uncertain trading environment and benefit in the long term from its strengths as the leading upholstery retailer in the UK.

The trading environment continues to be challenging, with weak consumer confidence and falls in the number of housing transactions impacting order intake. The outlook for consumer confidence, compounded by the ongoing uncertainty regarding Brexit, has been much talked about in the news media. The Senior Leadership Team has developed comprehensive plans to address any short-term dislocation arising from a no-deal Brexit. It is notable that under WTO rules imported furniture is tariff free, which is helpful, but in the medium term the implications of a sustained drop in the value of Sterling and the consequent inflationary effect for imported products is likely to become a key factor affecting consumer confidence for high value household items. The mitigation of this will be a key focus for our team in the coming year.

Despite this backdrop the Group has made a sound start in progressing its strategy. Underlying profit before tax (excluding brand amortisation)[1] on a pro-forma basis was £50.2 million for the 52 weeks to 30 June 2019 compared to the £38.3 million we reported for the 52 week period to 28 July 2018. Reported profit before tax for the 48 week period was £22.4m. All the Group's brands recorded year on year like-for-like gross sales growth and our omnichannel approach continued to perform well with strong Group online growth of 16.6% for the 52 week period.

This is the 50th anniversary year of DFS. Much has changed since the business was founded in 1969. DFS has built up a unique and substantial understanding of the UK upholstery market which it will harness to adapt further to changing customer expectations and ways of furnishing their homes.

E-commerce is a major trend that DFS is capitalising on. Double digit growth in online sales illuminates the long-term strategy and trends which are transforming sofa retailing. The scale, market position and resources of the Group position it well to take advantage of the opportunities that the changes in our market and changing expectations of our customers present.

Having completed the acquisition of Sofology in November 2017, this year has been a year of consolidation and integration as well as growth. The business, under the leadership of Sally Hopson, has performed well with gross sales[1] rising by 14.4% on a pro-forma basis to reach £260.7 million for the 52 weeks to 30 June 2019. Significant progress has been made in integrating the business and delivering on our expectations of synergy benefits. This work continues through maximising resources and knowledge sharing across the Group. .

1. Refer pages 130-131 for APM definitions.

Our People and Values

I am delighted that after an extensive process an internal candidate, Mike Schmidt, has been appointed as our new Chief Financial Officer and Board Director to succeed Nicola Bancroft. A number of other senior management changes have been made to strengthen the team. I would like to thank Nicola for her service to the Group.

Our employees across each of our brands are dedicated, enthusiastic and proud of the Group's market-leading position. They are encouraged to consider the customer in everything they do and work hard to deliver outcomes informed by our values. Making the first steps in our strategic journey has required the dedication and commitment of all our employees to an increasing pace of change. We rely on their skills, experience, competence, agility and drive to take our business forward. For all this we thank our colleagues. We will continue to support their efforts by building on the extensive training all our employees receive. I am particularly encouraged that our Apprenticeship Scheme, in place since October 2014, and which has enabled us to take advantage of an additional new talent pool, won the Large Employer of the Year with Qube Training 2019 as well as being a finalist in the Retailer of the Year in the All About School Leavers Awards 2019.

The Board

During the year we welcomed Steve Johnson and Jo Boydell as Non-Executive Directors and Liz McDonald as General Counsel and Company Secretary. Following the departure of Julie Southern on 29 March 2019, Jo took on the role of Audit Committee Chair. My thanks go to Julie for the admirable role she has played as a Director of the Company over the last 3 years, and facilitating a smooth handover of the Audit Committee to Jo.

Our Senior Independent Director, Luke Mayhew has decided that, after 4 years' service, he will not stand for re-election at this year's AGM. Alison Hutchinson has been appointed Senior Independent Director. A search is underway for a successor to Luke as a Non-Executive Director. I would offer my personal thanks to Luke for his supportive counsel through years of big change for the Group.

During the year, the Board has developed its organisational approach with a particular focus on operational performance, strategy, risk and corporate governance. We have reviewed the requirements of the new UK Corporate Governance Code, under which we will report in our 2020 Annual Report. Various workstreams are underway, including enhancements to our employee engagement.

During the year we worked closely with the new Senior Leadership team, as they developed the new strategic plan and to help ensure the necessary structures and resources are in place to deliver the plan.

All the Directors continue to visit different areas of the Group spending time in our stores, Customer Distribution Centres, factories and the design studios as well as with individual members of the Senior Leadership team and at the new Employee Voice Forum. This helps to ensure that all of the Non-Executive Directors have a thorough understanding of the business and that the Non-Executives' contributions to Board discussions are well informed and constructive in helping them to take into account the views of the wider stakeholder population.

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 capital growth and dividends.

Notwithstanding the current tough 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 (FY18: 7.5 pence) taking the full year ordinary dividend to 11.2 pence (FY18: 11.2 pence). The Financial Review on pages 36 to 39 provides further information on our dividend policy.

Looking ahead

As noted in the Chief Executive's outlook statement, the Group faces a particularly uncertain UK consumer market in the run up to the UK's departure from the European Union and beyond. However, whilst DFS is not immune to the impact of the continuing political uncertainty, the Board considers that the Group is well placed to manage short-term market uncertainties and remains confidently committed to developing the Group.

The Group has developed a unique position at the heart of British homemaking over the past 50 years. As the UK's largest upholstery retailer and manufacturer, we are confident that the strength, depth and diversity across our brands will see us through the challenges ahead and allow us to take advantage of opportunities to deliver on the expectations of customers and shareholders and continue to provide a rewarding place for our employees to work.

Ian Durant
Chair of the Board
25 September 2019

Our values

Our Group values, introduced during the year, were created in collaboration with employees from across the Group.

Since their introduction we've worked hard to embed them into the business; from how we recruit the right people, through to how we reward and recognise our employees when they do the right thing for our customers.

Our values run through everything we do and help to make us a Sustainable and responsible business.

THINK CUSTOMER

We treat them as we would our own family, and keep them at the forefront of our minds because they are at the heart of our group.

BE REAL

We bring our whole selves to work and are confident to speak up. We accept each other for who we are and respect each other as part of the same family.

AIM HIGH

We play to win for the same team, focused on our shared family ambition. We are bold, brave and welcome challenge as a chance to innovate.

As we celebrate DFS's 50th year we believe the Group is well positioned for the long-term

Tim Stacey
Chief Executive Officer

2019 highlights

- Renewed focus on the DFS brand has driven like-for-like revenue growth with particular success online
- Group sharing of technology, manufacturing, logistics and property assets underway
- Double-digit growth at Sofology with strong profit progress
- Netherlands showing encouraging signs

"We are well underway with executing our new strategy to lead sofa retailing in the digital age."

Overview

We have made good progress in this financial year executing our new strategy, to lead sofa retailing in the digital age. Pro-forma gross sales[1] for the 52 weeks to 30 June 2019 grew by 7.4%, adjusting to include Sofology on a fully comparative basis, and all brands grew their like-for-like gross sales. As described in the Financial Review all brands achieved positive like-for-like order intake growth, albeit this slowed in the second half. Underlying profit before tax excluding brand amortisation[1] for the pro-forma 52 weeks to 30 June 2019 increased by 31% to £50.2m and the Group continues to generate attractive cash flows.

We are well underway with executing our new strategy and a number of key initiatives were delivered during the year, with many more are on track to support improved customer experience, operating efficiencies and future growth.

We aim to adopt a disciplined approach to capital investment, balancing the allocation of capital where there is a proven positive return with trialling new initiatives and also ensuring our existing assets are adequately maintained. Our lease adjusted return on capital[1] has increased from 15.6% as at our previous year end to 16.6% as at June 2019.

I am personally delighted with the response of all Group colleagues to our new strategy and values and would like to thank every one of them for their hard work and dedication this year.

Review of strategic progress

To deliver our strategy and achieve our previously indicated incremental £40m of profit before tax in the medium term we focus on three key pillars: (i) to drive the DFS core brand, (ii) to build Group platforms to maximise efficiency, and (iii) to unlock new profitable channels of growth.

Drive the DFS core

The DFS brand is the largest and most profitable in the Group and a key part of our strategy is to focus on driving this brand across all channels.

During the year we have made a number of digital and technology enhancements to improve the end-to-end sofa buying experience for our customers. We have invested in the start of the buying journey, incrementally improving our websites in order to inspire and engage customers through: living room lifestyle imagery, increased user-generated content, vlog and blog partnerships, new augmented reality visualisation tools on our mobile websites and more digital 3D sofa models. Secondly, we have introduced new engagement tools such as mobile text chat and artificial intelligence driven customer service 'chat bot' tools to support customers as they purchase. Finally, we have introduced new post-purchase tools to enable customers to track their order and book their own delivery slots online. The results are promising and we have seen improved conversion rates and positive customer feedback as a result of these initiatives.

The DFS online channels have delivered another year of double-digit growth in pro-forma gross sales[1] of 16.2% and, in common with many sectors, our customers are increasingly using mobile devices to browse and transact. To

1. Refer pages 130-131 for APM definitions.

maintain our growth we have continued to develop our m-commerce platform by investing to make our mobile website easier to browse and even more inspiring to our customers. This has helped drive a significant increase in both the amount of customers browsing our products and completing the transaction via mobile with 60% of our online transactions now being completed on a mobile device.

However, we know that the vast majority of customers still want to see, touch and sit on a product before committing to a sofa purchase and our well invested showroom network is at the heart of our omnichannel strategy to drive the DFS brand. We also continue to invest in the training and development of our retail colleagues as well as the physical showroom environment to ensure that we offer the market-leading sofa buying experience.

We have been working closely with our artificial intelligence and data partner Satalia to develop models to help predict footfall based on various factors. This will help to ensure we have the right number of colleagues present in our showrooms at the right times to improve sales conversion and the efficiency of our operations.

Our focus has not solely been on digital innovation. Throughout the year we've launched some new and innovative products. Our market research revealed that some consumers can find it challenging to select a sofa due to the volume of options available in the marketplace. Taking this on board we've developed a new sofa collection called 'So Simple' to ease the decision-making process for the customer into three steps: step one is to select a style from a range of eight new models, step two is to select a size from a discrete number of choices and step three is to choose from an edited selection of colours and fabrics. We've been trialling this collection online and across a small number of showrooms and the initial response is positive. Our exclusive partnership brands are continuing to trade well and we have launched a number of new models across the French Connection, House Beautiful and Joules brands.

As a Group we have continued our focus on customer satisfaction. Within DFS our approach is based on both proactive training and careful monitoring of our net promotor score ("NPS") at various stages of the customer journey which is linked to colleague incentivisation. Our post purchase NPS score for the DFS brand has stayed broadly in line at 84.2% (FY18 of 84.9%) however we were disappointed to see our established customer satisfaction fall from 35.8% to 33.0%. Root cause analysis shows our customer experience was materially impacted by supplier lead time issues and technical disruption at the Felixstowe port in the summer of 2018. However, it has also highlighted some opportunities that we are now taking to improve customer satisfaction further into the future, by exiting a small number of poorly performing suppliers. We saw a recovery in these scores in the second half of our financial period as the port and lead time issues have been resolved.

Build the platforms

DFS's market-leading operating margins are a result of both sales intensity and operational gearing driven by scale, expertise and its well invested infrastructure. We have the opportunity to scale our systems and processes and utilise existing infrastructure to enable further Group-wide benefits.

In FY19 we started to leverage existing supply chain assets across our brands. We are now utilising what was the DFS customer delivery centre in Bristol to also fulfil Sofology and Sofa Workshop customer orders. Furthermore, the customer delivery centre that we operate in Belfast for the DFS brand will shortly be used to receive customer orders and deliver on behalf of all brands through a single fleet. We intend to test and learn with this initiative and will assess other opportunities to utilise our supply chain resources in the future. The bespoke route planning software used in our delivery network has now also been leveraged across the DFS post-sales service team and the efficiency improvements this is driving is one of the factors that has helped the DFS brand materially reduce the number of outstanding service queries. Additional information on our supply chain initiatives can be found in the 'Strategy in action' section of this report.

We are sharing our technology assets across the Group in many other areas. We have just completed a re-platform of Sofa Workshop's website; leveraging DFS web technology to result in a more easily maintained solution that enables better presentation of its customer proposition whilst retaining a distinctive 'look and feel' for the brand. We have now transitioned the majority of Sofa Workshop's IT systems and some of Sofology and Dwell's back end IT systems to align to those of the DFS brand which reduces complexity and maintenance activities across the Group.

Our manufacturing facilities, which were solely used to produce sofas for the DFS brand up until this year, are now manufacturing a limited number of Sofology products bringing the benefits of increased Group margin (by capturing more profit in the value chain) and improving quality and lead times.

We have also leveraged the Group's scale by renegotiating rent levels on a number of properties where the Group's brands currently operate on the same retail parks. There are clear opportunities to reduce our rental costs by co-locating brands adjacent to existing premises as we are doing later in 2019 in Belfast, or apportioning existing space across more brands. Our target is to secure £6-8m of annualised rent savings from around 42 leases

Drive the DFS core

Pro-forma DFS LFL gross sales[1] growth of

4.4%

Pro-forma DFS brand contribution[1]

27.9%

FY18 27.4%

Build the platforms

Annualised property cost savings secured at June-19[2]

£2.9m

Pro-forma Sofology brand contribution[1]

23.2%

FY18 post acquisition 21.6%

Pro-forma SWS & Dwell brand contribution[1]

16.5%

FY18 17.6%

Pro-forma measures are for the 52 weeks ended 30 June 2019. Refer page 2.

1. Refer pages 130-131 for details of alternative performance measures.
2. Savings from regears, 'right-sizing' showrooms and closure of showrooms that have had no adverse impact on total brand sales.

Chief Executive's report continued

that expire between 2019 and 2023 through renegotiating lease terms, downsizing showrooms (or closing a small number where appropriate to do so) and co-locating new Sofology showrooms with other Group brand showrooms where appropriate. By June 2019 we had already secured an annualised £2.9m of property cost savings.

Unlock new growth
The third pillar of our strategy is 'unlock new growth' which focuses on driving profitable growth in our acquired and overseas operations. Sofology was a significant recent acquisition for the Group and is a brand we view as having strong growth potential. There is also a clear opportunity to improve the profitability of our previous acquisitions Dwell and Sofa Workshop, as well as our DFS international business.

Sofology
Sofology pro-forma gross sales have grown by 14.4% on a fully comparative basis and totalled £260.7m for the 52 weeks to 30 June 2019. Like-for-like sales grew 10.7%. As we shared in last year's report, Sofology welcomed a new CEO, Sally Hopson, in October 2018.

Marketing campaigns using well known celebrities and innovative digital production techniques have been used to help differentiate the Sofology brand through emphasising style, quality and comfort. These have boosted brand awareness and established the brand in what we believe is a unique position in the market.

We have achieved our objective of delivering £4m of annualised synergies by June 2019 through a combination of cost savings and revenue growth driven through knowledge sharing across the Group. We have also utilised the Group's financial strength to secure beneficial working capital terms for the acquired business.

Sofology opened one new showroom in the year in Plymouth which has been trading well and we see a national rollout opportunity with at least three new showrooms planned for FY20. Our ambition is to grow Sofology's revenues to over £300m and operate at 6-8% EBITDA margins over the medium term.

Additional information on Sofology can be found in the 'Strategy in action' section of this report.

Dwell and Sofa Workshop
Dwell and Sofa Workshop have achieved pro-forma gross sales[1] growth of 17.4% on a combined basis, driven by like-for-like[1] growth across both brands as well as growth from the full year effect of new showroom openings.

Recognising that the potential of Sofa Workshop's national showroom presence could be boosted by increasing awareness, the brand has appeared on national TV for the first time from January 2019 through sponsorship of Sky TV channels. Brand awareness has also been enhanced through an exciting collaboration with the world leading art, design and performance museum the V&A, to produce a range of sofas and fabrics inspired by documents in the museum's archive.

We have successfully transitioned the leadership of the Dwell brand, following the decision of the founder to step down as CEO having re-established the brand nationally. To lead our growth ambition, Peter Jenkins joined the Group in November 2018 as the new Dwell CEO.

In the year we opened one new Sofa Workshop site in Bromley (replacing a DFS site whose sales were picked up by other nearby DFS showrooms), co-located one new Dwell showroom alongside DFS in Farnborough and closed one co-located Dwell in Banbury where the space was repurposed.

The combined brand contribution for Dwell and Sofa Workshop has increased £1.0m but as a percentage of revenue has declined from 17.6% to 16.5% driven by disruption experienced in Sofa Workshop during the year as we have upgraded the operating systems we require to drive longer term growth.

International
Our Netherlands DFS business has shown encouraging signs this year with a 12.8% growth in like-for-like gross sales[1]. Following the strong performance in the second half of the previous financial year, which was driven by increased levels of marketing investment and the first airing of national TV adverts, the brand has continued to trade well in FY19, particularly in the first half of the year. We continue to target our Netherlands DFS business reaching break even and beyond from the current showroom portfolio.

People, culture and values

We would not be the market leader without our passionate team of over 5,600 colleagues. Since joining the Group eight years ago I've been honoured to work with people that take such pride in what they do and seek to continually improve our business and the experience for our customers.

Early in the financial year we shared our new strategy with all our colleagues across the Group and I am encouraged by the feedback received and the overwhelming sense of everyone getting behind our plans to deliver it. Our colleagues are encouraged to voice their opinions and follow our three core values in everything they do; to 'think customer', 'be real' and 'aim high'. It is these principles, the mindset they help create and the open, honest and collaborative working environment that fuse together to create a culture that is, in my opinion, truly unique.

We recognise that investing in our team is critical to our success. This year we have particularly focused on developing leadership skills through collaborative workshops and now have an effective leadership philosophy that is embedded through the whole Group. We also continue to run our award winning apprenticeship programme, which is providing us with a new generation of highly skilled employees. I'm proud to say that DFS continues to receive external recognition for our employment practices, retaining our position in the Sunday Times top 25 Big Companies to work for.

I'd like to take this opportunity to thank all our colleagues across the Group for their efforts over the last year.

Environmental, social and governance (ESG)

As part of the Group's longer-term strategic objectives, I am passionate about ensuring our businesses act responsibly, and that the Group conducts its business ethically and in a way that has a positive impact on society and the environment. We are renewing our approach in this area and Sally Hopson will be taking the lead on developing our ESG strategy. Alison Hutchinson will act as Board sponsor.

I'm proud to say that we have continued to support some great charities. Our sofa recycling partnership with the British Heart Foundation which offers our customers a free service to have their unwanted sofas collected and resold by the charity has generated over £3m this year (and over £21m since our partnership commenced) and we have also raised £750K for Children in Need through various support office activities and our "Give me Five" customer initiative which allows customers to pay £5 to the charity to enter a monthly draw to receive their sofa order for free. We have also launched a matched charitable donation funding scheme with our colleagues which is proving popular.

This year we have achieved a 'two tree' status from the World Wildlife Fund who assess businesses on their timber product sourcing policies and performance scoring them from zero to three. This is an improvement, reflecting our introduction of a formal timber sourcing

1. Refer pages 130-131 for APM definitions.

policy and a comprehensive system to calculate the percentage of timber in our products that originates from certified sustainable sources. We continue to work with our suppliers to ensure they adopt the certification required to demonstrate their commitment to sustainable practices. We are making advances in other areas too, for instance through providing customers with the opportunity to select 'eco' delivery slots so that our route planning software optimises the routing of our vehicles to minimise emissions. We have an ambition to lead new sector innovation on environmental matters and I look forward to sharing our plans with you in the coming financial year.

Impact of the UK's exit process from the EU

We continue our work to assess and mitigate the potential impact from the UK leaving the EU. It is impossible for us to be specific as to the impact of this process given at the time of writing there remains a significant level of uncertainty regarding both the timing and the terms of any exit.

We see six areas which may have an adverse impact on the Group.

1) Consumer demand – the continuing significant uncertainty has impacted consumer confidence. Some customers may defer or reduce their spend on new furniture until there is clarity on how the economy may change and how this will impact their personal financial situation. We believe that the underlying growth in our market over 2017 to 2019 has likely been between -1% to -2% per year, whereas a long-term average growth rate for the market is typically over 2%. A 1% 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 c.£4m. We will continue to monitor the levels of consumer confidence to ensure that we respond appropriately and expediently.

2) Border delays – while we have significant internal manufacturing activities and strong relationships with British manufacturers, around 60% of finished good products that we sell are imported from mainland Europe or China. Although furniture goods will not 'spoil' as a result of delays, we would 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 that delays occur. We 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 roll-on-roll-off), 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 the water'. Our analysis shows that over 85% of our imports by volume are already taking place using containerised freight forwarders holding Authorised Economic Operator status. We also import raw materials (principally timber and fabric) to manufacture finished goods and we have confirmed that our partner suppliers have increased their UK stockholdings.

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 companies' VAT returns, which we believe will give the Group a 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, although we do not anticipate these being costly to implement.

5) Exchange rates – the exit process may prompt further movements in the USD/GBP exchange rate, which would impact the cost of our Far East imports. We hedge our US dollar requirements maintaining cover equivalent to 18 months of spend to give us increased time to respond to any such adverse trends. In the absence of any hedging, each one cent movement in the US dollar exchange rate has approximately a £1m impact on PBT, prior to any mitigating actions. We anticipate our competitors would pass on any cost increases as a result of foreign exchange movements to the end consumer.

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 employees. We also employ UK nationals in our EU operations in Ireland, Spain and also supporting the Netherlands. At the time of writing, the government's position remains unclear as to whether those EU citizens without pre-settled or settled status will be allowed to work in the UK after 31 October. We see the potential for 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 impacts are 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.

Outlook

Our trading performance for the last financial year was good overall, as we continue to execute our new strategy to lead sofa retailing in the digital age. Like-for-like growth across all brands and all channels, especially online and in Sofology, has enabled us to grow our market share and as we celebrate DFS's 50th anniversary, we believe that our Group is well positioned for the long term.

Recent trading conditions have reflected the increasingly uncertain political and economic backdrop and we have seen reduced levels of footfall across all our brands, which we attribute to lower levels of consumer confidence and housing transactions, the two key drivers of the upholstery market. Although we have had some success in driving conversion to mitigate this trend, we note that over the first twelve weeks of the financial year order intake levels have been subdued.

Our financial performance in the remainder of the first half, and the whole financial year ahead, will inevitably be dependent on broader political and economic developments and at this stage it is difficult to predict what will happen specifically within the upholstery market. However, we remain focused on those variables that we can control and on executing our strategy, which we believe puts us in a strong position in the market over the long-term.

Tim Stacey
Chief Executive Officer
25 September 2019

Chief Executive's

Q&A

To maintain our competitive edge we need to focus on executing our new strategy

Q

How have you settled into your new role?

A

I had a smooth transition into the new role, as I was CEO designate for four months and benefited from a comprehensive handover from Ian Filby, our previous CEO, following his decision to retire. Since officially taking up the mantle it's been non-stop and I've enjoyed every minute of it. I am pleased to say I am also supported by a really energetic, enthusiastic and collaborative senior leadership team. We've collectively communicated the strategy to all of our colleagues and I really think we've got everyone engaged, working through the same values and focused on the same goals. And we're starting to see the benefits of this, not only in our financial performance, but from the energy and buzz around the business, more so than ever before.

Q

DFS has grown into the clear market leader over its 50 year history, how will the Group maintain its competitive edge?

A

DFS has done so well over its 50 years largely due to its innovative and entrepreneurial approach. We were the first sofa retailer to offer an interest free credit proposition, to operate out of town, to open on Sundays, to advertise on national television, to offer a ten year guarantee and we've kept innovating. For example more recently we were the first to enable customers to view sofas in their homes on iOS through the use of augmented reality. The business is vertically integrated which allows for effective quality control and service throughout the customer journey by ensuring we design, manufacture, deliver and install to high standards using our own network and we've been rewarded for this by being the first sofa company to receive the British Standard Kitemark for quality. Of course, with the continual growth comes scale benefits which allow us to operate more efficiently and generate strong cash flows for further investment, acquisitions or returning to our shareholders. Indeed, we've been able to fund three acquisitions in the recent history of the Group in the form of Dwell, Sofa Workshop and Sofology as well as expand organically into parts of Europe.

To maintain our competitive edge we need to focus on executing our new strategy. We need to operate as a Group more efficiently and are starting to do so through further leveraging our existing retail estate across our brands, trialling shared warehousing and distribution and better utilising our manufacturing facilities which we're now doing by making some of Sofology's sofas. We must not however merge in anyway the creative elements of each brand and it is therefore imperative that we allow each brand to operate independently. As the most profitable brand in the Group we need to focus on driving the DFS brand's performance by continually adapting to the changing competitor and technological landscape to ensure we remain innovative and meet our customers needs, there are opportunities to be smarter with customer data too. And finally we need to drive profitable growth from Sofology, Sofa Workshop, Dwell and our International business, all of which have grown their sales this year which is pleasing but there is a lot more to do.

Q
What are you looking forward to in the next 12 months?

A
I am certainly looking forward to perhaps getting some certainty and stability from a political and economic viewpoint! The ongoing levels of uncertainty are clearly not helpful to consumer confidence and hence stable market conditions. Outside of the market context I am excited about the innovation workstream I've been chairing and the new product and customer service initiatives we will land in FY20. I'm also very focussed on landing our ESG strategy along with Sally Hopson who is leading the thinking for the Group.

> **"Since officially taking up the mantle it's been non-stop and I've enjoyed every minute of it."**

Q
Can you tell me a bit about yourself and what you enjoy doing outside of work?

A
In addition to spending quality time with my wife and two teenagers, I'm also a Nottingham Forest supporter and season ticket holder, which means I often spend most Saturdays from August to May in various states of emotion although I am very hopeful for this season (again!). I am also Chairman of our local football club and a very keen but average golfer.

50 years

2019
DFS launches its new strategy

2018
Tim Stacey succeeds Ian Filby as DFS Group CEO.

DFS becomes the first and only upholstered furniture retailer to be awarded the BSI Kitemark™

DFS features in the Top 25 Best Big Companies to work for in The Sunday Times.

2017
DFS acquires Sofology, the third largest retailer of sofas in the UK and the fourth addition to the DFS Group portfolio.

DFS launches brand partnership with Joules – designing, making and retailing upholstery products exclusively for the Joules brand.

DFS integrates 'Swoosh', furniture visualisation technology, across all DFS stores.

Ian Filby appointed CEO

2015
DFS is listed on the London Stock Exchange

DFS acquires Spanish operation and opened its first official store in San Javier, Spain

2014
DFS opens its 100th store in the UK

DFS enters Continental Europe, opening its first store in The Netherlands

DFS launches its Modern Apprenticeship Programme offering young people training and employment opportunities in retail and manufacturing

2013
DFS acquires Sofa Workshop, premium retailer of British-made upholstery and Dwell, modern furniture and home accessories retailer

DFS teams up with BBC Children in Need and launches the 'Give Me Five' fundraising initiative offering customers a chance to win their whole order for free by entering a monthly prize draw

2012
DFS enters the Republic of Ireland, opening two stores in Dublin and Cork

Exclusive brand partnerships are launched with Country Living, House Beautiful, French Connection and G-Plan

DFS launches a partnership with British Heart Foundation offering customers a free, convenient and responsible way to recycle their old sofa while raising money for the charity

2010
DFS is acquired by Advent International, a well-established global private equity firm

Ian Filby appointed CEO

2004
DFS is acquired and taken private by a company owned and controlled by Lord Kirkham and his family

1993 – 2004
DFS adds 46 stores to its portfolio, growing TV region by TV region, and continues to expand and diversify its sources of supply of upholstered furniture, becoming the largest retailer in the UK upholstery market

1993
DFS Furniture Company plc is floated on the London Stock Exchange with a market capitalisation of c. £270 million, trading from 21 stores

1969 – 1983
The DFS business is founded by Graham Kirkham with a single store near Doncaster, UK, trading as Northern Upholstery

Northern Upholstery acquires additional manufacturing facilities around Doncaster.

Northern Upholstery acquires the assets of DFS Furniture Limited and DFS continues to expand its store footprint and acquire additional manufacturing facilities

We are the leading sofa retailer in the digital age

The upholstery furniture market is large and still fragmented despite ongoing market share gain and consolidation by leading players.

Market opportunity

Large potential customer base

The DFS Group has a specialist focus on the retail upholstered furniture segment. The UK upholstery furniture market was estimated by GlobalData to be valued at £3.2 billion in 2018. We also offer a selected range of beds, dining and other furniture and home accessories giving access to other segments in the UK furniture market.

UK upholstery furniture market

£3.2bn

Clear leader in the segment

The DFS Group, through its DFS, Sofology, Dwell and Sofa Workshop brands, is the clear leader in the upholstery furniture market with 34.3% share by value (as estimated by GlobalData in August 2019). We see three broad categories of companies actively competing in the upholstery furniture retail market: Specialist Chains such as DFS, Sofology, ScS, Harveys, Oak Furnitureland and Furniture Village; Independents that are typically single store operations; and General Merchandisers such as Ikea, John Lewis, Next, Argos, Debenhams and all other retailers including DIY chains and supermarkets.

Group market share

34%

Steady growth trends over long-term periods

Between 1995 and 2018, the UK upholstered furniture segment of the furniture market has grown by 2.1% per annum on a compound annual growth basis, driven by a c.seven year replacement cycle and underpinned by demographic trends.

We believe over shorter timeframes the segment is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability.

In addition to these market drivers we do see from time to time some material volatility in market demand levels caused by particularly hot or cold weather and significant public events.

Upholstery purchasers

A proportion of customers have always claimed they are 'closed' to the DFS brand i.e. they would not consider a purchase from a DFS retail store. Dwell, Sofology and Sofa Workshop allow us to target these groups of customers.

dwell SOFA WORKSHOP sofology

29%

would not consider purchasing from DFS

dwell SOFA WORKSHOP dfs sofology

71%

would consider purchasing from DFS

Through DFS we seek to offer a sofa for everyone, which means for the majority of consumers DFS is considered versus external competitors and also Sofology, Sofa Workshop and Dwell.

The market has softened in 2019, influenced by weaker consumer confidence and fewer housing transactions

Key market drivers

Consumer confidence

Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. Levels of consumer confidence have been impacted by the outcome of the EU referendum and the status of negotiations on the withdrawal process and have continued to decline through 2019 to date. They do however remain well above the lows seen in 2008.

Housing market

Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. Housing market transaction volumes are well above levels seen between 2008 to 2012 albeit have been trending lower over the last few years and are at levels significantly below the 2006 peak.

Consumer credit

Upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling. Consumer credit availability has improved since 2010 lows, and although the rate of growth in 2018 and 2019 to date is lower than that seen in the preceding few years it continues to be significantly positive.

Consumer confidence[1]

Aug 2019 YTD	-12.6
2018	-9.5
2017	-8.8
2016	-3.3
2015	3.1
2014	-2.6
2013	-18.6
2008-12	-26.0

1. GfK Consumer Confidence average of individual scores for each year.

Housing transactions p.a. ('000s[2])

Jul 2019 YTD	-3.2%
2018	1,189
2017	1,224
2016	1,230
2015	1,226
2014	1,223
2013	1,067
2008-12	893

2. HMRC – number of residential property transactions completions with a value over £40,000 for the UK, seasonally adjusted.

Net unsecured lending growth[3] (%)

Jul 2019	6.0
2018	8.5
2017	10.0
2016	10.1
2015	7.7
2014	5.9
2013	3.6
2009-12	-0.5

3. Bank of England – 12 month average growth rate of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in %) seasonally adjusted.

What we do...

Customer researching online

85%

Design and Inspire

Through our innovative in-house design teams and with our buying expertise we remain at the forefront of home furnishing trends with each of our brands offering a distinct curated range.

We inspire consumers to consider a purchase through memorable advertising, inspirational web content and more recently through the use of technology to visualise our sofas in their homes.

UK based design studios

2

Retail

The combination of our well invested websites, national showroom networks and call centres which are staffed by well trained and highly motivated sales teams provide a market leading omni-channel experience to our customers.

Collectively across all our brands we have styles and price points that appeal to the majority of the market and we make our products more affordable through offering interest free credit.

Customers visiting showrooms to 'sit test'

90%

Manufacture

We are one of the largest manufacturers of upholstered furniture in the UK. Our three finished goods and two sub-component factories each benefit from a highly skilled workforce who collectively produce around a quarter of all the furniture we sell.

UK factories

5

Showrooms

235

Delivery vehicles and delivery colleagues

288 / 613

Deliver

Through our own network of customer delivery centres and our own delivery fleet we carefully deliver our products to customers' homes and provide a comprehensive installation service.

Service

Aftercare is provided by highly skilled teams with the majority of after sales issues being addressed in customers' homes by our own colleagues.

Service managers and technicians

280

How we create value...

Our enablers

Customer ethos
'Think customer' is our first value, focusing on delivering great customer service

Unparalleled scale
We have a Group market share of 34%, three times that of the nearest competitor

Complementary brands
Our four complementary brands appeal to different customer segments

Well invested platform
We showcase our furniture in attractive, regularly maintained showrooms and through websites that leverage the latest technologies. Our own warehouses and delivery fleet use state of the art software to help us operate efficiently

Made to order products
The majority of the products we sell are made to order which enables us to operate with negative working capital

Vertically integrated model
We have end-to-end control of the customer journey from design all the way through to after sales servicing

Exceptional people
We have 50 years of expertise and recruit, train and retain what we believe are the highest calibre people in the industry

What we do

01 Design and inspire
Our design teams and experienced buyers curate attractive and distinct propositions across our unique brands that appeal to most tastes. Our marketing aims to reach our target markets across all broadcast and digital mediums inspiring consumers to consider a purchase

02 Retail
Our websites and showrooms nationwide combine to create an increasingly seamless customer experience allowing customers the opportunity to visualise, sit-on and feel the product while researching and then transacting in store, at home or on the move

03 Manufacture
We manufacture around a quarter of the Group's sofa orders in our British factories enabling short lead times and control of quality

04 Deliver and install
Our delivery network operates from customer distribution centres spread across the UK and Ireland and benefit from custom built route mapping technology to reduce lead times and optimise efficiency

05 Service
Sometimes things go wrong and when they do we have our own teams of upholsters that are on hand to visit customers in their homes and address any after sales issues

Clear strategy
Leading sofa retailing in the digital age through three inter-related strategic pillars:
1. Drive DFS Core
2. Build the Platforms
3. Unlock New Growth

See pages 20-27 for more

Culture and values
Group values and culture embedded throughout the business to deliver the highest standards of customer service

See page 7 for more

How we deliver value...

Outcomes

Sustain sector leading operating margins
Scale benefits exist across the value chain from sourcing and shipping rates to maximising delivery and service fleet utilisation

Grow our market share
We have a history of growing our market share over the long-term in all economic climates. Our unique brands enable us to target the majority of the market and we have a clear opportunity to grow further

Maintain strong cash generation
We have consistently delivered free cash flow generation enabling us to both invest for growth and return funds to our shareholders

Continue to invest in business
We reward our staff fairly, maintain and enhance our existing assets and selectively invest in growth opportunities to optimise the returns for our shareholders

Value for stakeholders

Customers
84.2%
post purchase NPS

Employees
36%
employees > five years' service

Suppliers
40%
customer orders from British factories[1]

Shareholders
£114m
cash returned since flotation

Community
£24m
raised for charitable causes through partnerships with the British Heart Foundation and Children in Need customer donations and fundraising initiatives

Robust governance
Robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company

See pages 46-87 for more

1. Includes third party manufacturing and internal manufacturing.

Our aim is to lead sofa retailing in the digital age. We intend to strengthen our market position, lead from the front and embrace the challenges and opportunities of the digital age. Our strategy will transform the Group in the medium-term by focusing on three inter-related pillars.

Our strategy is centred on three inter-related pillars across which we see £40m of incremental profit opportunity in the medium term spread broadly equally across the pillars.

The strategy reflects the Group's expertise, scale, retail assets and supporting infrastructure and the ability to utilise these enablers to both improve our operating efficiency and unlock the growth potential across the brand portfolio.

Leading sofa retailing in the digital age

01

Drive DFS core

A renewed focus on driving the core DFS business across all channels

01 Omni-channel

Develop seamless customer journey across channels

Focus for 2019/20:

- Technology enhancements to increase the flexibility for customers to start and end their browsing and ordering process through different channels
- Continual improvement of e-commerce and m-commerce platforms to entice customers to purchase and ease ordering process

02 Product innovation

Enhance our unique and differentiated product offer

Focus for 2019/20:

- Launch of new innovate products that focus on the needs of today's market
- Collaborate with our brand partners and roll-out new eye-catching models

03 Customer proposition and service innovation

New services to engage customers

Focus for 2019/20:

- Test and learn how we may strengthen our customer proposition with new service approaches

02

Build the platform

Build platforms to enable profitable Group growth

01 Cost efficiency and property cost reduction

Reduce our relative cost base

Focus for 2019/20:

- Leverage existing retail space by introducing additional Group brands into the same location where appropriate
- Renegotiate rent levels at showrooms approaching end of lease
- Harmonise systems across the Group to reduce complexity and improve efficiency

02 Supply chain

Leading two person sofa delivery and installation

Focus for 2019/20:

- Leverage existing supply chain assets in Belfast to service all brands – test, learn and then review other opportunities
- Continue roll-out of new stock management system across customer distribution centres (and retail estate)

03 Marketing investment

Data and insight driven efficiency and effectiveness

Focus for 2019/20:

- Improve customer targeting across the Group through utilising customer segmentation analysis and likely brand and product fit

03

Unlock new growth

Unlock and deliver new profitable growth

01 Sofology

Develop to a nationwide business

Focus for 2019/20:

- Focus for FY19/20:
- Roll-out of at least three new showrooms to access demand for the brand
- Enhance website to improve conversion

02 Dwell and Sofa Workshop

Drive contribution via online and the 'right' number of showrooms

Focus for 2019/20:

- Build brand awareness and leverage recent web re-platforming
- Optimise showroom locations

03 International – DFS Netherlands

To break even and beyond on current model and to develop options for medium-term growth

Focus for 2019/20:

- Continue to build brand awareness through more effective marketing
- Enhance product proposition by developing ranges to meet local preferences
- Continue to develop our sales teams and reputation

Sustainable growth and shareholder returns

01

Drive DFS core
Omni-channel

Develop a seamless customer journey across channels

With 90% of customers visiting a showroom prior to making a purchase, 85% of consumers starting their sofa buying journey online and comfort being the major factor in determining whether to purchase a sofa, having both a strong showroom and web presence is essential.

The DFS brand has these assets and we have been working hard on a number of initiatives to make the customer buying experience, whichever channels our customers use, as straightforward and efficient as possible.

- To make the process easier for a customer to find specific products online we've updated the search engine solution used by our website
- To help customers understand where they can go to see and touch the products of interest, we have developed a product locator tool that pinpoints the nearest showrooms displaying the items
- To make the buying experience faster for the customer our sales colleagues can now utilise data in a customer's online account and take the customer directly to the products they've been browsing and present these along with specific other ranges that are likely to match their tastes

Percentage of customers that visit a store

90%

Percentage of consumers starting their sofa buying journey online

85%

With a high percentage of customers starting their sofa buying journey online, mobile has increasingly become the first form of engagement with DFS.

% of online transactions completed on a mobile device

60%

ForeSee mobile website customer satisfaction score

79%

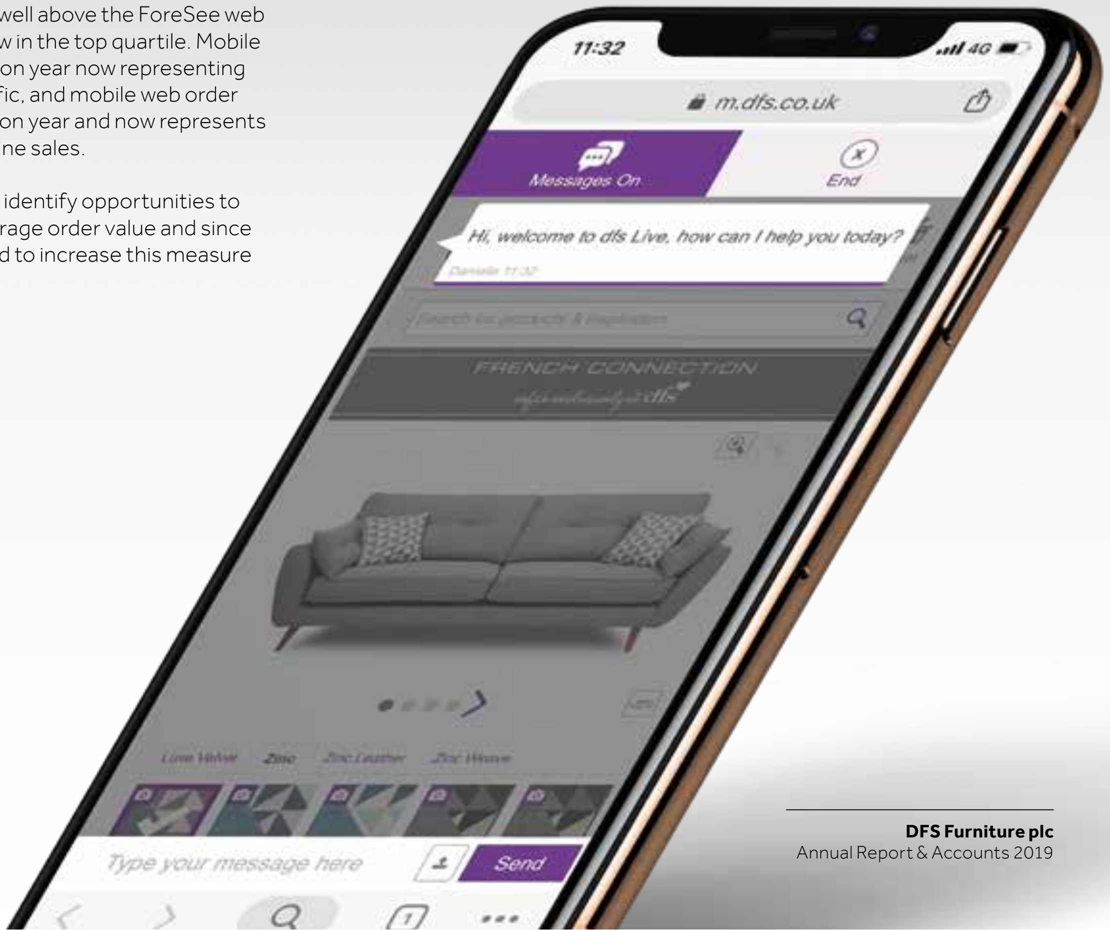
ForeSee web index

69%

The use of mobiles as a means to browse and buy is becoming more popular in many sectors. To ensure we provide an optimal mobile experience we have been optimising our mobile site thorough FY19, last year we launched a customer service ‘chat bot’ and also established a mobile engagement team, all of which help to ensure our ForeSee mobile website customer satisfaction score of 79% remains well above the ForeSee web index of 69% and is now in the top quartile. Mobile traffic was up 8% year on year now representing 64% of all website traffic, and mobile web order intake was up 9% year on year and now represents around 60% of our online sales.

We continually seek to identify opportunities to drive up our online average order value and since FY16 we have managed to increase this measure by over 10%.

We are innovating to both drive m-commerce and engage with consumers.



02

Build the platform
Supply chain

Leading two person sofa delivery and installation

We see it as essential to deliver good service to our customers at every touch point and we've been making improvements across numerous areas of our delivery network to improve our service levels and improve the efficiency of our operations.

We've recently enhanced our systems to enable our customers to book their delivery slot on-line in their own time which brings the benefit of convenience for the customer, reduced costs for the business and a lower impact on the environment through the use of 'eco' delivery slots. 'Eco' slots allow customers who are flexible on time to have their delivery scheduled to minimise the mileage our delivery vans cover. A seven day a week trial operation in Glasgow is another example of the Group seeking to continually improve the experience we offer to our customers by making the process of receiving their order as easy and convenient as possible.

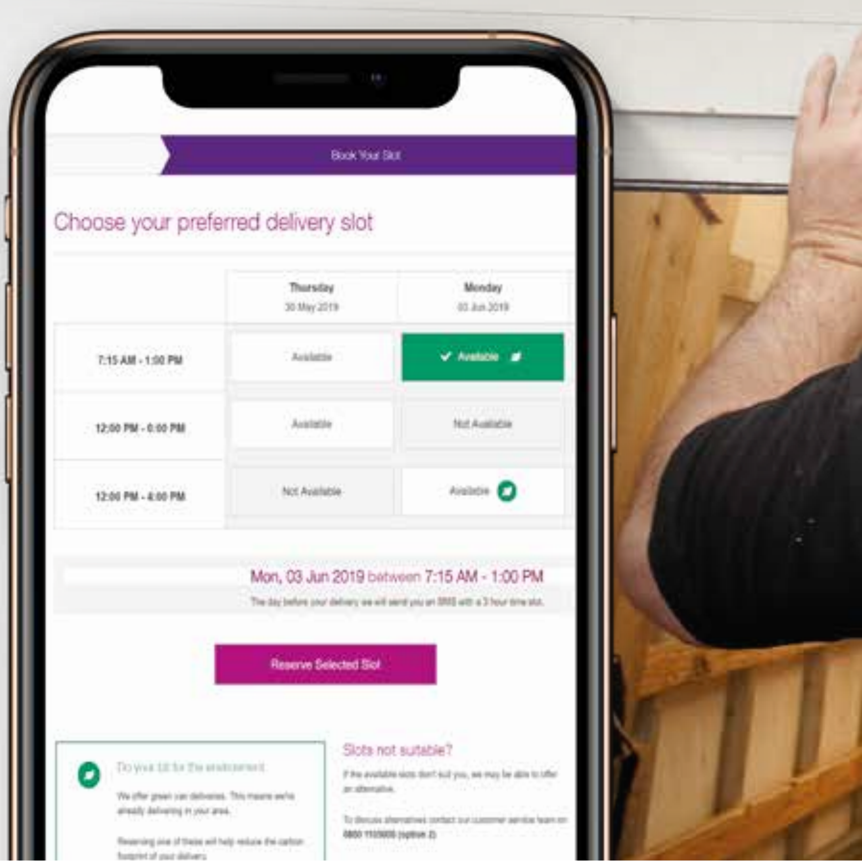
We have focussed on optimising the use of buildings and resources across the Group and we will be utilising one customer distribution centre previously used solely by the DFS brand, across all four brands when the Sofa Workshop, Sofology and Dwell showrooms open in Belfast later this year. We are also already sharing space in our Bristol CDC operation across numerous brands. We will test and learn through these initiatives and seek to understand other opportunities to better utilise the Group's supply chain assets.

We've developed our custom-built delivery route planning software to also be used by our service teams in DFS. This has been very effective and is one of the reasons our outstanding service calls have almost halved in FY19.

We've also recently introduced a new stock management system in two of our customer delivery centres in Scotland and parts of our retail estate, and have plans to roll this out across the business over the next two years. This will enable better control and visibility of customer orders and stock management and provide productivity benefits to the business.

Upholstery orders delivered across the Group

716,000



We are enhancing our systems to improve customer experience, drive environmental improvement and improving our cost efficiency.

03

Unlock new growth
Sofology

Developing a nationwide business

Sofology pro-forma like-for-like gross sales growth[1]

10.7%

We are really pleased with the performance of Sofology since we acquired the business in December 2017. Like-for-like revenues grew by 9% in the post acquisition period and by nearly 11% in FY19.

We opened one new store in Plymouth in the financial year which is trading well and provides us with confidence going into FY20 when we plan to open at least three new stores, with plenty of additional white space available across the UK and Ireland to grow the brand in the future.

We have continued to invest in marketing to grow awareness of the brand, with a particular focus on differentiating the product offering through emphasising product design and quality. The first campaign which was run shortly after acquisition increased spontaneous brand awareness from 8% to 18% and the second campaign saw brand preference and consideration double.

1. Pro-forma period is 52 weeks to 30 June 2019. Refer to pages 130-131 for details of alternative performance measures.

Sofology's new CEO Sally Hopson has not only been driving the top line but refining many business processes as well. Focus has been on customer service levels, specifically the post-sale experience and it is pleasing that NPS has increased significantly year on year as a result. Sales colleague turnover, which is critical for a specialist retailer has also reduced significantly meaning we have more experienced colleagues serving our customers. Operating efficiency has also improved in a number of areas with the cost of delivery reducing almost 25%, in part is driven by knowledge transfer across the Group as a result of secondment programs we have underway. All of these improvements are starting to feed through to the brand's financial performance along with synergy benefits: brand contribution has increased from 21.6% in FY18[2] to 23.2% in FY19.

2. FY18 post acquisition brand contributions (December 2017 – July 2018); FY19 pro-forma figure for 52 weeks ended 30 June 2019.

How we manage risk...

The Group faces a number of risks and uncertainties in both the development and day-to-day operations of its business.

Identify

The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. The Group has an established risk register which is coordinated and analysed by the Group's Risk and Internal Audit function to facilitate bi-annual reviews of key risks by the Directors, including identification of new risks arising and also horizon risks to be monitored.

Each identified risk is allocated to a member of the Senior Leadership Team. The Directors maintain overall responsibility for risk management throughout the Group and oversee the implementation by the Senior Leadership Team and operational management of processes to manage these risks. The Audit Committee, delegated by the Board, is responsible for the review of the effectiveness of the internal control framework. The Audit Committee reviews the Group's internal risk register on a regular basis. The Audit Committee and Board also review presentations on topics in relation to key risk areas such as GDPR, cyber security and significant change initiatives.

The Group seeks to continuously develop its risk management processes and during FY19 the consideration of emerging risks has been a specific additional focus area. The ongoing process of management and mitigation of risk by the Senior Leadership Team is focused through the context of a Group risk appetite agreed by the Board, with a rolling plan for the Board to periodically review all principal risks with the Senior Leadership Team using this approach. The Risk team will also adopt a partnering approach to support the maintenance of business area risk registers and to further embed risk management into the day-to-day practice of all senior and middle management colleagues.

Evaluate

The Directors confirm that they have made a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

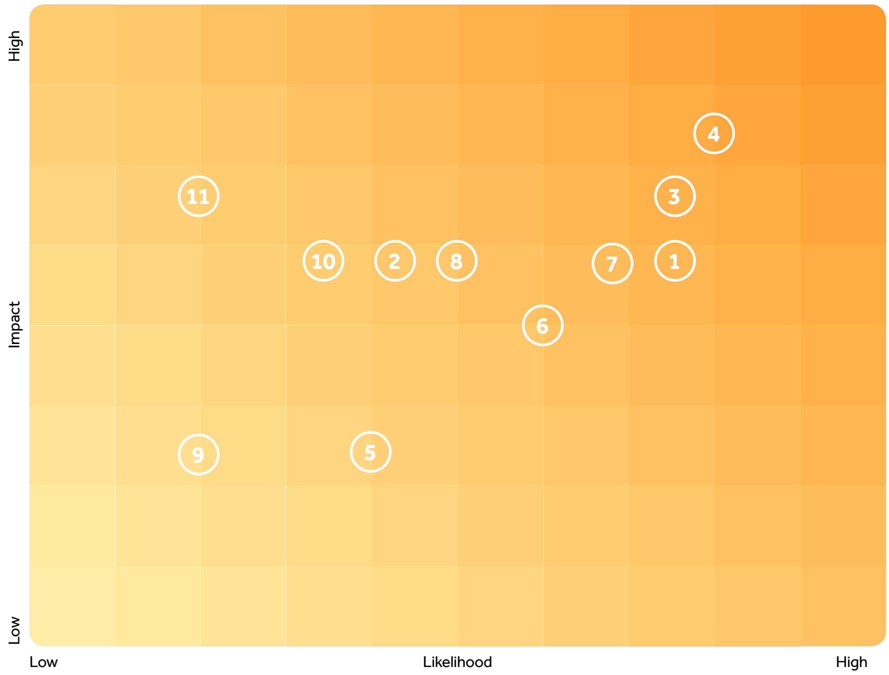
Mitigate

These risks are discussed opposite, together with the Group's related mitigating activities. Other risks which are currently either not known to the Group or are not considered material could also impact the Group's reported performance or assets.

Additional controls that could be implemented to reduce or manage particular risks better will be considered by the Directors in line with the Group's risk appetite and decisions on whether the additional controls are implemented will be documented and reviewed in subsequent risk reviews.

Risk heat map

In analysing the key risks for our business, we consider regulatory and other external publications and peer group comparisons to ensure that the Group's risk register is comprehensive and places appropriate emphasis on those risks that may pose a more significant threat. The heat map below illustrates the distribution of identified risks according to their relative likelihood of occurrence and potential severity of their impact after taking into account mitigating activities:



Strategic risks
Impacting our business plans and development

1. Economy and market
2. Customer proposition
3. Regulatory environment
4. Brexit
5. Acquisition integration

Operational risks
Impacting our ability to execute and deliver our plans

6. People
7. Cyber
8. Supply Chain
9. Property and store network

Financial risks
Impacting our capacity to fund our activities

10. Financial risk and liquidity
11. Consumer finance

See pages 57 to 59 for more on how risk is managed.

Link to strategic pillar

1 Drive the DFS core
2 Build the platforms
3 Unlock new growth

Movement

Increase
Unchanged
Decrease

Strategic risks

Risk	Strategic link	Mitigation	Movement
Economy and consumer market conditions The retail market for upholstered furniture in the UK is highly competitive. The Group's success is therefore dependent on its ability to compete effectively, particularly during peak trading periods. The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the economies in which the Group operates including (but not limited to) consumer confidence, income levels, interest rates, the availability of credit and the level of housing market activity.	1 2 3	The Group continues to make substantial investments in marketing to maintain its leading brand status. Marketing strategy is supported through econometric and customer insight analysis. The Chief Commercial and Marketing Officer is a member of the Senior Leadership Team. Detailed sales information by product and showroom is reviewed daily, enabling changes to product selection, incentive structures and advertising strategy to be made on a dynamic basis to optimise sales. Critical KPIs are monitored on a weekly basis and appropriate actions taken. The Board receives weekly updates on Group trading and the overall competitive environment and discusses the trading performance both through regular Board meetings, but also ad-hoc sessions with the Senior Leadership Team as required. The Group primarily adopts a made-to-order model whereby goods are only manufactured when orders are placed by its customers, reducing stock risks. The Group's interest-free credit offer allows customers to spread the cost into affordable monthly payments. The cost to the Group of interest-free credit can be controlled in part by the term and availability of credit offered to customers. Many of the Group's operating costs are variable or discretionary, allowing some cost base management in periods of lower income.	Increase
Customer proposition and industry competition Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of the business. Increased customer concerns, falls in actual product quality or poor customer service could have a negative effect on the reputation of our brands, leading to loss of revenue. Failure to adapt to growing public social and environmental concerns could discourage customers or demotivate colleagues. A failure to predict changes in customer tastes or the impact of changes in the competitor environment (particularly with the growth of new online entrants and international competitors) could reduce the Group's revenues and market share.	1 2 3	Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value, meet the right quality standards and are supported by excellent customer service, in order to enhance the Group's market-leading position. Our in-house design teams enable reaction to emerging trends and new entrants to the market. External design partners are also incentivised to generate new product concepts on a regular basis. The Group regularly hold innovation working sessions focused on both product and service areas, with relevant Board members joining the Senior Leadership in participating in these. Through our internal manufacturing knowledge and close supplier relationships, we are able to identify and address any quality issues that emerge. We also have good data and insight building on our NPS framework that allows product level analysis of potential issues. Our made-to-order model allows identified improvements to be rapidly effected. The Group is investing significantly in developing its online presence and continues to make good progress in growing online sales, as part of our omni-channel strategy. We track our relative progress in online growth through external benchmarks. Evidence however suggests that c. 90% of customers want to view a physical product before making a purchase, and we are seeing previously "online-only" competitors opening showrooms to seek to drive sales. The Group is continuing to develop its environmental and social agenda, having already raised its operating approach in Timber Sourcing and Modern Slavery and Anti-Bribery compliance during recent years and has plans to develop our approach further in the near term. The Group's focus on customer care quality and service is underpinned by our established use of Net Promoter Score ("NPS") at all touch points of the consumer journey. Colleagues across the business are directly incentivised on NPS scores to reinforce customer-focused behaviours.	Increase

Risks and uncertainties continued

Strategic risks continued

Risk	Strategic link	Mitigation	Movement
Regulatory environment The Group is subject to increasing levels of compliance requirements in many of its activities from regulatory and other authorities and is subject to regulatory risk with potential for significant financial impact or reputational damage. Changes to the regulatory environment surrounding DFS product warranty insurance could impact the sales of these products. Changes in other legislation which may have significant retrospective or future economic effects could also impact operating results.	1 2 3	Comprehensive training and monitoring programmes (including individual NPS, external audits and mystery shoppers) are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Senior Leadership Team Governance, Risk and Compliance Committee is in place supported by a number of sub-committees, one of which is focused exclusively on conduct risks and regulatory areas. The Committee monitors management information and reviews processes and procedures to ensure our customers are treated fairly. This includes rigorous oversight and escalation processes to maintain the status of limited permission to offer consumer finance granted by the FCA. The Committee also reviews the regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation. The CFO and the Director of Risk and Internal Audit attend these Committee meetings and are responsible for ensuring that relevant matters are also escalated to the Audit Committee for consideration. Following a comprehensive project in FY18, supported by external advisors, to implement the requirements of the General Data Protection Regulations, the Group continues to maintain its compliance with data protection requirements. This is supported by ongoing review and monitoring; a review of the Group's information security by external cyber-security professionals as part of this year's internal audit plan is close to completion. The Group is assessing the findings reported by the FCA following the recent thematic review completed on the general insurance distribution chain, and is reviewing its own products in connection with the main themes reported.	
Brexit The Group sources a substantial proportion of its raw materials and finished goods from outside of the UK, has retail operations in the Republic of Ireland, the Netherlands and Spain and employs many EU nationals across its operations, both in the UK (primarily within its manufacturing operations) and overseas. In common with other UK-based businesses, the Group is therefore exposed to a number of potential risks as a consequence of the UK leaving the European Union. These may include a negative effect on consumer demand, delays or additional costs in transporting goods into or out of the UK, an increase in the cost of goods and materials due to adverse exchange rate movements or additional duties or tariffs, shortage of skilled employees and additional administrative costs.	1 2 3	The Group has established a working group to focus on the analysis of expected legislative and practical changes to the Group's operating environment as a consequence of Brexit, and has taken advice on approach and key risk areas from external advisors. The conclusions of this work have been reviewed with the Board. The working group identified a number of specific relevant areas of focus for the Group, which are fully outlined on page 11, with the two key concerns being: • impact on the consumer market/economy • delays/congestion at borders due to additional checks The working group determined that border delays would likely have a greater impact at roll-on-roll-off ports (Dover/Calais) than at freight ports where clearance is often completed whilst at sea. All third party suppliers have been tasked with obtaining all necessary regulatory permits to support rapid customs clearance procedures, and status is being monitored. Longer term we are also concerned at the risks posed by potential adverse movements in exchange rates, however we would expect industry pricing to respond to any different cost environment. While progress has been made and assurance has been obtained the continued uncertainty requires the Group to maintain its vigilance and planning.	

Operational risks

Risk	Strategic link	Mitigation	Movement
Integration of acquired businesses, and transformation to operating through Group platforms The Group has made a number of acquisitions in recent years, most significantly Sofology. The investment in these businesses was based on an expectation around the synergistic and other benefits that would be generated, and the Group is executing a strategy to build platforms to support all Group brands. Failure to effectively execute this transformation strategy or to otherwise realise expected synergies could negatively impact the results of the Group. The consideration for the acquisition of Sofology includes a deferred element that is calculated with reference to the profitability actually achieved by Sofology in the 12 months to 30 September 2018. Agreement for the amount of further consideration due has not yet been reached.	2	Experienced senior management, supported by appropriate external specialists, have been engaged in the design and delivery of the integration and transformation plans and regular updates are given to the Board. Risk assessments are completed for all critical workstreams and have been challenged through Board and Audit Committee discussions. Sofology has traded well since acquisition, with no material disruption post acquisition. The Group has accrued £5m as an estimate of additional consideration potentially payable, and in conjunction with professional advisers the Group is seeking to reach a conclusion on any further payment due.	▼
People The success of the Group depends significantly on its ability to attract and retain a workforce that includes experienced sales delivery, product design and production personnel and to retain members of its senior management, many of whom have significant experience in the Group's business and industry. The physical nature of our products and handcrafted production processes involves a number of manual activities, increasing the complexity of health and safety compliance.	1 2 3	The Group's remuneration approach is structured to be at attractive levels and to incentivise employees towards results that are aligned with the objectives of the Group. In addition, senior management across the business may participate in equity in the Group or in longer term incentive plans operating over a three year cycle. The Group seeks to promote a positive and inclusive culture. Working practices and policies are developed with the aim of improving the diversity of the Group's people and making the Group an attractive employer for all. A wide range of development and training opportunities are available for Group employees, including a wide-ranging apprenticeship scheme offering qualifications up to Masters level. This supports both individual progression and retention of a skilled workforce. Succession planning is operated throughout the business to identify short and long term successors to key roles. A high performance training programme is in place for individuals identified for key roles. The Group continues to make significant investment in training and awareness in health and safety requirements, and performance is reported upon regularly to the Board through KPIs and focused sessions. Dedicated internal teams are supported where needed by external advisers in specialist areas.	=

Risks and uncertainties continued

Operational risks continued

Risk	Strategic link	Mitigation	Movement
Cyber The Group's operations depend upon the continued availability and integrity of its IT systems, including the security of customer and other data held by the Group, and risk of attacks is ever increasing. The Group's IT infrastructure and websites are a key component of its omni-channel proposition and a failure to review and innovate in this competitive area could impact achievement of the Group's strategic growth plans. Effective operational systems supporting supply chain, customer delivery, call-handling and the processing of financial transactions are essential to the delivery of a good customer experience. We also rely on a number of key systems to support timely reporting on operational performance. Delays or errors could result in increased costs or lost revenue.	1 2 3	Full IT security back up and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated. A full review was conducted in FY19, including critical risk assessments in each business area, and identified improvements will be incorporated into the FY20 plan. Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated, including through external audit, which is also reported to the Board. Third party penetration testing is carried out routinely to check the resilience of the Group's systems to cyber-attack. A colleague cyber awareness programme is also in place. The Group continues to make substantial investment in both website development and digital marketing to maintain its market-leading position. An established team of experienced staff in this field are supported with ongoing relationships with external partners. The Group engages with independent third parties to actively monitor both customer satisfaction with its digital services and the emergence of new online competitors. IT systems are regularly reviewed and upgraded to ensure they continue to support the needs of the Group, and the conclusions of reviews are discussed and challenged at the Board.	▲
Supply chain A large portion of the Group's products, in particular finished upholstery goods, are supplied by a limited core group of manufacturers, with many produced in continental Europe and Asia. A number of the Group's suppliers also work across multiple brands for the Group. The Group's internal manufacturing operations also supply a significant proportion of goods sold and may not wholly be able to compensate for the failure of any of the Group's key external suppliers to satisfy their delivery obligations. Increases in finished goods and underlying commodity prices, including through foreign exchange rate changes, may negatively impact the Group's trading margins. The Group pays for Far East sourced finished goods (which account for c. 30% of overall sales volumes) in US dollars. Since early 2019 there has been a marked fall in the US dollar rate, that would give rise to a significant increase in costs if not mitigated	1 2	The Group maintains flexible supply arrangements to facilitate switching between suppliers where necessary and uses a variety of freight forwarders to avoid reliance on any one transport link. Supplier performance is monitored against operational and quality targets and reviewed by senior management. All external upholstered furniture suppliers are frequently inspected by the Group to ensure working conditions and quality standards are maintained. Fixed prices are negotiated for finished goods for each promotional cycle and the scale of the Group enables it to achieve significant cost savings with supplier partners. The Group's in-house manufacturing capacity provides insight into production costs and the ability to create cost efficient designs. The Group has established detailed plans to actively manage its cost base and supply chain to mitigate foreign currency exchange risks as far as possible. Foreign currency hedging is in place to provide 18 months of cover by value and provide stability of prices of overseas sourced raw materials and finished goods, giving time for mitigating action to be planned and effected.	=
Property and retail showroom network The growth of the Group depends in part on its ability to open and operate new showrooms particularly in future for Sofology on a timely and cost-effective basis while continuing to increase sales at existing showrooms. Property leases represent a significant commitment of the Group's resources. Unsuitable or underperforming sites may therefore negatively impact the Group's results for a number of years. The continued growth of sales conducted outside the showroom network through online channels creates an emerging risk associated with the costs of a large property portfolio.	2 3	The Group continuously reviews the location and format of its showrooms and their contribution to overall results. A detailed appraisal model is applied to assess the payback period and expected profitability of each potential new showroom, including its impact on existing showrooms and online sales in the area. Appraisals are subject to thorough review and approval by the Board before any investment is made. While some customers choose to transact online, research indicates a significant proportion of these will have visited showrooms before committing to a purchase, thus the showroom network will continue to have a vital role even as sales move more online. The Group's property portfolio is reviewed regularly to ensure it remains appropriate and cost-effective for the needs of the business. The Group is actively pursuing lease renegotiation opportunities, particularly as leases approach expiry seeking to reduce rental costs. Good success on renegotiations has been seen to date. In entering or extending leases the Group takes account of not only cost, but also lease term and is commonly extending leases for only five years. The average lease life outstanding of the Group's property portfolio is therefore consistently falling.	=

Financial risks

Risk	Strategic link	Mitigation	Movement
Financial risk and liquidity A downturn in the macroeconomic environment, or increased uncertainty from Brexit, may impact the Group's ability to obtain financing. Any "no-deal Brexit" type event may increase working capital needs for the Group with border delays slowing the realisation of revenues. An increase in interest rates could increase the Group's financing costs. The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas.	1 2 3	The Group aims to maintain good working relationships with all financial counterparties and engages proactively to ensure that counterparties fairly understand the financial performance and continue to support Group activities. The Group regularly reviews its financing arrangements to ensure it has adequate funds in place and financing costs are kept to a minimum. The Group operates a five year revolving credit facility that matures in August 2022 that has recently been increased to £250m. The facility enables more dynamic management of short term borrowing needs, reducing interest costs. The Group would expect to refinance this loan no less than 12 to 18 months before maturity. Foreign exchange and interest rate risks are managed through the use of appropriate hedging arrangements in accordance with its Board-approved treasury policy, with details reviewed by the Board on a regular basis. Further details on foreign exchange hedging are provided in the CFO's review. No financial instruments are entered into for speculative purposes.	▲
Consumer finance More than half of the Group's sales are to customers who utilise its interest-free finance offerings, which are provided by external finance houses that, in return for a fee, manage customer repayments and bear the risk of customer default. Credit availability with respect to customer finance offerings typically tighten during periods of economic downturn, which may limit the Group's ability to offer customer finance on commercially acceptable terms and/ or may increase the amount of the fee payable to the external providers of customer finance. An increase in LIBOR may also result in an increase in the fees payable by the Group.	1	The Group has longstanding relationships with a number of finance houses, with long term contracts in place with four providers which give certainty of availability for the total requirement for customer finance. These contractual arrangements are structured to also allow the Group to tender a portion of its credit business annually to the current lender panel, whilst also delivering surety of supply, acceptance rates and fee levels and facilitating a redistribution of business in the event of withdrawal by one or more providers. Key metrics are continuously reviewed to ensure that each provider remains competitive. The Group's Section 75 liability and complaints levels are extremely low due to its financial strength and focus on customer service, which is desirable to our finance partners. An increase in LIBOR that affects the cost of providing credit may be mitigated by revising the customer offer in line with maintaining market leader status. Further information can be found in note 23 to the financial statements.	=

Viability Reporting

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the date of approval of the financial statements.

This assessment was based on the current position of the Group and the key risks and uncertainties as discussed on pages 28 to 33 of this Annual Report and considered a period of three years from 30 June 2019. This period was selected by the Directors since it reflects the longest period over which the impact of key risks can be reasonably assessed within a big-ticket retail business, given the greater potential volatility of the trading environment arising from continuing political and economic uncertainties.

Those risks which could significantly affect the future viability of the Group were identified, including the risk of a fall in consumer confidence or other market decline, a decreased in gross margin, a change in the regulatory environment surrounding product warranty insurance and the additional challenges that may arise from the UK's exit from the EU. The potential impacts of these risks on the financial performance and viability of the Group were assessed under a number of severe but plausible scenarios.

For each scenario, sensitivity and stress-testing analysis was performed to model the impact on the Group's profitability and cash flows. These included the impact of reduced revenues and a decrease in gross margin both separately and collectively, and comparison to historic periods of significant economic downturn.

The assessment considered how risks could affect the business now, and how they may develop in future. The analysis takes into account the significant level of variable and discretionary spend, including marketing costs, in the Group's business model and the existence and effectiveness of other mitigating actions the Group could take, including the reduction of capital expenditure to maintenance-only levels and the restriction of dividend payments.

In addition to the longer term viability assessment, the Group has also considered the immediate risks arising from Brexit, as detailed in the Chief Executive's report on page 11, by considering month by month cash flow impacts that may result from the key associated risks of border delays and a fall in consumer confidence.

In developing the viability assessment it has been assumed that the Group's £250.0 million revolving credit facility will continue to be available at least until its maturity in 2 August 2022. As is customary when dealing with longer-term debt facilities, the Board would expect these to be renewed well in advance of their expiry.

Based upon this assessment, the Directors have confirmed that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 26 June 2022.

Key performance indicators

Financial

Gross sales[1] (£m)

FY19 (52 weeks pro-forma)	£1,287.2m
FY19 (48 weeks)	£1,165.0m
FY18	£1,125.6m
FY17	£990.8m
FY16	£980.4m

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

Performance
Sales growth from four months additional ownership of Sofology and like-for-like sales growth across all brands.

Underlying EBITDA[1] (£m)

FY19 (52 weeks pro-forma)	£90.2m
FY19 (48 weeks)	£65.1m
FY18	£76.1m
FY17	£82.4m
FY16	£94.4m

Description
Underlying EBITDA means underlying earnings before interest, taxation, depreciation and amortisation.

Performance
EBITDA increase from higher sales volumes across all brands and four additional months of Sofology ownership.

Underlying PBT excluding brand amortisation[1]

FY19 (52 weeks pro-forma)	£50.2m
FY19 (48 weeks)	£28.2m
FY18	£38.3m
FY17	£50.2m
FY16	£50.1m

Description
Profit before tax adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology, Dwell and Sofa Workshop.

Performance
PBT increase from higher EBITDA and broadly simple interest and depreciation across all brands.

Free cash flow[1] (£m)

FY19 (52 weeks pro-forma)	£92.6m
FY18	£60.4m
FY17	£57.0m
FY16	£75.6m

Description
Free cash flow is Underlying EBITDA, less cash capital expenditure and changes in working capital.

Performance
Increase in free cash flow from higher profits and favourable working capital movements.

Gearing[1]

FY19 (52 weeks pro-forma)	1.95
FY18	2.09
FY17	1.75
FY16	1.45

Description
Gearing is net debt divided by underlying EBITDA for the previous twelve months.

Performance
A reduction driven by an increase in Underlying EBITDA more than offsetting higher net debt.

Lease adjusted ROCE[1] (%)

FY19 (52 weeks pro-forma)	16.6%
FY18	15.6%
FY17	18.7%
FY16	21.2%

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

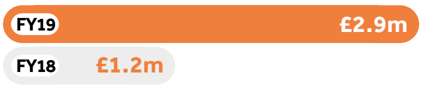
Performance
Increase in ROCE due to the higher profitability more than offsetting an increase in capital employed.

1. Pro-forma period is the unaudited 52 weeks to 30 June 2019. Refer to pages 130 to 131 for further information on alternative performance measures.

Non-financial

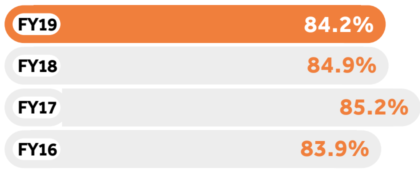
Cumulative property cost savings secured

£2.9m



NPS (%) – post purchase customer satisfaction

84.2%



NPS (%) – established customer satisfaction

33.0%

Description
Savings from regears 'right sizing' showrooms and closure of showrooms that have no adverse impact on total brand sales.

Performance
Increase due to rent reductions secured in FY19 and downsizing of some showrooms.

Description
Average across all DFS stores based on post purchase customer satisfaction surveys.

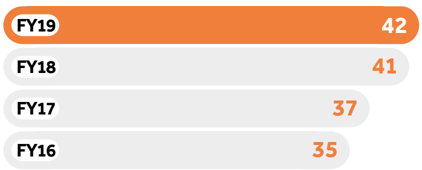
Performance
Small year on year decrease in very strong overall level.

Description
Average across all DFS stores based on established customer satisfaction surveys (six months after order).

Performance
In the year, impact of supplier lead time issues and technical disruption of the Felixstowe port in the summer of 2018.

Sofology UK stores

42



Description
Number of Sofology stores trading at the end of the financial period.

Performance
One additional store opening in FY19 (Plymouth).

Financial review

Mike Schmidt
Chief Financial Officer

In brief

- 52 week pro-forma underlying profit before tax, excluding brand amortisation[1], up 31.1% to £50.2 million
- Reported 48 week profit before tax £22.4 million
- Solid financial position with net debt / EBITDA down to 1.95x from 2.09x in the prior year

Having worked for the Group for over five years I am delighted and privileged to have been appointed as CFO of DFS. I'd like to thank Nicola Bancroft for her guidance and support over this time and wish her the very best for her retirement. In taking on leadership of the finance function, I am determined to ensure that we continue to develop our use of data insight and reporting to help the business drive trading performance and good capital allocation decisions. While the market environment that we currently face is uncertain, our market position is strong and we have clear opportunities to unlock cost efficiencies from historical acquisitions, our property portfolio and also prior investments that we have made in our supply chain and Group businesses.

Basis of financial presentation

In October last year we announced we would change our accounting reference date from July to June, to better support the operational cycle of the Group. The income statement presented later in this Annual Report therefore reflects the audited 48-week period to 30 June 2019.

Revenue, underlying profit before tax before brand amortisation[1] and reported profit before tax for this 48 week period totalled £901.0m, £28.2m and £22.4m respectively for the Group. Overall revenue growth during the financial year was strong and almost certainly benefited from latent demand from the unusually hot weather period experienced in April to June 2018. Reported revenue growth levels were likewise higher than underlying order intake trends, reflecting both increased deliveries in the period following an unwind of the effects of port delays experienced in June and July 2018, but also a slowing order intake momentum in the second half of the financial year despite what we perceived to be a weak comparative period in 2018. Profit performance for the period reflects the delivered revenue trends.

The prior year comparator included in the financial statements is the audited results for the 52 week period to 28 July 2018. The current and prior year statutory periods are therefore of different lengths. In order to aid understanding of the Group's financial performance on an annualised basis, presented below are unaudited pro-forma results for the 52 week period to 30 June 2019, calculated by taking the four weeks to 28 July 2018 and adding them to the audited statutory results for the 48 weeks to 30 June 2019. For clarity, measures presented for this 52 week period are referred to as 'pro-forma' throughout this report.

As we shared in our FY18 annual report, the strongly profitable financial results that can be implied for July 2018 (which is included in both the statutory FY18 and pro-forma FY19 results) partly reflects significant volumes of deliveries being made in that month, following the important Easter and May bank holiday periods. July is also influenced by other factors, including typically shorter lead times ahead of August manufacturing shutdowns and lower marketing spend due to limited consumer demand events, which are less of a feature in June.

Sales and revenue

Total pro-forma gross sales[1] for the Group grew by 14.4%, reflecting growth in deliveries across all brands and the full year impact of owning Sofology. Adjusting to include the Sofology results for the whole of the comparative period, pro-forma gross sales increased by 7.4%. Pro-forma revenue, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products, grew at a similar rate.

On a like-for-like basis pro-forma gross sales grew by 5.7% and all brands saw like-for-like sales growth. This growth rate is however below that achieved in the first half of the year despite a softer comparative period in the second half, and as noted above, does reflect some softening in order intake growth that we have experienced relative to the first half of the financial year.

Gross profit

Pro-forma gross profit of £574.6m was up £67.7m on the previous year driven by the higher revenues. Excluding Sofology pro-forma gross profit was up £25.1m. There are no non-underlying costs that affect gross margin.

In percentage terms Group pro-forma gross margin of 57.7% was lower than the prior year (58.2%) due to the dilutive impact of consolidating Sofology for the full period, relative to the eight months post acquisition in the prior year. The gross margin percentage for the Group excluding Sofology was in line with the previous year with a slight improvement in DFS's margin driven by more favourable US dollar exchange rates being offset by lower trading margins in Sofa Workshop and Dwell due to an increase in promotional activity. Sofology's margin meanwhile improved year on year from 50.3% to 50.7% from a combination of improved external sourcing rates and use of DFS manufacturing.

We source around one quarter of the finished goods that we sell from the Far East, and we pay for these goods in US dollars. We continue to protect ourselves from adverse US dollar exchange rate movements for the total exposure of c. $165m annually, by hedging our US dollar purchases. We have cover for the Group 18 months ahead, with rate certainty for FY20 at a rate that is not materially different to FY19. The exchange rate environment in September 2019, does however imply approximately a 10 cent reduction relative to the average rate experienced in FY19 and secured for FY20, and this does therefore represent a risk for FY21 and beyond. Each one cent movement in the dollar to sterling exchange rate would impact profits by approximately £1m if not mitigated, however we expect companies operating in the upholstery market to counter any profit impact ultimately experienced by adjusting product specifications or altering retail prices.

1. Refer pages 130-131 for APM definitions.

	Unaudited pro-forma results for the 52 weeks to 30th June 2019					Audited results for the 48 weeks to 30th June
	DFS £m	Other brands £m	Group excl Sofology £m	Sofology £m	Group Total £m	Group Total £m
Gross sales[1]	942.1	84.4	1,026.5	260.7	1,287.2	1,165.0
Revenue	721.7	68.6	790.3	205.9	996.2	901.0
Cost of sales	(288.4)	(31.7)	(320.1)	(101.5)	(421.6)	(383.8)
Gross profit	433.3	36.9	470.2	104.4	574.6	517.2
Selling and distribution costs*	(232.1)	(25.6)	(257.7)	(56.7)	(314.4)	(293.7)
Brand contribution[1]	**201.2**	**11.3**	**212.5**	**47.7**	**260.2**	**223.5**
Property costs			(85.3)	(22.2)	(107.5)	(99.1)
Underlying administrative expenses			(46.3)	(16.2)	(62.5)	(59.3)
Underlying EBITDA[1]			**80.9**	**9.3**	**90.2**	**65.1**
Depreciation & Amortisation excluding brand amortisation					(29.3)	(26.8)
Underlying Operating Profit					**60.9**	**38.3**
Interest					(10.7)	(10.1)
Underlying PBT before brand amortisation[1]					**50.2**	**28.2**
Non-underlying costs[1]					(5.1)	(4.4)
PBT excluding brand amortisation					**45.1**	**23.8**
Basic underlying EPS (pence)					18.4p	10.3p

	Audited results for 52 weeks to 28th July 2018				
	DFS £m	Other brands £m	Group excl Sofology £m	Sofology £m	Group Total £m
Gross sales[1]	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*	(223.9)	(22.3)	(246.2)	(35.3)	(281.5)
Brand contribution[1]	**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[1]			**72.6**	**3.5**	**76.1**
Depreciation & Amortisation excluding brand amortisation					(27.2)
Underlying Operating Profit					**48.9**
Interest					(10.6)
Underlying PBT before brand amortisation[1]					**38.3**
Non-underlying costs[1]					(11.4)
PBT excluding brand amortisation					**26.9**
Basic underlying EPS (pence)					14.0p

* Excludes property costs.
1. Refer pages 130-131 for APM definitions.

Financial review continued

Operating costs and brand contribution[1]

Pro-forma brand contribution has increased by £34.8m to £260.2m. £21.2m of this increase was driven by Sofology with the benefit of a full year of ownership relative to eight months in the previous financial year. Sofology's brand contribution as a percentage of revenue has increased from 21.6% to 23.2% driven by increased gross margins as well as from operating more efficiently, in part due to synergy benefits. As at June 2019 we have secured over £4m of annualised synergies and believe there are additional savings available from utilising the Group's scale to operate a more efficient supply chain as well as opening new Sofology showrooms alongside DFS showrooms or on the same retail parks with relatively low incremental rental charges.

Excluding Sofology, pro-forma brand contribution increased by £13.6m with the majority of this increase being attributable to DFS due to the increase in delivered revenues. Sofa Workshop and Dwell's combined brand contribution increased by £1.0m, much lower than the £10.1m growth in revenues due to operating disruption from systems transition, marketing investment made to grow brand awareness, and the costs of establishing new showrooms.

Property costs and administrative expenses

Pro-forma property costs have increased by £8.4m from the previous financial period, £7.9m of the increase is attributable to the full year effect of Sofology ownership. Excluding Sofology property costs increased by £0.5m. This increase was due to new showroom openings which added an incremental £1.5m of costs, new central distribution warehouses which added £0.3m of costs, showroom rent increases of £0.5m and rates inflation of £0.3m. All of which are partially offset by a £2.1m reduction from the impact of lease regears and space reduction decisions. Total annual property cost savings now secured since the start of our property cost programme in FY18 total £2.9m.

Pro-forma administrative costs have increased by £12.3m of which £7.5m of the increase is due to the full year impact of owning Sofology. Excluding Sofology, administrative costs increased by £4.8m due to wage inflation, investment in resources and IT to support our growth strategy along with increases in legal and professional costs.

Underlying EBITDA[1]

As a net result of the increased revenues and the other factors described above the Group's underlying EBITDA for the pro-forma 52 weeks has increased £14.1m from £76.1m to £90.2m, a 9.1% EBITDA margin. Sofology contributed £9.3m of pro-forma underlying EBITDA, up £5.8m from the £3.5m generated in the eight months the Group owned the brand in the previous financial year.

Non-underlying costs[1]

A total of £4.4m non underlying costs were incurred in the 48 week period to June 30 2019. £3.3m related to integration costs associated with the Sofology acquisition incurred on project management, professional advisers, group restructuring costs and retention schemes. £0.9m related to exceptional restructuring activity within the DFS brand and Group support centre, to align with revised ways of working following the Sofology acquisition and technology investments. Finally, £0.2m was also incurred on legal and professional fees associated with the acquisition of Sofology. Non-underlying costs for the 52 week pro-forma period totalled £5.1m.

Inclusive of the £2.0m integration costs connected with the Sofology acquisition incurred in the previous financial year we have spent a total of £5.3m on integration following the acquisition and we have secured annualised synergies of over £4m as at June 2019. These synergies have come about from improving commercial terms with key suppliers, knowledge sharing across the Group resulting in incremental sales and cost savings as well as improved working capital terms.

Finance costs and depreciation

Pro-forma finance costs of £10.7m (FY18 £10.6m) primarily relate to charges arising from the Group's revolving credit facility and from the interest charges arising on finance leases. The increase is driven by higher finance lease interest charges due to an increase in mix of capital additions purchased via finance leases. We entered the year with higher net debt relative to the previous financial year following the acquisition of Sofology on 30 November 2017, however we have seen a year on year reduction in net debt through the second half of the financial period. We have also benefitted from a lower interest rate driven by a reduction in gearing.

Pro-forma depreciation and amortisation charges excluding brand amortisation total £29.3m for the period, up from £27.2m on the previous year. £1.4m of the increase is due to full year ownership of Sofology and the remaining £0.5m is due to a higher underlying asset base.

Profit Before Tax ('PBT')

Underlying PBT excluding brand amortisation[1] for the 52 week pro-forma period was £50.2m, up 31.1% from £38.3m excluding brand amortisation in the previous financial year. PBT for the 48 week statutory period was £22.4m.

Tax

As in previous years, the underlying effective tax rate for the pro-forma 52 week period of 19.9% was higher than the applicable UK Corporation Tax rate of 19.0% (FY18 20.7%). The variance to the applicable rate is primarily due to disallowable depreciation on non-qualifying assets.

Earnings per share

Pro-forma underlying basic earnings per share for the Group were 18.4 pence FY18 14.0 pence), an increase of 31.4% on the previous financial year. Including the effect of non-underlying costs totalling £5.1m pro-forma basic earning per share increased 85.4% to 16.5 pence (FY18 8.9 pence). Reported earnings per share for the 48 week period were 8.6 pence.

Capital expenditure

Cash capital expenditure for the pro-forma period was £26.3m, up £4.3m on the previous financial year (FY18 £22.0m) and represented 2.6% of revenues (FY18 2.5%). The increase was driven by incremental investment in e-commerce platforms, supply chain property and technology assets, an increase in both the quantity of and scale of investment in showroom refurbishments as well as the additional four months ownership of Sofology in the current financial period. In addition to the £26.3m cash capex £5.2m of assets (predominantly delivery vehicles and company cars) were capitalised under finance leases (FY18 £5.1m).

Cash flow and balance sheet

Following the acquisition of Sofology in 2017 the Group has operated at higher levels of borrowing than our target range. The Group is however financially strong, with good cash generation and a substantial revolving credit facility in place. To reflect the increased scale of Group operating activities, we secured in September 2019 an increased size of revolving credit facility, taking the total available facility up from £230m to £250m, through adding a new lender to the facility. This facility has approximately three years until maturity, and we would intend to extend or refinance it in due course.

Net debt has been decreasing year-on-year with the average month end position across the second half of this period approximately 10% lower than the previous year. We continue to target a reduction in gearing to beneath 1.5 times underlying EBITDA.

1. Refer pages 130-131 for APM definitions.

The Group closed the period with net debt of £176.3m at 30 June 2019 resulting in a gearing ratio of 1.95 times underlying EBITDA. Net debt was higher than reported at the end of the last financial year (28 July 2018 £159.0m) as expected given the change in our accounting reference date and the relative timing of peak trading periods and expenditure.

As we have highlighted previously, the DFS business model benefits from negative working capital, with payments received from customers upon delivery or through deposits ahead of delivery overall, while our suppliers are paid to agreed terms. Working capital balances are seasonal depending on recent trading activity, cost seasonality (particularly in advertising spend) and finally predictable patterns of payments on rents, tax payments and other recurring charges. We carry very limited inventory, and balances have remained stable overall: showroom stock, finished goods in transit, finished goods stock for our Dwell business, customer returns for clearance/resale and raw materials for manufacturing.

With the change in financial year end, the June 2019 net working capital balance was approximately £16m greater than the July 2018 position, which reflects normal seasonality, but has led to a higher net debt balance outstanding.

The Group's lease adjusted return on capital employed for the period increased from 15.6% in FY18 to 16.6% as a result of the increased lease adjusted profits more than offsetting an increase in capital employed.

IFRS 16

The new lease accounting standard, IFRS 16, is effective for all accounting periods beginning on or after 1 January 2019 and therefore the Group will adopt IFRS 16 for its 2019/20 financial year. IFRS 16 will materially alter the presentation of the Group's financial statements, but has no impact on cash generation and will not impact the way we run the business. The change in reporting will also not impact on the Group's banking covenants which will continue to be measured in accordance with the pre IFRS 16 methodology.

On transition to IFRS 16 rental payments currently recognised in the income statement will be replaced by depreciation of a right of use asset (on a straight-line basis) and a finance charge for the unwinding of the discount on the lease liability (which is higher in the earlier years of the lease term). We expect to recognise a liability of approximately £535m-£555m and a right of use asset of approximately £420m-£440m on transition. The net impact to the right of use asset for any prepayments or accrued lease liabilities recognised as at 30 June 2019 is expected to be a reduction of approximately £64m-£68m. As a result, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening retained earnings at 1 July 2019 and we expect this to be a reduction of around £27m-£71m. Based on the Group's existing leases, we expect the adoption of IFRS 16 to reduce profit before tax by approximately £4m-£6m in our first year of adopting the standard relative to reporting under IAS 17.

There will be no impact on cash flows, although the presentation of the Cash Flow Statement will change. Net cash flows from operating activities will increase and be offset by an increase in interest paid. We are adopting a modified retrospective transition and as such will not be restating our historical financial statements.

Following transition two of the metrics that we use in our forward guidance will have altered presentation, although we anticipate the financial implications will be broadly neutral. Our treasury policy will now reference a target for bank net debt (i.e. excluding capitalisation of finance leases) based on the net cash from operating activities before tax less payment of finance lease costs as stated on the Group Consolidated Cash Flow Statement. We believe that this ratio has historically been consistent with the Net Debt / EBITDA ratio that we previously adopted and we are targeting a return of this ratio to beneath 1.5 times.

Our long-term dividend policy on the pay-out of ordinary dividends will be based on annual pre-dividend, underlying cash generation as measured by (i) the annual change in reported net bank debt plus (ii) the value of ordinary and/or special dividends paid, plus (iii) any non-underlying costs or working capital movements incurred, and (iv) any acquisition related consideration. Over the long-term we would target dividends being in the range of 40-50%, which we believe is broadly consistent with historical practice.

Dividend

In light of the political and economic backdrop and the intention to reduce gearing the Board proposes to hold the final dividend flat at 7.5 pence per share (FY18 7.5 pence) resulting in a total dividend for the year of 11.2 pence (FY18 11.2 pence).

Risk and Governance

We have worked during the year to continue to strengthen our approach to Risk and Governance. With the increased scale of the Group following the acquisition of Sofology we have consolidated all internal audit and risk management activities into a single Group team, to benefit from knowledge sharing and to ensure we maintain consistently strong standards. We have also increased our resources in our Risk Management team to provide greater support to the day-to-day embedding of risk management in our operational activities and to support the ongoing Board-led reviews of our principal risks, and the setting of our risk appetite.

Looking forward

Tim's CEO statement outlines our perspective on current trading as we enter the new financial year. With this context, our focus will be on maintaining or growing our gross margins and driving cost efficiency on property, supply chain and administrative activities. To maintain long-term progress, we will continue to invest in the cost base to support Sofology store roll-out, and also the DFS marketing partnership with Team GB for the Tokyo Olympics, both of which will increase operating costs in the first half of the new financial year relative to the prior year. We also will continue to seek to build our resilience through maximising our cash flow.

Mike Schmidt
Chief Financial Officer
25 September 2019

Our People

The people in our business are fundamental to its success.

2019 summary

Our sustainability and responsibility strategy covers all of the areas which we take into account when making key business decisions: the communities in which we operate, our people, the relationships we have with our customer and suppliers, the impact on the environment and our approach to doing business. Responsibility for our sustainability and responsibility strategy sits with our Board of directors, led by Alison Hutchinson our Board level sponsor and by Sally Hopson our executive lead.

Much of the value we deliver to customers is through the expertise and experience of our people. Our sustainability relies on our ability to attract people with the right skills and behaviours and to motivate, develop, support and reward them appropriately.

We employ over 5,600 people across the UK, Republic of Ireland, the Netherlands and Spain. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our people across all parts of our Group. We are proud of the work we do to develop and strengthen our teams.

Training & Development

We believe the continuous growth and development of our employees is pivotal to the success of our Group. In addition to our award winning apprenticeship programme, we actively promote the benefits of further learning and development for all our employees, at whatever stage of their career. We provide an extensive package of on-line training and development relating to technical skills, compliance and personal development as well as direct face to face training to our employees. During the year we provided over 8,000 training days to our employees. We will continue to invest and expand the training and development we offer to all our people.

Apprenticeships

We began our modern apprenticeship programme within DFS in October 2014 with a focus on recruiting and developing young people. We are very proud of our scheme which supports participants to achieve formal qualifications in their chosen field, complete the Duke of Edinburgh Gold award and gain valuable work experience. In February 2018 we were accepted on to the register of approved training providers which means we are able to deliver Level 2 apprenticeship programmes ourselves. To date, 55 young people have successfully completed the Level 2 apprenticeship and the majority of those now hold permanent positions in the Group, in a variety of areas including service upholstery, manufacturing, retail and administration. The success of our programme has been two-fold: firstly, providing young people with an opportunity to genuinely develop their talents and become productive employees and secondly, to build resources for the business in areas where there could otherwise be a skills shortage. During the year our Apprenticeship programme won the Large Employer of the Year with Qube Training 2019 as well as being a finalist in the Retailer of the Year Awards in the All About School Leavers category for 2019.

Employee engagement

Good communication with our people is a key factor in the success of the Group. during the year we added to our existing programme of employee engagement with the introduction of the Employee Voice Forum. Our Voice Forum representatives did an excellent job of voicing their ideas and their colleagues' feedback directly back to the Board of directors. This forum adds to our policy of open communication via Workplace; since 2017 Workplace by Facebook has provided a platform for our people from all our brands across the Group to connect with each other. News, updates and photos are posted and shared on a regular basis.

Employee views are sought through an active programme of engagement surveys, the results of which are communicated back to staff. Having achieved 23rd place in the Sunday Times Best Big Companies to Work for List in 2018, we were very pleased to have made further improvement this year, reaching 22nd place. We also continue to receive external recognition for excellence in employee conditions by the retention of our Top Employer certification from the Top Employers Institute.

Employee rewards

We reward all our employees fairly. In addition to competitive salaries, all employees are able to influence their earnings through reward schemes linked to performance. We also offer a Sharesave scheme to all UK and Republic of Ireland employees to give them the opportunity to share in the longer-term success of the Group.

We support the health and welfare of our employees and their families through a variety of benefits including life and critical illness cover, and an employee assistance service across each of our brands.

Health, safety & well-being

The health, safety and well-being of our employees, customers and partners is extremely important to us and we are committed to promoting a positive health and safety culture throughout the Group. We have continued to invest in training and development and in improving our processes and practices across our Group to ensure that we operate safe and secure workplaces no matter where they are.

All employees complete online training modules to ensure awareness of the Group's 'house rules' for health and safety and these are reinforced with monthly safety messages to refresh and remind on particular subjects. More detailed, role-specific training is provided to store, production and supply chain managers. Other areas of the business receive focused training according to need.

Our dedicated health and safety teams have made further enhancements to training and internal audit programmes to consolidate the significant progress made in this area over the last few years. Although we are pleased with the advances that we have made, we recognise that continuous monitoring and development is essential to sustain this. Monthly health and safety governance meetings are held with operational directors to review incidents and activities in detail and share experience and best practice. Full reports are provided to each operating board and to the Board of Directors twice a year.

As part of our drive for continuous improvement, during the year, we introduced a H&S champion role within DFS Customer Distribution Centres to encourage further employee participation and assist management with control of H&S compliance at a local level. In addition, during the year, we invested in Airsweb – an online Health & Safety management system for improving the reporting incidents, completing onsite H&S compliance checks & conducting and issuing audits, across all DFS sites. We will complete the roll out of the system to Sofa Workshop, Dwell & Sofology early in financial year 2020.

In recognition of our efforts and progress in this key area we were delighted that DFS received a Silver Award from RoSPA having previously achieved a Bronze Award in 2018. We will continue to work to improve standards across the Group.

Our focus on the well-being our people continues through our wellbeing programme, through which we aim to encourage the physical and mental health and wellbeing of our people by providing information, self-help tools and support. During the year we increased our focus on raising awareness of mental health issues, and support for employees experiencing poor mental health issues. As part of this 52 employees have been trained as mental health first aiders. We will continue to work to support all our employees across the Group during the coming year.

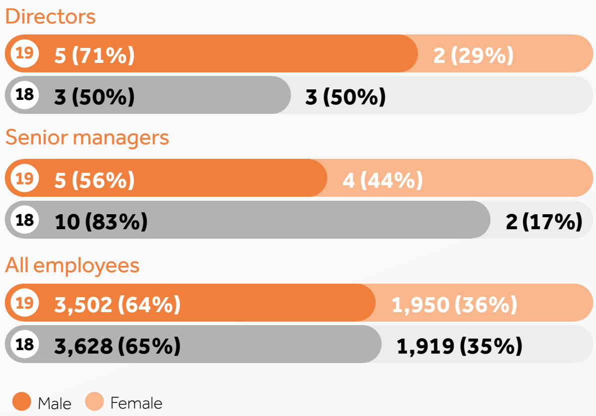
Diversity

We believe in the benefits of a diverse workforce. We are an equal opportunities employer, we aim to ensure that all our employees feel welcome, included, valued and recognised and have transparent access to career development opportunities. We will not tolerate discrimination of any kind. With the expansion of our Group through the acquisition of Sofology in 2017, we are able to provide more employees with greater options for career development and we actively encourage flexible and home working for those employees whose roles permit such arrangements.

Our people are expected to embrace a culture of diversity and to act respectfully and with consideration for others. We're always exploring how we can help every member of our team make the most of their talents through:

- Fair and equal promotion and pay policies
- Transparent recruitment processes
- Individual career development
- Ensuring a healthy work/life balance

As at the end of the year the gender diversity of the Group was as set out below:



Gender diversity is a key area of focus for our Senior Leadership teams, the gender analysis of employee numbers is reported to the operating boards on a monthly basis and monitored against targets for sales and management teams. We are focused on driving improvement in this area.

It is the policy of the Group to support the employment of disabled people, wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Group as well as generally through training and career development.

In order to achieve our aims a series of initiatives are in place across the Group. DFS has established a Diversity Steering Group to develop and implement these new and ongoing initiatives. One such initiative was for International Women's Day on 8 March this year when we asked our people (both men and women) to join us in sharing who they thought were 'Real Models' and inspirational to them and how we can move gender diversity forwards to ensure #balanceforall.

Details of our most recent gender pay gap report, can be found on page 78 of the Directors' Remuneration Report.

Our Communities & Charities

We seek to make a positive contribution to the communities in which we work and operate in.

This year, as we celebrate DFS' 50th anniversary, we launched the 50 Acts of Comfort initiative to bring the joy of comfort to the communities we've been working in for the past five decades. The initiative includes donations, giveaways and makeovers for a variety of fantastic causes across the UK and Ireland, as well as surprise Acts of Comfort for colleagues within our business.

The first Acts of Comfort included a makeover of a living room and bedroom for Hugh's House in Dublin, which provides accommodation for families whose children are undergoing treatment in nearby hospitals; a sofa donation for the reception area of Emmeline's Pantry foodbank in Manchester; and a donation of sofas and armchairs for a quiet room in the baby unit at Royal Sussex County Hospital in Brighton, providing families with a calm, comfortable place to go while on the ward.

Our 50 Acts of Comfort will continue with a variety of donations, giveaways and makeovers throughout our 50th year. In addition to our 50 Acts of Comfort, the Group has continued to support three major national charities with which we have longstanding relationships.

Our partnership with British Heart Foundation offers our customers a convenient and responsible way to recycle their old sofas while raising money to support the work of the charity. The scheme, which has been running since 2012, goes from strength to strength and has generated in that time over £21 million for the charity.

We have also continued our support for BBC Children in Need through a variety of fundraising activities including our "Give me Five" initiative which offers customers a chance to win their entire order for free by entering a monthly draw, together with our customers and employees we have raised an incredible £4.3 million for Children in Need.

DFS remains a Gold Partner of the Duke of Edinburgh's Award, supporting young people to develop new skills for work and life and contribute to their communities. This includes our apprentices, who complete the Gold award as part of their apprenticeship programme.

In addition to the major national charities above, we support a number of charities and initiatives based locally to our operations across the UK and in Europe, particularly those promoting opportunities for young people. Charitable donations made by the Group during the year amounted to £142,500.

Our Customers & Suppliers

We have a responsibility to treat customers fairly, with the highest ethical standards, and to do business in a way that has a positive effect on them and society more widely.

We also believe we have a responsibility to our customers to tackle issues that are important to them in relation to the products and services we provide. Central to our customer-focused approach is our core value "Think Customer" ensuring all our employees put customers at the very heart of our business, at all times.

To ensure we deliver the highest levels of customer service we make significant investment in training and developing all of our people. Employee performance and customer satisfaction are monitored through regular inspections, surveys and mystery shoppers, which are carried out through an independent consumer research group.

Customer referral is the perfect indicator of excellent customer satisfaction and we use Net Promoter Score ("NPS") as a measure of recommendation, which provides us with an internationally recognised predictor with proven links to business success. We measure this not only after a customer has placed an order ("Post Purchase NPS"), but also after their furniture is delivered ("Post Delivery NPS") and six months after the order was placed ("Established Customer NPS").

Established Customer NPS forms a component of remuneration for employees throughout the business, including sales people, management, head office teams and Executive Directors.

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

DFS goes to great lengths to ensure the quality and safety of all the products it sells. With 50 years of designing and manufacturing sofas in the UK, our unique knowledge of the manufacturing process enables us to understand and work with our key suppliers worldwide to ensure they can meet our quality standards.

Our own detailed quality checks and product testing are supported by the use of independent safety specialists, and all upholstered furniture items are offered with a minimum 15-year guarantee. Fire safety is also of paramount importance so all our products are tested by independent organisations such as the Furniture Industry Research Association ("FIRA") to ensure they meet our rigorous standards policy.

We are very proud that our upholstery products carry the British Standards Kitemark™ for domestic furniture making DFS the first furniture retailer to have been awarded this prestigious external quality standard across all our ranges.

Our Ethics & our Environment

The Group has continued its efforts to improve the environmental performance of its operations.

Our focus continues to be on the key areas of energy efficiency, waste reduction and reducing the impacts of our vehicle and transport operations. We have an Energy Management Policy in place to support the reduction of the Group's energy use where practical and consistent with the operational needs of the business.

Electricity use is a key component of the Group's CO_2 emissions. Significant reductions in electricity usage have been achieved and we continue to roll out low energy lighting schemes across our showrooms and our offices. Additionally, we use automated meters to monitor and investigate usage of both gas and electricity.

The growth in the Group has increased the number of customer deliveries being made. In addition to investing in telemetry systems for our distribution fleet, within DFS we also launched a #Drivewise Workplace initiative during the year which promotes techniques for safer and more fuel-efficient driving. All our drivers receive regular feedback via the telemetry system and use Workplace to share tips and knowledge.

The CO_2 performance of our company car fleet has been maintained at 100g/km (FY18: 100g/km) which is 18% below the UK national average for new registrations.

We encourage the use of electric or hybrid cars providing charging points at some sites across the UK. 15% of our company car fleet are electric or hybrid.

We are continually looking at ways we can improve our CO_2 performance and now provide DFS customers with the opportunity to select "eco" delivery slots. Our route planning software then optimises the routing of our vehicles to minimise emissions.

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) regulations 2013. Emissions reported correspond with our financial year. We have included emissions from both our owned and leased assets for which we are responsible. In order to express our annual emissions in relation to a quantifiable factor associated with our activities, we have used Tonnes CO_2 per employee as this is a relevant indication of growth.

Greenhouse gas data

	Tonnes CO_2e		Tonnes CO_2e per employee	
	2019	2018	**2019**	2018
Scope 1	**13,046**	14,229	**2.4**	2.9
Scope 2	**15,018**	15,608	**2.8**	3.2
Total	**28,064**	29,837	**5.2**	6.1

Sustainable Timber

DFS is committed to responsible sourcing, and our long-term aim is to ensure the timber and timber products in our furniture originate from well managed forests and recycled sources certified to credible certification standards, especially FSC® and PEFC certification. We are engaging actively with our suppliers to implement a robust verification programme for timber and timber products sourcing – to trace the timber and timber products used and bought to ensure legality and sustainability.

We comply with European Timber Regulation No 9952010, and whilst we are not an operator placing timber or timber products on the internal market for the first time, as a trader we require all our timber suppliers to certify that the timber used in our products or supplied to us, is compliant with the regulations. We keep records of all timber supplied to DFS and timber products from our suppliers for a minimum of five years.

We will not accept in our furniture:

01 Illegally harvested wood

02 Timber harvested in violation of traditional and human rights

03 Timber from forests in which high conservation values are threatened by management activities

04 Timber from forests being converted to plantations and non-forest use since 1994

05 Timber from forests in which genetically modified trees are planted

06 Unknown sources

During the year both DFS and Sofa Workshop were awarded "2 trees" by the World Wildlife Fund as part of their Timber Scorecard 2019, moving from 1 tree in the 2017 report and showing our improvement in timber and timber product sourcing. The report can be found at their website https://www.wwf.org.uk/timberscorecard.

Recycling

After delivering our product to our customer we remove and return to our Customer Distribution Centres, all the packaging. Our distribution centres are all equipped with balers to facilitate the recycling of both cardboard and polythene used in the packaging materials to enable us to ensure we recycle as much of our packaging as is possible. During the year, we have continued to improve the amount we recycle and whilst we continue to look at ways to improve our recycling, we have increased our focus on how to reduce our need for packaging materials, whilst still ensuring we can deliver our products to customers in pristine condition.

One problem our customers can face is how to dispose of their old sofa, whilst we work with the British Heart Foundation to ensure as many sofas as possible are reused, this isn't always appropriate. We are therefore currently trialling a new Sofa recycling scheme for our customers.

Business Ethics

Business ethics is an essential part of working for our Group; the culture and ethos of all our brands is based around doing the right thing for our People, our Customers and our Suppliers as well as the Communities we live and work in.

We have an anti-bribery and corruption policy and all employees dealing with third parties are expected to undergo training in this area. Our Anti-Bribery and Corruption policy makes clear our approach on the processes for the giving and accepting of gifts and hospitality from third parties. Our contracts with suppliers contain anti-bribery clauses. A copy of our policy is available on our corporate website.

We also have a clear Whistleblowing policy supported by an external, confidential reporting hotline which enables employees to report concerns in confidence.

Modern Slavery

We respect and uphold human rights and the Group does not tolerate modern slavery in any part of our operations or supply chain. We have developed a series of steps to mitigate the risks of slavery or human trafficking within our business, including: formal communication with new and established suppliers, regular visits to suppliers both in the UK and overseas to audit our suppliers' practices in accordance with our supplier Code of Conduct. Our suppliers must be able to demonstrate that they operate to recognised standards, uphold human rights and prevent modern slavery. Our statement made in accordance with the Modern Slavery Act 2015, which contains further information, is available on our website at http://www.dfscorporate.co.uk.

As our business grows and our supply chain develops, we will continue to assess the effectiveness of our programme through our Governance Committee.

Tax policy

We are committed to acting with integrity and transparency in all tax matters. We will not support proposals to artificially reduce our tax costs but we will seek to structure commercial transactions in a tax efficient and legitimate way.

Copies of our governance policies and our tax strategy are available at http://www.dfscorporate.co.uk

This Strategic Report was approved by the Board on 25 September 2019.

On behalf of the Board

Tim Stacey
Chief Executive Officer
25 September 2019

Mike Schmidt
Chief Financial Officer
25 September 2019

Board of Directors

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Ian Durant
Non-Executive Chair

Date of joining DFS: May 2017

Experience: Ian has held senior executive and non-executive positions in the retail, property, hotels and transport sectors in the UK and internationally, including 12 years based in Hong Kong.

During his executive career he had leadership roles as a Finance Director with Liberty International, SeaContainers and Thistle Hotels, Dairy Farm International, Hongkong Land and Hanson.

As a Non-Executive Director he has served on the boards of Westbury, Home Retail Group and Greene King. He was chairman of Capital and Counties Properties until 2018.

Qualifications: BA (Hons) in Development Studies, Economic and Social History from Kent University, Fellow of the Institute of Chartered Accountants in England and Wales and Fellow of the Association of Corporate Treasurers.

External appointments:

– Chair of Greggs plc

– Trustee and Chair of Finance and Investment Committee of Richmond Parish Lands Charity

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Tim Stacey[1]
Chief Executive Officer

Date of joining DFS: July 2011

Experience: Prior to his appointment as CEO, Tim joined DFS in July 2011 and, having held a number of leadership roles across the business, was appointed CEO in November 2018.

Tim has a wealth of leadership and retail experience, including 12 years at Alliance Boots in roles such as Multi-Channel Director for Boots. Com and Director for Online and Business Development.

Tim has a BA(Hons) in Accounting and Finance from Nottingham Trent University and is a member of the Institute of Chartered Accountants of England and Wales.

Qualifications: BA (Hons) in Accounting and Finance from Nottingham Trent University and member of the Institute of Chartered Accountants in England and Wales.

External appointments: None

–

Mike Schmidt[2]
Chief Financial Officer

Date of joining DFS: March 2014

Experience: Prior to his appointment as CFO, Mike served as DFS's Chief Development Officer with responsibility for property, strategic development and investor relations activities. He led the acquisition of Sofology in 2017 and more recently has also served as Chair of Sofa Workshop and Dwell.

Prior to joining DFS Mike previously spent 13 years working for a number of leading investment banks including UBS and Citi, where he gained experience advising a wide range of customer-facing companies.

Qualifications: Mike has a MA (Hons) in Economics and Management from Cambridge University.

External appointments: None

A N R

Luke Mayhew[3]
Senior Independent Non-Executive Director

Date of joining DFS: October 2014

Experience: Luke has over 30 years' experience in the retail and the branded sector. Luke previously served for 12 years on the board of John Lewis Partnership, including as Managing Director of the Department Store division. Luke also spent five years at British Airways plc and seven years at Thomas Cook Group plc in senior positions.

Luke is an experienced Non-Executive director, having previously served as a Non-Executive Director of WH Smith plc, Brambles Ltd, and Chair of Pets at Home Group Limited. He was also Chair of the British Retail Consortium.

Qualifications: BA (Hons) in Politics, Philosophy and Economics from Oxford University and a Masters in Economics from the University of London.

External appointments:

– Independent Non-Executive Director of InterContinental Hotels Group plc

– Trustee of BBC Children in Need

– Trustee of the National Youth Orchestra of Great Britain

– Governor of the Southbank Centre

A N R

Alison Hutchinson C.B.E.
Independent Non-Executive Director

Date of joining DFS: May 2018

Experience: Alison has a background in both IT and retail financial services and was previously Group CEO of Kensington Group plc.

She has also held senior management positions, including Marketing Director, at Barclaycard having started her career at IBM where she became Global Director of Online Financial Services.

Alison has worked with the retail industry over the last 10 years to establish the fastest growing fintech charity. Up to December 2017, she was an Independent Non-Executive Director of Aviva Life, GI & Health UK. In 2016, Alison received a CBE for her services to the Economy and Charity.

Qualifications: BSc (Hons) in Technology and Business Studies from Strathclyde University.

External appointments:

– Chief Executive of The Pennies Foundation charity

– Independent Non-Executive Director of Liverpool Victoria Friendly Society

– Independent Non-Executive Director of Yorkshire Building Society

A N R

Jo Boydell[4]
Independent Non-Executive Director

Date of joining DFS: December 2018

Experience: Jo Boydell is the Chief Financial Officer of Travelodge. Prior to that, Jo has previously held senior finance roles across a number of consumer-facing companies including Mothercare, Jessops, Ladbrokes plc, Hilton Group plc and EMI Group.

Qualifications: ACA ICAEW, BA Hons Oxon.

External appointments:

– Chief Financial Officer of Travelodge Hotels Limited

A N R

Steve Johnson[4]
Independent Non-Executive Director

Date of joining DFS: December 2018

Experience: Steve has over 25 years' experience in the retail sector, in both public and private equity businesses. He served as CEO of Focus Wickes DIY Group and Woolworths, as well as chairing several other businesses. Prior to this Steve spent 8 years at Asda have started his career with Bain & Co.

Qualifications: BA (Engineering), MEng – University of Cambridge.

External appointments:

– Big Yellow plc

– Senior Independent Director of Lenta Limited

Committee membership key

A Audit Committee Member
N Nomination Committee Member
R Remuneration Committee Member
Denotes Chair
– None

1. Appointed to the Board on 1 November 2018.
2. Appointed to the Board on 11 July 2019.
3. To step down from the Board at the AGM on 14 November 2019.
4. Appointed to the Board on 6 December 2018.

Corporate governance report

Ian Durant
Chair of the Board

2019 highlights

The main governance issues addressed by the Board, and its Committees, during the year included:

- assessing the operating and financial performance and strategy of the Group, in the context of the trading environment and market expectations.
- planning and managing the selection process for the new Chief Financial Officer, Mike Schmidt, to succeed Nicola Bancroft.
- the appointment of two new Non-Executive Directors Jo Boydell and Steve Johnson.
- the appointment of Alison Hutchinson as the Chair of the Remuneration Committee and Jo Boydell as Chair of the Audit Committee.
- reviewing the Annual Report to ensure it is fair, balanced and understandable and in line with best governance practice.
- overseeing the continued development of the internal control and compliance environment.
- updating the Terms of Reference for the Board and each of the Board Committees to ensure compliance with the Corporate Governance Code (July version 2018).
- enhancing our employee engagement arrangements, with the introduction of the Voice Forum engaging nominated employees from across the Group.

"Effective governance is essential to the creation of an environment in which innovation and performance can flourish and deliver success."

Dear Shareholder

The Board is collectively responsible for the governance and long-term success of the Group.

Effective governance is essential to the creation of an environment in which innovation and performance can flourish and deliver success. In this report, my aim is to provide insight into how the Board fulfils its stewardship responsibilities.

Against the background of a volatile economic and political environment and a retail market which continues to exhibit poor consumer sentiment, a considerable amount of change is taking place in our business. We have a new Senior Leadership Team, having appointed Tim Stacey, Chief Executive Officer and Mike Schmidt, Chief Financial Officer. We also have two new Non-Executive Directors and have appointed an experienced General Counsel and Company Secretary.

Having approved the Group's strategic aims, the Board has a key oversight role to play in monitoring performance and the management of risk. To perform this role well, the Board needs to reflect the right balance of skills, experience, independence and knowledge. In addition, individual Board members must be prepared to devote the time that is required to keep pace with developments in the business, understand how the business is performing against its strategic objectives and how risks are being managed and opportunities are being addressed.

To be effective the Board fosters a culture of openness, challenge and debate with senior management. Board meeting agendas include regular "deep dives" into key operational areas with members of the Senior Leadership Team regularly attending. This is supplemented by informal occasions for Board members to discuss the plans and broader strategic issues.

I have taken the opportunity to introduce two of our new Non-Executive Directors in meetings with some of our largest shareholders this year. We also regularly review comments following investor presentations undertaken by management. In its discussions the Board takes account of the feedback from our shareholders and other stakeholders.

During the year we have complied with all the principles and provisions of the UK Corporate Governance Code 2016 ("Governance Code") and have also sought to incorporate some of the changes introduced in the revised Corporate Governance Code (July version 2018) under which will report in our Annual Report for 2020. In this report, details of the Board's activities during the year follow, including how it has discharged its governance duties and applied the principles of good corporate governance.

Over the last few months the Board has reviewed and revised the roles and responsibilities of its Committees updating them to ensure compliance with the requirements of the Corporate Governance code (July 2018 version).

In particular the Remuneration Committee's role was enhanced to ensure appropriate oversight of wider workforce pay and policies and incentives, which enables the Committee to ensure that the approach to Executive remuneration takes into account the approach to broader workforce pay employee pay policy, senior leadership reward and employee engagement.

The role of the Audit committee was also expanded to ensure sufficient focus on the emerging risks facing the Company and the Nominations committee's remit was extended, with the Committee taking on responsibility for encouraging and reviewing the development of the wider talent pool across the Group.

The effectiveness of the Board and its Committees has been reviewed by our Company Secretary on behalf of the Board during the year and the results of the evaluation were positive across all the areas assessed. This is discussed on page 52 of the Corporate Governance Report.

I look forward to welcoming as many shareholders as possible to our Annual General Meeting, in Doncaster, on the 14 November 2019.

Governance framework

DFS Furniture plc Board

Members:
Independent Non-Executive Chair
4 Independent Non-Executive Directors
2 Executive Directors

Audit Committee

Members:
4 Independent
Non-Executive Directors

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, internal controls, risk management, compliance and audit.

See committee report page 54-59

Remuneration Committee

Members:
4 Independent
Non-Executive Directors

The Remuneration Committee recommends the Group's policy on executive remuneration and determines the levels of remuneration for Executive Directors, the Chair of the Board and senior management.

See committee report page 63-83

Nomination Committee

Members:
Independent
Non-Executive Chair
4 Independent
Non-Executive Directors

The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board and succession planning for senior management.

See committee report page 60-62

This section looks at the roles and responsibilities of our Board.

The role of the Board

The Board currently consists of four Independent Non-Executive Directors, an Independent Non-Executive Chair and two Executive Directors. Biographies of all members of the Board appear on pages 46 to 47.

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

The Chief Executive Officer and Chief Financial Officer are members of the Board and two levels of management sit below the Board: the Senior Leadership Team and the operating boards of each of the subsidiary companies. The Chief Executive Officer and Chief Financial Officer therefore act as a bridge between the Group Senior Leadership Team and the Board. The Board delegates to the Senior Leadership Team the day-to-day running of the business within defined parameters and Board meetings are scheduled to coincide with key events in the corporate and trading calendar.

The Board has adopted a formal schedule of matters reserved for its approval, this is reviewed annually and was revised during the year to align the matters reserved to the Board with the new Corporate Governance Code (July 2018 version) and the current needs of the business.

Whilst the Board does not manage the day to day operations of the Group, key decisions and matters which are reserved for approval of the Board are fully documented and regularly reviewed. These include the setting of, and changes to the Group budget and strategic four-year plan, major acquisitions and disposals, the determination of interim dividends and the recommendation of final dividends, approval of the financial results, trading statements, annual report and accounts and an annual review of the effectiveness of risk management and internal control systems.

All the Directors have the right to have their opposition to, or concerns over, any Board decision noted in the minutes. During the year, no such opposition or concerns were noted.

The Chair and the Non-Executive Directors met during the year without the Executive Directors present, additionally the Non-Executive Directors hold regular meetings just with the Chief Executive Officer.

Board committees

Subject to those matters reserved for its decision, the Board has delegated to its Audit, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees which are available on the Group's corporate website, www.dfscorporate.co.uk. Separate reports for each Committee are included in this Annual Report from pages 54 to 83.

Role of the Chair and Chief Executive Officer

The Board is chaired by Ian Durant. The Chair is responsible for leading the Board and ensuring its effectiveness in all aspects of its role.

Tim Stacey is the Chief Executive Officer, and is responsible for managing the profitable operation of the Group to create value over the long-term. The role is distinct and separate to that of the Chair and clear divisions of accountability and responsibility have been agreed and documented by the Board.

Role of the Chair

- leading the Board and ensuring its effectiveness in all aspects of its role;
- promoting high standards of ethics and corporate governance;
- ensuring the submission to the Board by the Chief Executive Officer of objectives, policies and strategies for the Group, including the Group business plan and annual budget;
- maintaining the Board's review of the Group's general progress and long-term development and ensuring that effective strategic planning for the Group is undertaken;
- facilitating effective contributions of Non-Executive Directors to the leadership of the Group;
- ensuring effective communication between the Board and the Company's shareholders; and
- acting on the results of the Board's annual review of its and its Committees' and individual Directors' performances.

Role of the Chief Executive Officer

- Leading the management and performance of the Group;
- Planning the Group's strategies effectively;
- Ensuring the effective implementation of the Board's decisions;
- Maintaining an effective framework of internal controls and risk management;
- Leading, motivating and monitoring performance of the Group's executive management, focusing on succession planning and making appropriate recommendations as to the team's remuneration to the Remuneration Committee; and
- Managing the Group's relations with shareholders, customers, suppliers, regulators, other public organisations, other companies and the media.

Role of the Senior Independent Director (SID)

The Senior Independent Director is an Independent Non-Executive Director who is responsible for:

- Meeting with the Company's shareholders and representative, if requested, and if necessary discussing matters where it would be inappropriate to have those discussions channels with the Chair, Chief Executive Officer or other Executive Directors; and
- Acting as a sounding board for the Chair.

Alison Hutchinson will be appointed as the new Senior Independent Director with effect from the 26 September 2019 taking over from the previous Senior Independent Director, Luke Mayhew who had served as the Company's Senior Independent Director throughout the year.

The Company Secretary

The Company Secretary is responsible for:

- Managing the provision of timely, accurate and considered information to the Board;
- Recommending corporate governance policies and practices to the Chairman and Chief Executive Officer;
- Advising the Board and its Committees on corporate governance and compliance within the Group; and appropriate procedures for the management of Board and Committee meetings.

The appointment and removal of the Company Secretary is a matter for the Board, all Directors have access to the advice and services of the Company Secretary, who is also secretary to the Committees. The Board has adopted guidelines by which Directors may take independent professional advice at the Company's expense in the performance of their duties. Paul Walker stepped down as Company Secretary on 30 September 2018 and was succeeded by Liz McDonald.

Board balance and independence

The Board has determined that the Non-Executive Directors are independent, and have a complimentary set of skills and experience.

Principal skills and experience	Retail	Customer services/ marketing	People	Operations	International	Regulatory	Finance
Ian Durant Chair	✓			✓	✓	✓	✓
Tim Stacey Chief Executive Officer	✓	✓	✓	✓			✓
Mike Schmidt Chief Financial Officer	✓				✓	✓	✓
Luke Mayhew Senior Independent Non-Executive Director	✓	✓	✓	✓	✓		
Jo Boydell Independent Non-Executive Director	✓			✓		✓	✓
Steve Johnson Independent Non-Executive Director	✓	✓	✓	✓	✓		
Alison Hutchinson Independent Non-Executive Director	✓	✓	✓		✓	✓	

Length of appointments

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

Information, meetings and attendance

During the year, the Board met on eight occasions. The principle areas of focus for the Board were performance, strategy, people, talent and culture, business performance, health and safety, financial regulation, investor relations and governance including the approval of the updated strategic four-year plan and budget for the next financial year. In addition, one scheduled telephone meeting was held to review the important Christmas trading period, and further ad-hoc telephone meetings were held to deal with specific matters which required attention between scheduled meetings.

The Board splits its meeting between its Group Support Centre in Doncaster and London this year, a Board meeting was also held at the Transport Centre and Design Studio in Darley Dale. Employees have the opportunity to meeting and interact with Board members at different events during the year. In December several members of the Board attended the DFS Conference in Manchester and in May we hosted out first Voice of the Workforce Forum at Darley Dale, providing our employees the opportunity to speak directly to several of the Non-Executive Directors.

The use of operating locations away from the Group Support Centre or central London is helping to promote colleague engagement and provide the Board with greater insight and invaluable direct feedback.

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

Meetings and attendance

	Date of appointment	Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings in financial year		9	3	5	3
Ian Durant	2 May 2017	9/9	–	–	3/3
Tim Stacey	1 Nov 2018	8/8	–	–	–
Ian Filby	3 Feb 2015	1/1	–	–	–
Nicola Bancroft[1]	1 Aug 2016	6/6	–	–	–
Luke Mayhew	3 Feb 2015	9/9	3/3	5/5	3/3
Julie Southern[2]	3 Feb 2015	6/6	2/2	2/2	1/1
Alison Hutchinson[3]	1 May 2018	8/9	3/3	5/5	3/3
Steve Johnson[4]	6 Dec 2018	6/6	2/2	3/3	2/2
Jo Boydell[4]	6 Dec 2018	6/6	2/2	3/3	2/2

Notes:
1. Nicola Bancroft stepped down from the Board on 29 March 2019 and therefore was only eligible to attend six Board meetings. Mike Schmidt attended the subsequent three board meetings as Interim Chief Financial Officer, but he was not a Director.
2. Julie Southern stepped down from the Board on 29 March 2019 and therefore was only eligible to attend six Board meetings, two Audit Committee meetings, two Remuneration Committee meetings and one Nomination Committee meeting in the year.
3. Alison Hutchinson was unable to attend 1 Board meeting due to a previous commitment. She received all the Board papers and fed back to the Board.
4. Steve Johnson and Jo Boydell were appointed to the Board and its Committees on 6 December 2018 and therefore were only eligible to attend six Board meetings, two Audit Committee meetings, three Remuneration Committee meetings and two Nomination Committee meetings in the year.

Corporate governance report continued

All Directors are invited to attend Audit Committee meetings, the Chair of the Board is invited to attend the Remuneration Committee, the Chief Executive Officer is invited to attend both the Remuneration and Nomination Committees (where appropriate) and the Chief Financial Officer is invited to attend the Remuneration Committee (where appropriate).

At each Board meeting, the Board receives and discusses reports from each of the Executive Directors. In addition, and as part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team, members of the Senior Leadership team are invited to attend Board meetings to present papers to the Board. This process also affords senior managers the opportunity to bring matters to the attention of the Board.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet eight times, with additional telephone meetings to review important trading periods, as appropriate.

At these meetings, the Board will monitor the Company's performance against the agreed strategy and business plan will review specific business areas, including health and safety financial and regulatory matters, in order to maintain and enhance a broad and thorough understanding of the strategy and business mode.

Board packs are distributed in the week prior to each meeting to provide sufficient time for Directors to review their papers in advance. If Directors are unable to attend a Board meeting for any reason, they nonetheless receive the relevant papers and are consulted prior to the meeting and their views are made known to the other Directors.

During the year, the Non-Executive Directors visited a number of the Group's retail, warehousing and manufacturing sites in the UK and Eire so that they are well-versed in the operations of the business and had a chance to meet with the front-line team members as well as centrally based executives. These visits, which are unchaperoned, provide the Non-Executive Directors with the knowledge necessary to facilitate strong debate and supportive challenge.

Compliance with the UK Corporate Governance Code 2016:

Introduction

The Board is wholly committed to upholding high standards of corporate governance and following a rigorous structure for the supervision, control and management of the Group.

The UK Corporate Governance Code ("Governance Code"), the latest version of which, that applies to this Annual Report, was published by the Financial Reporting Council in April 2016. A copy of the Governance Code can be found at www.frc.co.uk.

The Corporate Governance report that follows, which incorporates reports from the Audit and Nomination Committees on pages 54 to 62 together with the Strategic Report on pages 2 to 45, the Directors' Remuneration Report on pages 63 to 83 and the Directors' Report on pages 84 to 86, describes and explains how the Company has applied the relevant provisions and principles of the Governance Code, and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules throughout the year.

Compliance statement

This Corporate Governance Report, together with the Audit Committee Report on pages 54 to 59, the Nomination Committee Report on pages 60 to 62 and the Directors' Remuneration Report on pages 63 to 83 provide a description of how the main principles of the 2016 edition of the UK Corporate Governance Code ("the Code") have been applied by the Company in 2019. The Code is published by the Financial Reporting Council and is available on its website at www.frc.org.uk.

The Directors consider that during the financial year ended 30 June 2019 and to the date of this Report, the Company complied with the Code.

Conflicts of interest

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

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

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

Development

Following appointment, new Directors are subject to an in-depth tailored induction process. In the case of Non-Executive Directors, this includes meeting with key members of senior management, visiting operational locations, including showrooms, factories, support offices, Customer Distribution Centres and delivery and service functions, as well as professional advisors including brokers, lawyers and auditors.

In addition, each Director receives key information and policies that are relevant to their position. For new Executive Directors, and Non-Executive Directors for whom the appointment is their first to a UK-listed company, the induction includes details of the legal duties and obligations of being a Director of the Company.

Board evaluation

The Board carried out its third review of its own effectiveness, and that of its various Committees, during the year. The process involved each Director and the Company Secretary completing a formal questionnaire on the performance of the Board and each of the Board Committees and attending a one to one session with the Chairman. The questionnaire was designed to build on the finding of the independent Board evaluation carried out in 2018. The questionnaire considered the balance of skills, diversity, independence and knowledge of the Company on the Board, how the Board works together, and other factors relevant to its effectiveness. This review also included one to one discussion between the Senior Independent Director, Luke Mayhew, with each member of the Board and the Company Secretary on the performance of the Chairman and discussed the results with him.

The consensus was that the Board, and its Committees, had performed effectively and had addressed many of the areas previously identified as requiring further attention. The Board recognises that there have been several changes to the composition of the Board during the year and that the Board should continue to focus on those areas for development identified as part of the evaluation process.

The Corporate Governance Code, provides that evaluation of the Board of FTSE 350 companies should be externally facilitated at least every three years. To follow best practice it is intended that the next externally-facilitated review will take place during 2021.

Election of Directors

The Board can appoint any person to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next AGM and shall then be eligible for election by shareholders. In accordance with the Articles, Mike Schmidt, Jo Boydell and Steve Johnson will be offering themselves for election at the forthcoming AGM, along with all the other Directors for re-election, with the exception of Luke Mayhew who has announced his intention to step-down. The AGM is to be held at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA, on 14 November 2019, full details of which are set out in the notice of meeting accompanying this Annual Report.
As noted above, following the formal internal evaluation process of the effectiveness of the Board, the Board is satisfied that each Director remains competent to discharge his/her responsibilities as a member of the Board.

External appointments

The Executive Directors may accept outside appointments provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company.
Tim Stacey and Mike Schmidt do not currently hold any outside appointments.

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

All new Directors undergo a very detailed induction programme and as such spend considerably more than the minimum commitment during the course of a year. An assessment of the time commitment required under the terms of reference for the Board all Non-Executive Directors' are required to inform the Chairman before accepting another position in order to ensure the director has sufficient time to fulfil their duties.

Shareholder engagement

The Board actively seeks and encourages engagement with major institutional shareholders and other stakeholders. Senior executives, including the Chief Executive Officer and Chief Financial Officer regularly meet with analysts and institutional shareholders to keep them informed of significant developments and to develop an understanding of their views which are discussed with the Board.

In addition, all Directors receive reports and briefings during the year about the Company's investor relations programme and receive feedback obtained by the Company's brokers after meetings, in order to maintain an understanding of market perceptions. External analysts' reports on the Group are also circulated to the Directors.

In addition to the extensive engagement carried out by the Chief Executive Officer and Chief Financial Officer, the Chairman, and Chairs of the Remuneration and Audit Committees met or spoke to a number of shareholders during the year. The Chairman makes himself available to shareholders so that any major issues and concerns are communicated to the Board through the Chairman.
All major shareholders are given the opportunity to meet with the Senior Independent Non-Executive Director and he is available to meet with major shareholders when requested to do so, having met with several shareholders immediately prior to the start of the financial year. No requests were received during the year for the Senior Independent Non-Executive Director to meet with shareholders.

In particular, the Company communicates with both the institutional and private shareholders through the following means:

Interaction with all shareholders

- The Company's corporate website (www.dfscorporate.co.uk), where investor information and news is regularly updated.
- The Annual Report, which sets out details of the Company's strategy, business model and performance over the past financial year and plans for future growth.
- The Annual General Meeting, where all shareholders have the opportunity to vote on the resolutions proposed and to put questions to the Board and executive team.
- Presentations of full-year and interim results to analysts and shareholders, which are also available on the Company's corporate website.

Interaction with institutional shareholders

- The Chief Executive Officer and Chief Financial Officer hold meetings with institutional investors following the full-year and interim results.
- The Chairman meets with institutional shareholders where appropriate.

Interaction with private shareholders

- Dial-in facility to live presentations of the full-year and interim results.
- Dedicated email point of contact to answer shareholder questions and queries.

Investor relations activity, analysis of the share register, comments by analysts, views of major shareholders and advice from the Company's brokers are all ongoing items of review by the Board in order to maintain a clear understanding of market perceptions.

In particular, the potential effects of MiFID II on market awareness of our investment proposition are closely monitored by the Chief Financial Officer so that any adverse trends can be identified and reported to the Board in a timely manner. Although no material effect has been experienced to date, this issue remains under review to enable the approach to investor relations to be tailored as appropriate.

Relations with other stakeholders

The Group considers our customers, colleagues, suppliers, the environment and community as our principal stakeholders in addition to our shareholders. The Sustainability and Responsibility Report on pages 40 to 45 sets out more detail on how we manage our relationships with them.

The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise. The Chairman and Non-Executive Directors are also available to attend investor relations meetings or to request meetings with investors or analysts independently of the Executive Directors, if required.

DTR Disclosure

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee Reports, except for information required under DTR 7.2.6 which is contained in the Directors' report on pages 84 to 86.

Signed on behalf of the Board of Directors.

Elizabeth McDonald
Company Secretary
25 September 2019

Audit Committee report

Jo Boydell
Chair of the Audit Committee

The role of the Audit Committee

The primary responsibilities of the Committee remain the oversight of the Group's external financial reporting, internal controls and risk management, and the effectiveness of both the internal audit function and the external audit.

Key activities during FY19

- Jo Boydell appointed as new Committee Chair
- updated terms of reference approved by the Board
- restructure of risk and internal audit resource to create Group function
- regular review of implementation of new lease accounting standard IFRS 16

"The Audit Committee plays a key role in monitoring the integrity of the Group's financial reporting and assessing internal controls."

On behalf of the Board, I am pleased to present this year's Audit Committee report. This report is my first as Chair of the Committee, having joined the Board and the Committee in December 2018 and succeeded Julie Southern as Chair from April 2019. I thank Julie for her support during this transition of responsibilities. We were also pleased to welcome Steve Johnson as a new Committee member during the year.

In addition to its routine reviews of half-yearly external financial reporting, the Committee has received regular progress updates on the Group's implementation of IFRS 16 Leases, which is applicable to the Group from FY20. The expected impact on the Group's financial statements is detailed on page 106. The Committee has also reviewed the Group's adoption of IFRS 9 and IFRS 15 which both took effect in FY19.

Updated Committee terms of reference were approved by the Board in May 2019, which included certain changes to support compliance with the revised UK Corporate Governance Code. In particular, the Committee now has a responsibility to ensure the Group has procedures in place to identify emerging risks. The consideration of emerging risks has formed part of Committee's broader reviews and risk discussions during the year.

The restructure of risk and internal audit resource to create a truly Group-wide function is a positive development to improve consistency across the Group and support delivery of a risk-based internal audit agenda.

With regard to the external audit, the Committee has decided to conduct a tender process in the course of FY20, with a view to appointing for the FY21 audit. This is earlier than currently required by the relevant regulations in order to ensure a managed and ordered approach.

The effectiveness of the Committee was considered as part of the annual Board evaluation and I am pleased to report that no significant areas of concern were identified and the Committee was viewed as operating effectively.

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

Composition

The Audit Committee was chaired by Julie Southern until 1 April 2019 when she stepped down from the Board. Jo Boydell succeeded Julie as Chair of the Committee from that date. Other current Committee members are Luke Mayhew, Alison Hutchinson and Steve Johnson (appointed in December 2018).

The Governance Code recommends that all members of the Audit Committee are Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience. The Board considers that, by virtue of her current executive role, details of which are set out on page 47, Jo Boydell has recent and relevant financial experience and the Company complies with the requirements of the Governance Code in this respect. Furthermore, all Committee members have extensive relevant commercial and operational experience in large retail/customer-facing organisations which both benefit the Committee and collectively illustrate its competence relevant to the sector in which the Group operates.

Biographies of the Independent Non-Executive Directors are included on pages 46 and 47 and a summary of their principal skills and experience is shown on page 51.

The Chief Executive Officer, Chief Financial Officer and Chair of the Board attend meetings of the Audit Committee by invitation, as do KPMG LLP's Audit Partner and members of the Executive Board and senior management as appropriate. The Company Secretary also attends by invitation in order to maintain a record of the meetings.

Roles and responsibilities

The Audit Committee assists the Board in discharging its responsibilities with regard to the oversight of:

Financial reporting:

- Monitoring the integrity of the financial statements of the Group, including its annual and half yearly reports, and considering the clarity and completeness of disclosures therein;
- Reviewing and challenging any changes to accounting policies, accounting for significant or unusual transactions and the application of appropriate judgements and estimates;
- Advising the Board on whether the Group's financial statements are fair, balanced and understandable; and
- Assessing the assumptions and sensitivities underlying the Group's Viability Statement.

Internal controls and risk management:

- Reviewing the Group's processes and procedures for ensuring that material business risks, both existing and emerging, are properly identified and managed;
- Reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems; and
- Reviewing the Group's arrangements with regard to employee/contractor whistleblowing, fraud detection, prevention of bribery and money-laundering.

Internal and external audit:

- Monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- Overseeing the Group's relationship with its external auditor, including their appointment, remuneration, independence and the effectiveness of the audit process; and
- Developing and implementing a policy on the supply of non-audit services by the external auditor.

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

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

Activities of the Audit Committee

The Audit Committee of the Group met three times during the year and attendance at those meetings is shown on page 51. At each meeting, standing agenda items relating to internal audit, reputational risk, whistleblowing and litigation issues were reviewed.

In addition, the other matters covered at each meeting are summarised below:

2018

September 2018

- FY18 full year results, including reviews of going concern and viability reporting
- External audit findings for FY18, including KPMG LLP's performance and subsequent re-appointment
- FY18 preliminary statement and Annual report
- Update on estimated additional consideration payable on the Sofology acquisition
- Group risk report
- Group internal audit report

2019

March 2019

- Interim results for FY19, including the application of new accounting standards (IFRS 9 and IFRS 15)
- External audit interim review findings
- FY19 interim results announcement and presentation
- Progress update on implementation of IFRS 16
- Group risk report
- Group internal audit report

June 2019

- Group internal audit and interim risk update
- External audit plan and strategy for FY19
- Progress update on implementation of IFRS 16
- Adoption of updated committee terms of reference
- Review of non-audit services policy
- Tender of external audit

Audit Committee report continued

Following the FY19 year end, at the September 2019 meeting, the Committee reviewed and approved, for consideration by the Board, the financial results for the 48 weeks ended 30 June 2019 including a review of the full year external audit. As part of that review process, the members of the Committee reviewed the Annual Report, including the adequacy of the disclosure with respect to going concern and viability reporting in order to conclude whether the Annual Report taken as a whole was fair, balanced and understandable.

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

Significant issues considered in relation to the financial statements

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

Impairment of intangible assets — Note 9

As a result of business acquisitions, the Group has recognised significant balances for goodwill and brand names. Goodwill must be tested annually for impairment; other intangible assets are tested when there are indicators that they may be impaired.

The assessment of potential impairment requires a number of judgements and estimates to be applied in determining the relevant future cash flows and the discount rate to be applied.

The Committee reviewed the approach taken by management to impairment testing, and assessed the reasonableness of the underlying assumptions and financial forecasts used.

The Committee also reviewed KPMG's report and discussed their observations and findings in this area.

Provisions — Note 19

In accordance with IFRS, the Group maintains a number of provisions, primarily relating to: the cost of satisfying guarantees offered to customers; dilapidations and other property-related liabilities; and the valuation of finished goods inventory. The determination of these provisions is inherently uncertain as they rely on using historical data to estimate future liabilities.

The Committee considered management's documented rationale and basis for these provisions to challenge and assess their reasonableness and adequacy.

The Committee also reviewed KPMG's audit report and discussed their observations and findings in this area.

Viability reporting — Page 33

In addition to the statement on going concern, the Group is required to make an assessment on its longer term viability. This requires the application of a number of judgements and estimates, particularly given the current uncertainty in the UK consumer market surrounding the UK's departure from the European Union.

The Committee, along with the Group's external auditor, has reviewed management's assessment of the prospects of the Group for the three years from 30 June 2019, being a reasonable period for the assessment of key risks for a retail business given continuing political and economic uncertainties. This review included the challenging of assumptions and stress-testing of the scenario modelling and concluded that the Board is able to make the viability statement on page 33 of the Strategic Report.

Regulatory oversight
During the second half of FY19, the Company received an enquiry letter from the Conduct Committee of the Financial Reporting Council ("FRC") as part of its ongoing monitoring of UK corporate reporting. The letter requested certain information in respect of the Group's FY18 Annual report, principally regarding impairment testing, alternative performance measures and the presentation of cost of sales. The Group responded in detail to these enquiries and proposed a number of enhancements to its Annual report that would address the questions and comments raised. These enhancements, including the provision of a detailed glossary of alternative performance measures, have been incorporated into the FY19 Annual report. The FRC subsequently confirmed that it had closed its enquiries.

Assessment of effectiveness of the external audit process
The Audit Committee oversees the relationship with the external auditor and considers the re-appointment of the Company's auditor, KPMG LLP, before making a recommendation to the Board to be put to shareholders. As part of this responsibility, the Committee approved the audit plan for the 48 weeks ended 30 June 2019 and reviewed the auditor's findings and management representation letters. Prior to recommending the appointment of KPMG LLP at the forthcoming AGM to the Board, the Audit Committee reviewed the audit process, the performance of the auditor and its ongoing independence, taking into consideration input from management, responses to questions from the Committee and the audit findings reported to the Committee. Based on this review, the Committee concluded that the external audit process had been run efficiently and that KPMG LLP has been effective in its role as external auditor.

Approach to appointing the external auditor and how objectivity and independence are safeguarded relative to non-audit services
Following the implementation of the EU Audit reforms, the Audit Committee has agreed a policy intended to maintain the independence and integrity of the Company's auditor when acting as auditor of the Group's accounts. The policy governs the provision of non-audit services provided by the auditor and, in summary, categorises the types of non-audit services as:

- **Prohibited** – services that have the potential to impair or appear to impair the independence of their audit role
- **Permissible (subject to approval limits)** – services which primarily relate to work that is outside the required scope of the statutory audit, but is consistent with the role of the external statutory auditor
- **Services to be considered on case-by-case basis** – all other services of an advisory or other nature that do not compromise the independence of the external auditor.

In any event, within each of the Group's legal entities, the cumulative total of non-audit fees paid to the external auditors within each financial year must not exceed 70% of that financial year's audit fee. The above policy has been adhered to throughout the financial year ended 30 June 2019, during which no non-audit services were provided by the Group's external auditor, other than an interim review which is closely related to the audit.

Independence safeguards
The external auditor is required periodically to assess whether, in its professional opinion, it is independent and those views are shared with the Audit Committee. The Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditor independence. No such advice has been required to date. There are no contractual obligations in place that restrict the choice of statutory auditor.

As noted in last year's Annual report, the current audit firm was appointed while the Group was under private ownership and has served the DFS business for over 20 years. Corporate governance practice for public companies requires that external audits are put out to tender at least every ten years. The Company became a publicly listed entity in 2015, meaning that KPMG LLP may remain as external auditor without re-tender for ten years from that date, until the completion of the 2025 annual audit.

However, should the Company enter the FTSE 350 index, additional regulations would apply which would instead make the starting point for the ten years the date of KPMG LLP's first appointment. Entry into the FTSE 350 would therefore effectively trigger a need to retender by 2021 or earlier.

The Committee considers the need to tender the audit on an annual basis. The growth and development of the Group in recent years has increased the possibility that the Company could enter the FTSE 350 and therefore be required to re-tender earlier than 2025. To ensure a managed and ordered approach, the Committee has elected to conduct a tender process during FY20, with the aim of appointing a firm for the FY21 financial year at the November 2020 Annual General Meeting.

Independence assessment by the Audit Committee
The Committee is satisfied that the independence of the external auditor is not impaired and notes that the audit firm's engagement partner rotation policy has been complied with. Furthermore, the level of fees paid for non-audit services, details of which are set out in note 3 to the financial statements, does not jeopardise its independence.

The Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of KPMG LLP as auditor until the AGM in 2020. As noted above, a tender process will be conducted during FY20.

Internal audit
A formal Group restructure of our Internal Audit and Risk function was completed during FY19, enabling the separate Sofology and DFS Group teams that existed within the Group to merge into one. A new Group Head of Audit and Risk has been appointed to lead the Group strategy, reporting into the Financial Services, Risk and Audit Director. The new department structure has very clear lines of reporting and responsibility, and will ensure a consistent Group approach going forward to both Audit work, and Risk management.

The audit plan for FY19 had a wide scope and focus, and progress to plan was closely tracked and reported at the Audit Committee meetings during the year. As guided by the biannual review of the risk register/profile and specific business requirements, emphasis continues to be placed on:

- Key identified risk areas including business continuity, ethical production and cyber security;
- Regulatory areas such as data protection and the Group's FCA regulatory responsibilities for credit broking, including complaints handling; the store environment, particularly in relation to conduct risk and stock management;
- Customer Distribution Centres (CDCs), particularly in relation to stock management; and
- Production and supply chain, to ensure consistent implementation of operational/compliance procedures, including health and safety.

We have continued our focus on the completion of actions identified in audit reports to ensure any weaknesses are addressed and standards are continually developed. In each case, clear ownership, coupled with realistic deadlines, is complemented by an internal audit-owned verification process which must be completed before the action is closed. To ensure our audit resource is used to best effect we continue to adopt a risk-based audit approach particularly in respect of our store network which takes account of previous results, volume/size, time since last audit and monitoring of key risk indicators. Internal audit reports continue to be issued to key management highlighting significant issues and making relevant recommendations. Separate monthly meetings have been held throughout the year with Retail and Supply Chain management to ensure issues are proactively identified along with any trends/themes being addressed across the estate. Summarised reporting of internal audit results is provided to the Governance Risk and Compliance committee on a monthly basis, and to the Audit Committee three times per year.

The effectiveness of the internal audit team, and its level of resource, is reviewed by the Committee at least annually. This assessment includes the ongoing review of the:
- Audit agenda and operational plans (including resource requirements);
- Results of the audit fieldwork and any significant issues highlighted; and
- Management of any corrective actions implemented.

Internal control and risk management

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

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has operating policies and controls in place covering a range of issues including financial reporting, capital expenditure, business continuity and information technology, including cyber security, and appropriate employee policies. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements.

In particular, a Governance, Risk and Compliance committee comprising senior management meets monthly to review changes in the regulatory/legal landscape, the Group's key risks and concerns and also ensures the sub-committee framework is working effectively.

There are a number of governance sub-committees that focus separately on: Conduct Risk; Environmental, Social and Governance; Health and Safety; and Legal and Financial. These comprise senior and middle management responsible for the 'day to day' management of the controls to ensure the Group remains both compliant and proactively reviews its processes, risks and forthcoming changes to ensure it plans in a timely, structured and sustainable way.

The Governance, Risk and Compliance committee places emphasis on key metrics and management information designed to provide oversight of performance and highlight any potential detriment or risk to the Group while seeking to achieve the very best customer outcomes and provide a safe environment for staff, customers and data alike. During the year, this management information has continued to be developed and refined in direct association with the ongoing review of the risk register.

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

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

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

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

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal controls and risk management is in place which enables the Company to identify, evaluate and manage key risks and which accords with the guidance published by the FRC. These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 28 to 33.

Whistleblowing

The Group is committed to the highest standards of openness, honesty, integrity and accountability and, as a result, has a whistleblowing policy in place. This policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. Examples include fraud, breakdown in internal controls, misleading customers, bribery, modern slavery, dishonesty, corruption and breaches of data protection or health and safety. This facility was reviewed in the previous year to confirm that appropriate arrangements are in place for proportionate and independent investigation of such matters. An internal audit of the Group's whistleblowing process is planned for FY20.

During the year, there were eleven reports received through the whistleblowing process, all of which were fully investigated and addressed in accordance with the policy.

Control environment

The Board is committed to business integrity, high ethical and moral values and professionalism in all its activities. The Group has policies in place for:

- Anti-bribery;
- Modern slavery;
- Equal opportunities;
- Gifts and entertainment; and
- Share dealing.

In accordance with the obligations under the Reporting on Payment Practices and Performance Regulations 2017, the Company has submitted its bi-annual reports in line with the legislation during the year.

Following an externally-facilitated risk-assessment exercise, the Company has also reviewed its practices and processes in order to ensure that reasonable prevention procedures are in place to prevent the facilitation of tax evasion in line with the new Criminal Finances Act 2017.

The Company's Modern Slavery Statement, which sets out details of the policies in relation to slavery and human trafficking, as well as its due diligence processes with its partners, has been published on the Company's website (www.dfscorporate.co.uk).

The Company has also updated its Tax Strategy Statement, which is published on the Company's website (www.dfscorporate.co.uk) in compliance with its duty under the Finance Act 2016, which sets out details of the Company's attitude to tax planning and tax risk.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on pages 87 and 95. As set out in the Directors' report, the Directors consider the Company's business to be a going concern. The Company's viability statement can be found on page 33.

Jo Boydell
Chair of the Audit Committee
25 September 2019

Nomination Committee report

Ian Durant
Chair of the Nomination Committee

The role of the Nomination Committee

- The Committee makes recommendations to the Board, within the agreed terms of reference, on the appointment of Executive and Non-Executive Directors ensuring the appropriate blend of skills, knowledge and experience.
- Our terms of reference were reviewed by the Committee in light of the recent changes to the UK Corporate Governance Code and subsequently amended and approved by the Board, on 23 May 2019.

Key activities during FY19

- planning the succession of the Chief Financial Officer.
- conducted a review of the composition of the Board, based on the skills, knowledge, experience and diversity of the Board and the requirements of our stakeholders.
- conducted the search for, consideration of, and recommendation to the Board of appointment two Non-Executive Directors and Chief Financial Officer
- reviewing the pipeline of talent within the Senior Leadership team.

“This year, the Nomination Committee has focused on succession planning and leadership development.”

The Nomination Committee’s core purpose is to ensure that the Group has the appropriate blend of skills, knowledge and experience. It has been active in board succession planning and on supporting the CEO in leadership development this year.

Following the decision by Nicola Bancroft to retire as Chief Financial Officer after 3 years of service, the Committee undertook a process to seek a successor. Independent external advice was taken and, after a comprehensive process had been concluded, the Committee recommended to the Board the appointment of the internal candidate Mike Schmidt. Mike has been with the Company since 2014 and worked closely with Nicola in senior finance roles and as Chief Development Officer. On behalf of the Board, I would like to express our gratitude to Nicola for her leadership over the years and, at the same time, welcome Mike to the Board, as her successor.

After Julie Southern indicated her intention to step down from the Board as an Independent Non-Executive Director and Chair of the Audit Committee a review of the skills, independence and experience of the Non-Executive Directors’ was undertaken and a board succession plan developed. Following this two new Non-Executive Directors, Steve Johnson, and Jo Boydell, were appointed in December 2018. Steve brings a wealth of relevant retail and sector experience in listed company and private equity owned businesses. Jo is an experienced finance director and has been appointed to chair the Audit Committee. I would like to thank Julie for her contribution both to the Board and the Senior Leadership team and as Chair of the Audit Committee. Steve and Jo have settled in well and we welcome their contributions. Further planning is underway to ensure the Board continues to have the right balance of skills, knowledge and experience in the context of the changing market and the strategy needs of the business as we seek to recruit a replacement for Luke Mayhew who will be stepping down at the Annual General Meeting.

This year the Group has strengthened its Senior Leadership Team with the appointment of Sally Hopson as CEO of Sofology and Peter Jenkins as the Managing Director of Dwell, both Sally and Peter bring significant experience to the team and a broader perspective and will help support the CEO in achieving the Group’s strategic goals.

In addition, during the year the roles and responsibilities of the Committee were amended to ensure compliance with the requirements of the Corporate Governance code (July 2018 version) effective for the Group for its 2020 reporting year, with the Committee.

Finally, as part of the annual Board evaluation this year, the performance of the Nomination Committee was reviewed and I am pleased to report that the evaluation showed that the Committee was operating effectively.

Ian Durant
Chair of the Nomination Committee
25 September 2019

Composition

The Nomination Committee is chaired by Ian Durant, and comprises of all of the Non-Executive Directors. Luke Mayhew and Alison Hutchinson were members throughout the year, Steve Johnson and Jo Boydell were appointed to the Committee in December 2018 when they joined the Board and Julie Southern stepped down from the Committee when she retired from the Board, in March 2019.

The Governance Code recommends that a majority of the Nomination Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Board considers that the Company complies with the Governance Code.

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

The Nomination Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least once a year.

Roles and responsibilities

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and its Committees (including an appraisal of skills, knowledge, experience and diversity, including gender) and for making recommendations to the Board with regard to any changes. It is also responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

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

Activities of the Nomination Committee

The Nomination Committee met formally three times during the year, with a number of ad hoc meetings or discussions being held to provide updates on the various recruitment processes.

The Committee focused its activities on the appointment of the Chief Financial Officer and new Independent Non-Executive Directors. The main activities of the Committee included:

- The management of the selection process, engaging the services of YSC Consulting which is not connected with the Company or individual Director), for the appointment of Mike Schmidt as Chief Financial Officer from 11 July 2019.
- Conducting the search and selection process, engaging the services of Spencer Stuart for the appointment of Jo Boydell, as an Independent Non-Executive Directors from 6 December 2018 and Chair of the Audit Committee (Chair from 1 April 2019).
- Conducting the search and selection process, engaging the services of Spencer Stuart for the appointment of Steve Johnson, as an Independent Non-Executive Director from 6 December 2018.
- The ongoing review of the talent and succession planning for the Board and Senior Leadership team including assessment of their training and development needs;
- The internal review of the Committee's effectiveness;
- A review of Directors' time commitments and independence; and
- The consideration of the re-election of Directors at the Annual General Meeting.

Nomination Committee report continued

Recruitment process for Chief Financial Officer's succession

As part of the Chief Financial Officer's succession planning process, the Nomination Committee had previously identified a potential internal candidate for the role. Following, the decisions of Nicola Bancroft to step down, the internal candidate underwent a leadership assessment and interview by YSC Consulting.

Stage 1

During this time, job description and person specification was prepared, considering the likely strategic direction of the Group, the view of the Chief Executive Officer was sought as to the skills, experience and knowledge required for the role. A review of the population of external candidates was carried out and formally reported back to the Nominations Committee on both internal and potential external candidates.

Stage 2

A presentation was made by the short-listed candidate to the Nomination Committee, after which the Nomination Committee made a recommendation to the Board which was endorsed.

Stage 3

Throughout this process, the Nomination Committee proactively considered transition management issues in order to ensure the handover to the new Chief Financial Officer was as smooth as possible, a Board Mentor from Criticaleye was provided to the Chief Financial Officer to support him in his new role, given the challenging market conditions prevailing in the upholstery furniture sector and the choice of an internal candidate.

Recruitment process for Non-Executive Directors

With regards to the replacement of Julie Southern as a Non-Executive Director, the Nomination Committee was advised by Spencer Stuart and a brief was developed based on an assessment of the strategy for the business, including the likely challenges in the years ahead, as well as defining the best cultural fit for success.

Several potential candidates were considered from which a short-list was prepared and subsequently met by members of the Nomination Committee.

Given her extensive work with the retail industry and her experience as the Chief Financial Officer for a major UK company, the appointment of Jo Boydell as an Independent Non-Executive Director and Chair of the Audit Committee, was recommended to the Board which was endorsed.

During the review of the Board's composition and the search for a Non-Executive Director to replace Julie Southern the Committee considered the composition of the Board and concluded it would be beneficial to appoint an additional experienced Non-Executive Director.

After an introduction by Spencer Stuart all Executive search and selection discussions with the Committee and Executive Directors it was decided that given his experience in retail and marketing the appointment of Steve Johnson was recommended to the Board as an Independent Non-Executive Director, which was endorsed.

All new Directors are subject to an in-depth and tailored induction process. The new Directors met with all the members of the Senior Leadership Team, visited stores across the Group, the factories, design studio and held induction meetings with key members of the wider management team, as well as the Company's financial advisors, legal advisors and brokers.

Diversity

The Senior Leadership Team believe that increasing the diversity of its staff and operational teams is an important component to deliver the strategy. This is most evident in its support for gender diversity, having committed to a programme to encourage a higher proportion of female appointments across the business, subject always to there being a sufficiently experienced candidate for a specific role.

Whilst the Board has not committed to any specific diversity targets, we are pleased that our Board continues to have a good balance and that our female directors play key roles within the Board. Alison Hutchinson has recently been appointed as the Company's Senior Independent Non-Executive Director and Chair of the Remuneration Committee and Jo Boydell was appointed the Chair of the Audit Committee during the year.

We will continue to give due consideration to talent, balance and diversity when making new appointments to the Board

Ian Durant
Chair of the Nomination Committee
25 September 2019

Directors' remuneration report

Alison Hutchinson
Chair of the Remuneration Committee

> **This year the Committee has focused on implementing our new Policy.**
>
> **Our aim is to ensure that our remuneration arrangements support the delivery of the Group's challenging long-term strategy and enables the attraction, retention and motivation of senior executives in a way which is aligned with our purpose and culture.**

The role of the Remuneration Committee

- The Committee makes recommendations to the Board, within agreed terms of reference, on remuneration for the Executive Directors and Chairman of the Board and has oversight of remuneration arrangements for the Senior Leadership Team.
- Our terms of reference were reviewed by the Committee in light of the recent changes to the UK Corporate Governance Code and were subsequently amended and approved by the Board on 23 May 2019.
- None of the Committee members has any personal finance interest (other than some as minority shareholders) in the decisions made by the Committee, conflicts of interest arising from cross-directorships or day-to-day involvement in running the business.

Key activities during FY19

- Obtained approval for a new Directors' Remuneration Policy following engagement and feedback from majority of our major shareholders.
- Reviewed and determined for the Executive Directors and Executive Committee:
  - Salary levels for FY20
  - Outcomes vs. performance targets for outstanding annual bonus and LTIP awards
  - Performance targets and participation levels for the annual bonus and LTIP awards
- Consideration of remuneration arrangements for the outgoing CFO, Nicola Bancroft and incoming CFO, Mike Schmidt.
- Considered developments in executive pay and Corporate governance, particularly the new 2018 Corporate Governance Code.

Contents of this report

Part A: Annual Statement by the Remuneration Committee Chair

Dear Shareholder,

On behalf of the Board, I am pleased to present my first Remuneration Committee report for the financial year ended 30 June 2019. In November 2018 I took over from Luke Mayhew as Chair of the Committee. I would like to thank Luke for his guidance and support as I transitioned into the role and also for overseeing the approval of our 2018 Remuneration Policy ("Policy").

There have been some changes to the Committee this year. Julie Southern stepped down from the Board in March 2019. I would like to express my thanks to Julie. We welcomed Jo Boydell and Steve Johnson in December 2018. Both Jo and Steve bring a wealth of experience, knowledge and insight to the Committee.

The Committee's agenda for the year was another full one as we concluded on the review of the Policy, assessed year end outcomes and approved new awards and targets under the bonus and LTIP. In addition, we also considered remuneration arrangements for our outgoing CFO, Nicola Bancroft and incoming CFO, Mike Schmidt. We also began work in response to the new UK Corporate Governance Code ("Code") and secondary legislation coming into force for 2019. I have set out further detail on these matters in this letter.

This year we have taken the opportunity to refresh our report; we have included some more detail on DFS' remuneration philosophy, a new "at a glance" summary and provided some additional context on DFS' remuneration arrangements. We have also provided more detail on DFS' employee value proposition and wider workforce considerations.

Overview

This year has seen solid growth driven by our strategy to be "Leading Sofa Retailing in the Digital Age". As highlighted in the strategic section of our Annual Report, the Group has made good progress against its three strategic pillars of:

- Drive DFS Core
- Build the Platforms
- Unlock New Growth

Examples of the progress from the strategy include growth in underlying Group gross sales of 7.4% and also the strong online growth of 16.6% in extremely challenging circumstances for UK retail companies.

The progress in the year, despite an uncertain environment, is reflected in our shareholder returns, with TSR growth above our peers, particularly those in the retail sector. I am therefore pleased to report that this performance has led to the first partial vesting of share awards granted under our LTIP introduced on IPO.

Notwithstanding this good strategic progress which has been captured in the Executive Directors' personal objectives, and the solid financial performance, the annual bonus payments being awarded are the lowest since our IPO, and reflect the stretching financial targets which were set. As a Committee, we believe that overall the remuneration outcomes appropriately reflect Group performance in the challenging economic environment, whilst also rewarding Executive Directors for their strong leadership and progress made following the development and implementation of our new business strategy.

Policy review

We received strong shareholder support and our Policy was approved at the 2018 AGM. The Policy received over 97% support and it became effective from the date of the 2018 AGM for an intended three year period (detailed shareholding voting can be found on page 67). We consulted on the Policy with many of our major shareholders and their representative bodies and I would like to thank all those who engaged with us during the consultation process. We greatly value the feedback of our shareholders and will continue to ensure an open dialogue is maintained. The full Policy can be found on the DFS plc website (www.dfscorporate.co.uk) and a summary is included on pages 70 to 72.

Earlier this year, we communicated details of our new long-term growth strategy to our shareholders and this underpins our Policy. It is an ambitious and challenging strategy and further details are set out on pages 20 to 27. The Board believes that the Senior Leadership Team are making solid progress in a number of areas and key achievements for the year are detailed on pages 2 to 3.

Remuneration outcomes for FY19

As set out on page 36, this year the Group also changed its financial year end to 30 June. As a result the remuneration outcomes set out in this report are based on an 11-month period ending 30 June 2019.

Outcomes under the annual bonus scheme and LTIP reflecting performance against our strategy are set out below:

Annual bonus outcomes

- Our annual bonus considers key annual financial measures (revenue, underlying profit before tax, cash flow and Net Promoter Score) and personal performance targets. Last year we increased the proportion of the financial component of the annual bonus into PBT and reduced the proportion in relation to revenue.
- We set stretching financial targets taking into account our business plan and market consensus expectations at the time. The targets and outcomes against them also reflected that FY19 would be an 11-month year.
- The Committee undertook a robust assessment of the Group's performance during the year, taking into account both financial and non-financial measures and believes that the formulaic outcomes under the bonus are justified. No discretion has been exercised by the Committee in respect of the FY19 annual bonus.
- The bonus outcomes against targets for each of the Executive Directors was follows:

Name	Max opportunity for FY19 (% of salary)[1]	Outcome (% of maximum opportunity)[2]	Bonus paid in cash (£000)
Tim Stacey	67%	26.2%	£69,760
Nicola Bancroft	67%	30.0%	£59,956
Ian Filby	25%	32.2%	£36,153

Notes
1. For the shorter financial year the bonus opportunity has been pro-rated for 11/12 months to 92%. Bonus opportunities have also been further pro-rated to reflect the period the individual was an Executive Director.
2. Tim Stacey became the CEO and Executive Director on 1 November 2018. Nicola Bancroft stepped down from the CFO role and the Board in March 2019. Ian Filby was the CEO until 31 October 2018 and then stepped down from the Board.

Long-Term Incentive Plan (LTIP) outcomes

- I am pleased to report that it is currently anticipated that 28.6% of the 2016 LTIP award will vest on 15 November 2019. This represents the first vesting of an LTIP award since the Company listed on the stock market in 2015.
- The relative TSR condition resulted in 57.2% of this proportion of the award vesting. No element will vest in respect of the EPS growth proportion of the award. Further details are set out on page 68.
- The Committee is comfortable that this level of vesting is consistent with the underlying performance of the business and has not exercised any discretion to depart from the formulaic outcomes.

Remuneration for FY20

In FY20 we will continue to operate our remuneration arrangements in line with the Policy approved at the 2018 AGM by our shareholders.

Remuneration arrangements for the CEO, Tim Stacey

As stated in the 2018 Directors' Remuneration Report, we set Tim's salary at a lower level compared to his predecessor but with the intention to increase Tim's salary to £440,000 p.a. on a stepped basis over a two-year period subject to corporate performance being deemed satisfactory by the Board. We also stated last year that our intention is to increase the maximum annual bonus opportunity from 100% to 120% of salary in steps over 2 years but only if corporate performance has been satisfactory in the Board's view.

The Board are satisfied that under Tim's leadership the Group has delivered solid trading performance and made good progress towards executing our long-term growth strategy. This has happened against a backdrop of political and economic volatility which continues to present significant challenges for the retail sector.

The Committee believes that it is, therefore, appropriate to increase Tim's salary to £420,000. This is a 5% increase and will take effect in April 2020 in line with the timing of the salary review for the workforce. It should be noted that pension contributions to Tim are fixed and increases to salary over time will be non-pensionable. The Committee will also increase his annual bonus opportunity to 110% of salary effective FY20. As set out in last year's Directors' Remuneration Report, as Tim's annual bonus is now greater than 100%, mandatory bonus deferral into shares for three years will be introduced where the payment is greater than 75%.

Base salary	£420,000 p.a.
Pension	£50,000 p.a. (fixed amount)
Annual bonus	110% of salary
LTIP	150% of salary
Shareholding requirement	250% of salary

Remuneration arrangements for the incoming CFO, Mike Schmidt

On 11 July 2019, the Board appointed Mike Schmidt as CFO. Mike has been with DFS since 2014. In considering Mike's remuneration package, we have sought to act fairly and pay no more than is necessary whilst also recognising the value, experience and insight that Mike brings to the role. Mike's package is fully aligned with our Policy.

When determining Mike's remuneration package, the following decisions were made:

- The base salary level is the same as Mike's predecessor, Nicola Bancroft. In line with the rest of our workforce, Mike's salary will be reviewed in April 2020. Any increases awarded will be in line with those awarded to the wider workforce.
- Mike's annual bonus opportunity will be 100% of salary, in line with the opportunity awarded to the outgoing CFO; and
- We have frozen Mike's pension contribution level to the level he received in his previous role (£29,250 p.a. which equals 9.8% of salary). This level is lower than the pension provided to his predecessor (Nicola Bancroft received a fixed pension contribution of £40,000). Future increases to salary will be non-pensionable and over time Mike's pension contribution as a percentage of his salary will reduce.

Base salary	£300,000 p.a.
Pension	£29,250 p.a. (fixed amount)
Annual bonus	100% of salary
LTIP	120% of salary
Shareholding requirement	250%

In relation to the performance measures for annual bonus and LTIP awards for FY20, our approach is described on pages 71 and 72.

Directors' remuneration report continued

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

The new 2018 UK Corporate Governance Code will not be effective for DFS until FY20. However, the Committee discussed and considered the 2018 Code and its implications for DFS. We are pleased that the remuneration framework and disclosure in place for our Executive Directors is already largely compliant and we have taken a pro-active approach towards compliance as set out below.

Key Remuneration Element of the 2018 Code	How is this considered within DFS' remuneration framework?
Five-year period between the date of grant and realisation for equity incentives	• The LTIP has a five-year period including the performance and holding period.
Phased release of equity awards	• The LTIP ensures the phased release of equity awards through annual rolling grants.
Discretion to override formulaic outcomes for bonus and LTIP awards	• The Policy contains the ability to override formulaic outcomes and apply discretion where deemed necessary.
Post-cessation shareholding requirement	• We will implement our minimum shareholding requirement to include a two year post-cessation shareholding requirement.
Pension alignment	• Pension contributions have been frozen for the most recent appointment to the Board (as discussed above).
Extended malus and clawback provisions	• The current malus and clawback provisions reflect requirements of the Code and best practice.

Wider workforce considerations

DFS have always believed that the people in our business are absolutely fundamental to its success. We are committed to creating an inclusive working environment for all our staff and to rewarding our employees in a fair manner. DFS is extremely proud to continually be recognised as one the UK's 'Best big companies to work for' and this year moved from 23rd to 22nd place. In this year's report, on pages 77-78 we have included some further information on our employee value proposition, our evolving diversity and inclusion policies and accomplishments towards fostering an inclusive and engaging working environment.

This year the Group also very proudly launched its Voice Forum. The Voice Forum representatives did an excellent job of voicing their ideas and their colleagues' feedback. In the coming year I along with the other Non-Executive Directors will attend Voice Forums and look forward to hearing ideas and feedback from our employees. The Committee will seek to use the feedback received from these meetings as a valuable insight when making wider remuneration decisions, including those relating to the reward principles and Executive Director remuneration.

The Committee has also taken steps to implement the changes to the Code including the expansion of our remit. We have set out on pages 77-78 specific details of how we are responding to the wider workforce aspects of the Code.

Leaving arrangements for Ian Filby and Nicola Bancroft

We have set out on pages 80– 81 details of the leaving arrangements for Ian Filby and Nicola Bancroft and these are consistent with the announcements that we posted online when they stepped down from the Board.

Committee performance

The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board has confidence in the quality of the Committee's work.

Looking forward

The Committee remains focused on ensuring that we implement the Policy so that it retains and motivates a talented senior leadership team to deliver the business strategy and create sustainable value for shareholders.

We trust that the information set out in this report provides you with what you need to be able to support the advisory resolution to be put to shareholders on this remuneration report at the Company's AGM on 14 November 2019.

If you would like to discuss any aspect of this Remuneration Report, I would be very happy to hear from you. You can contact me through the Company Secretary, Liz McDonald. I will also be available at the Company's 2019 AGM to answer any questions in relation to this Remuneration Report.

Alison Hutchinson
Chair of the Remuneration Committee
25 September 2019

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the 2016 Corporate Governance Code and the Listing Rules.

2018 AGM Shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Annual Report on Remuneration	162,190,321	8,488,614	–
	(95.03%)	4.97%	–
Approve Policy	166,426,128	4,252,410	396
	(97.51%)	2.49%	

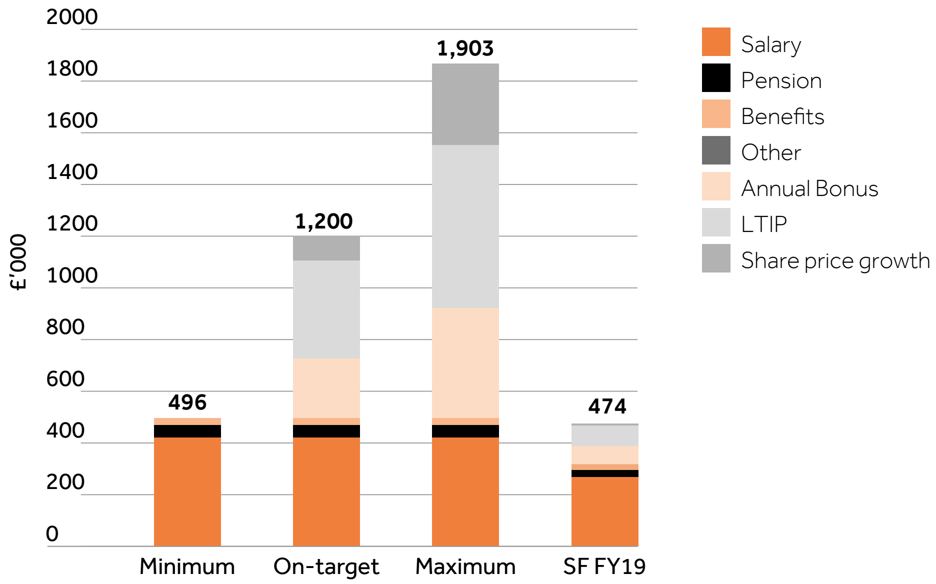
Part B: Remuneration in FY19 – at a Glance

This section briefly highlights performance and remuneration outcomes for FY19, and our approach for FY20. More detail can be found on pages 79 to 82. Full details of the Policy can be found on www.dfscorporate.co.uk.

The 'At a Glance' section contains a summary of the remuneration for Tim Stacey (CEO) who was appointed to the board in November 2018. We have presented his FY19 remuneration outcomes for the period during which he was an Executive Director.

FY19 Single Figure outcomes and our Policy

The graph illustrates the CEO's FY19 single figure outcome as compared to the Policy approved by shareholders in December 2018. It should be noted that the graph below compares the twelve month policy opportunity but that Tim Stacey's single figure outcome is only for the period he was an Executive Director. The full explanatory notes for each element of remuneration are detailed on pages 70 to 72 in the Annual Report on Remuneration.



Notes:

- For FY19, Tim Stacey's single figure outcome represents the period he was an Executive Director, which was only eight months.
- The Policy opportunity figures for minimum, target and maximum are presented on a 12-month basis.
- Minimum pay is fixed pay only (i.e. salary + benefits + pension).
- On-target pay includes fixed pay, 50% of the maximum bonus and 60% vesting of the LTIP awards and illustrating 25% increase in share price on LTIP shares over the vesting period.
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards and illustrating 50% share price increase in share price on LTIP shares over the vesting period.
- All amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying for FY19.

Directors' remuneration report continued

Annual bonus FY19 outturn

The annual bonus targets and outcomes for FY19 are based on an 11-month financial year up to year ended 30 June 2019 (as described on page 36 of this annual report). Further details, including information on the performance assessment of personal objectives are set out on pages 79 and 80. Whilst the bonus has been measured over the 11-month financial year, payment will still occur at the end of October 2019 as per previous years.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Group Revenue	15%	£873.6m	£889.8m	£914.2m	12.2%
			£901.0m		
Group underlying PBT	25%	£33.7m	£35.1m	£37.2m	0%
		£28.2m			
Group underlying cashflow	20%	£35.6m	£37.3m	£40.0m	0%
		£12.2m			
Net promoter score	20%	35.9%	37.1%	37.6%	0%
		33.0%			
Personal objectives	20%	Based on individual performance against objectives			14%
Bonus outcome (% maximum)	100%				26.2%
Bonus opportunity for FY19 (% salary)(i)					92%
Total bonus outcome (£)(ii)					£69,760

Notes:
(i) For the shorter financial year which was 11 months, the bonus outcomes have been pro-rated on a 11/12 basis.
(ii) Tim Stacey became CEO and Executive Director on 1 November 2018 therefore, his bonus opportunity is pro-rated to 67% to reflect the period he was an Executive Director.

Full details on the outcomes against personal objectives given on page 80.

2016 LTIP award vesting in 2019

The chart shows the outcome of the 2016 LTIP awards, for which the performance period ended on 30 June 2019.

Performance measure	Weighting	Threshold (20% vesting)	Maximum (100% vesting)	% vesting (% max)
Earnings per share	50%	4% p.a. growth	13% p.a. growth	0%
		-7.8%		
TSR vs FTSE 250 index*	25%	Index	Index + 12% p.a.	5.7%
		Index +0.4%		
TSR vs FTSE 350 retail index	25%	Index	Index + 12% p.a.	22.9%
			Index +10.7%	
Total	100%			28.6%

* Excluding Investment Trusts

The resultant vesting of LTIPs is set out in the table below:

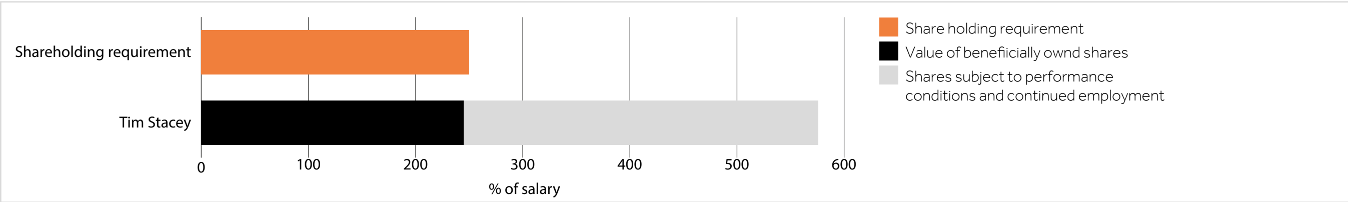
	Number of shares granted	Award vesting (% max)	Number of shares vesting	Value of shares vesting (i)	Value attributable to share price movement (ii)	Value of dividend equivalents due (iii)	Value of resultant award
CEO	105,000	28.6%	29,977	£74,705	£7,557	£12,920	£87,625

Notes:
(i) As the awards do not actually vest until 15 November 2019, for disclosure purposes, the LTIP value is based on closing share price of £2.49 which is DFS' 3-month average share price to 30 June 2019.
(ii) Arising from the difference in reference grant share price of £2.24 on 15 November 2016 versus 3-month average price to 30 June 2019 of £2.49.
(iii) Based on dividends paid in the vesting period. The value of dividend equivalents due will be delivered as shares at the time of vesting. This is equal to 5,188 shares, based on a share price of £2.49.

Level of shareholdings

Below we present a summary of the level of shareholding for the CEO, Tim Stacey. In this summary, we have illustrated the current share interests of the Executive Directors, taking into account shares which are owned outright or vested, shares which are unvested and shares which remain subject to performance. The shareholding requirement is 250% of salary and must be built up over a five-year period and then subsequently maintained. As noted earlier, a post-cessation shareholding has been implemented.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 82. At the year end the value of the CEO's' shares equaled 245% of salary, based on a closing share price of £2.54 as at 30 June 2019.



Notes:
(i) Represents 2017 and 2018 LTIP shares and 2017 RSP shares which are subject to ongoing performance conditions and the 2016 LTIP awards which are to continued employment conditions up to the date of vesting.
(ii) All calculations in the above chart use a closing share price on 30 June 2019 of £2.54.

Part C: DFS' remuneration philosophy

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

THINK CUSTOMER | BE REAL | AIM HIGH

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

Our Remuneration Policy principles are designed to help us achieve our goal

- Attract, motivate and retain Executives and Senior Management in order to deliver the company's strategic gaols and business outputs.
- Encourage and support a high-performance sales and service culture ensuring good customer outcomes.
- Reward delivery of the Group's business plan and key strategic goals.
- Adhere to the principles of good corporate governance and appropriate risk management.
- Align employees with the interests of shareholders and other encourage widespread equity ownership amongst the Group.

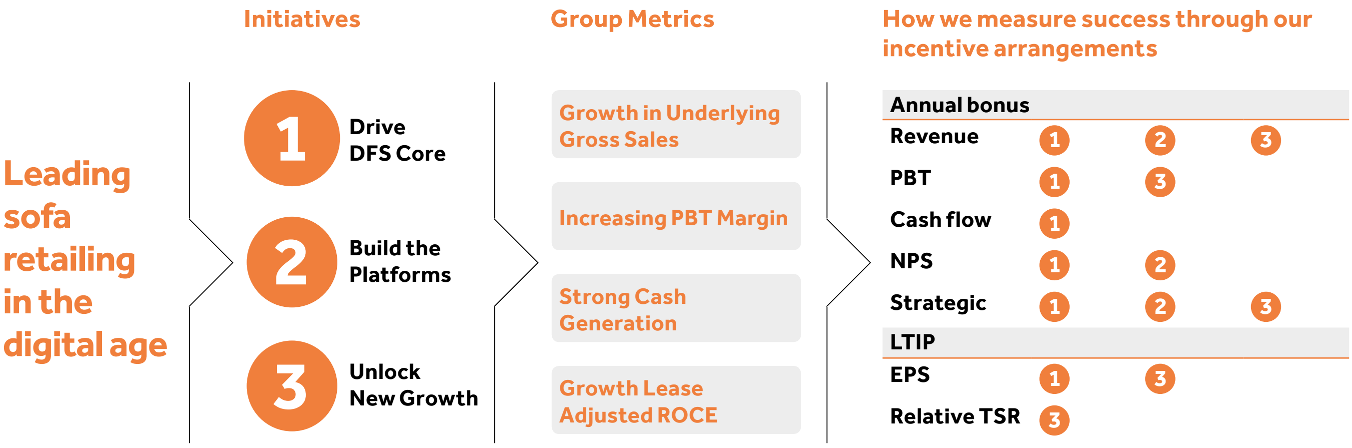
Directors' remuneration report continued

The following section sets out details on the application of our Policy.

Part D: Summary of the Remuneration Policy and alignment to business strategy

DFS' Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering our strategy designed to promote the long-term success of the Group.

The Group's focus is to deliver long-term, sustainable growth for shareholders. Our strategy will transform our Group in the medium term by focusing on three inter-related pillars. The Committee is of the view that the performance measures within the annual bonus and LTIP directly relate to delivery against the wider strategy, as shown below.



The table below sets out an overview of the key areas of the approved Policy and summarises how the Committee applied the Policy in FY19, together with details of how the Committee intends to implement the Policy in FY20.

Operation	Maximum Opportunity	Performance measures/ assessment and recovery provisions	Implementation for financial year ended 30 June 2019	Implementation for financial year ending 30 June 2020
Base salary To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group				
Salaries are reviewed annually, and any change will take effect from 1 April.	Annual percentage increases are generally consistent with the range awarded across the Group, unless a higher increase is proposed due to specific circumstances as determined by the Committee.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.	CEO, Tim Stacey: £400,000 CFO, Nicola Bancroft: £300,000 (Nicola stepped down from the Board in March 2019)	CEO, Tim Stacey: £400,000 to £420,000 (5% increase in April 2020) – see page 65 for further details CFO, Mike Schmidt: £300,000 (to be reviewed in April 2020). Any increases will be in line with wider workforce
Benefits To provide competitive benefits and to attract and retain high calibre employees				
Market standard benefits reviewed periodically to ensure market competitive	Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits	No performance or recovery provisions apply	Normal company benefit provision	No change

Operation	Maximum Opportunity	Performance measures/ assessment and recovery provisions	Implementation for financial year ended 30 June 2019	Implementation for financial year ending 30 June 2020
Pension To provide a competitive Company contribution that enables effective retirement planning.				
Contribution to a personal pension scheme or cash allowance in lieu of pension benefits.	The maximum contribution to a personal pension scheme or cash in lieu is equal to £50,000. Pension contributions for new Executive Directors will be reviewed in order to ensure compliance with corporate governance best practice.	No performance or recovery provisions apply.	CEO, Tim Stacey: £50,000 (fixed) CFO, Nicola Bancroft: £40,000 (fixed)	CEO, Tim Stacey: £50,000 (fixed) CFO, Mike Schmidt: £29,250 (fixed)
Annual Bonus Incentivises the achievement of annual objectives which support the Group's short-term performance goals.				
Bonus awards are granted annually. The performance period is one financial year with pay-out determined by the Committee following the year end, based on achievement against a range of financial and non-financial targets.	Maximum awards under the Annual Bonus are up to 120% of salary. Where maximum awards are increased above 100% of salary, then the Committee will determine that bonus deferral shall apply to part of the annual bonus earned. Where deferral applies, bonus payments greater than 75% of salary will be deferred into shares for three years. There will be no payment made for threshold performance. 100% of maximum will be paid for stretch performance. The Committee may award dividend equivalents on those shares to Plan participants to the extent that they vest.	Performance targets and weightings will be set annually based on a range of financial and non-financial measures. Financial targets govern the majority of bonus payments. The Committee retains discretion to adjust targets and weightings in respect of annual bonus awards as required. Malus and clawback provisions apply.	Bonus opportunity of 92% of salary. for the eleven month financial year. See page 79 for details of the pro-rated opportunities. Performance conditions: • Revenue (15%) • Profit before tax (25%) • Cash Flow (20%) • Net Promoter Score (20%) • Personal objectives (20%) See page 79 for details of targets and outcomes against them for FY19.	CEO, Tim Stacey: 110% of salary CFO, Mike Schmidt: 100% of salary Performance conditions: • Revenue (15%) • Profit before tax (25%) • Cash Flow (20%) • Net Promoter Score (20%) • Strategic objectives (20%)

Directors' remuneration report continued

Operation	Maximum Opportunity	Performance measures/ assessment and recovery provisions	Implementation for financial year ended 30 June 2019	Implementation for financial year ending 30 June 2020
Long-term incentive plan Incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders				
Annual grants of performance share awards (LTIP awards). Three year vesting period subject to the achievement of the performance measures. Two year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors. Participants may be entitled to dividend equivalents on LTIP awards that have vested.	Maximum LTIP Awards are equal to 150% of base salary. Targets are typically structured as a challenging sliding scale, with no more than 20% of the maximum award vesting for achieving the threshold performance level through to full vesting for substantial out-performance of the threshold.	Awards vest based performance against challenging targets, aligned with the delivery of the Company's long-term strategy. Performance measures (metric, targets and weightings) are reviewed annually. Malus and clawback provisions apply.	LTIP award level of 150% of salary granted to Tim Stacey (CEO) and 120% of salary granted to Nicola Bancroft (CFO) with three-year performance period and 2 year holding period. • Adjusted EPS growth (50%) • TSR relative to FTSE 250 excl. investment trusts (15%) • TSR relative to FTSE 350 General Retailers Index (35%) See below for full details of the LTIP awards granted in the reporting year.	LTIP award level of 150% of salary will be granted to Tim Stacey (CEO), and 120% salary to Mike Schmidt (CFO), with three-year performance period and 2 year holding period. See pages 74-75 for full details of awards to be granted in FY20.
Minimum shareholding requirements To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.				
The Executive Directors are required to build or maintain (as relevant[1]) a minimum shareholding in the Company.	Not applicable.	Not applicable.	250% of salary for Executive Directors to be built up over five years.[1]	250% of salary for Executive Directors to be built up over five years.[1] For FY20 and beyond, the Committee determined that a shareholding requirement would continue to apply for two years post cessation of employment for the Executive Directors.

1. Executive Directors are not required to purchase shares to satisfy this requirement.

Illustration of the operation of the Policy

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Base salary				
	Pension and benefits				
Bonus	Cash bonus	Where bonus opportunity is increased above 100% salary, then bonus deferral applies if the bonus outcome is greater than 75% of salary (3-year deferral)			
LTIP	Long-term incentive plan (3-year performance period)			2 year-post vesting holding period	

LTIP awards granted in FY19 (2018 award)

The CEO, Tim Stacey was granted an award over 281,690 shares equivalent to 150% of salary on 30 November 2018 and the CFO, Nicola Bancroft was granted an award of 169,014 shares on 30 November 2018 (the number of shares granted was based on a share price of £2.13). The performance period for the 2018 award is from 1 July 2018 and will end 30 June 2021. The performance measures are based on Adjusted EPS and Relative TSR and details are set out below.

For FY19, we moved from a percentage growth range to an absolute range. For the EPS measure (50% of the LTIP award) the Committee felt that it was more appropriate to adopt an absolute range as it gave clearest line of sight for management and shareholders alike. We wrote to our major shareholders in November 2018 ahead of the grant and this was posted online.

In addition, in 2018, the Committee also reviewed the comparator groups within the TSR measure and discussed this specifically with shareholders. It was decided that looking ahead over the next three years the UK retail sector is the more relevant group. Therefore, for the 2018 LTIP award, the split between the FTSE 350 General Retailers Index and the FTSE 250 Index (excluding Investment Trusts) was 35:15 (50% of the LTIP award).

(1) Adjusted EPS (50% of the Award)

Adjusted EPS will be measured by reference to the reported Adjusted EPS figure for the Financial Year ending in 2021. This portion of the award will vest as follows:

Adjusted EPS for the Financial Year ending in 2021	Percentage of this portion of Award Vesting
Less than 23p	Nil
23p	20%
28.5p	100%
Between 23p and 28.5p	Between 20% and 100% on a straight-line basis

Directors' remuneration report continued

(2) Total Shareholder Return (TSR) (50% of the Award)
TSR growth will be measured against two indices: the FTSE 250 Index (excluding investment trusts) and the FTSE 350 General Retailers Index. The performance period for this award shall commence at the beginning of the Company's FY19 and shall terminate at the end of the FY21. This portion of the award will vest as follows:

FTSE 250 Index (15% of the Award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 250 Index return	Nil
Equal to FTSE 250 Index return	20%
10% p.a. above the FTSE 250 Index return	100%
Between FTSE 250 Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

FTSE 350 General Retailers Index (35% of the Award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 350 General Retailers Index return	Nil
Equal to FTSE 350 General Retailers Index return	20%
10% p.a. above the FTSE 350 General Retailers Index return	100%
Between FTSE 350 General Retailers Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

LTIP awards to be granted in FY20 (2019 award)
For the awards to be granted in 2019, the Committee has decided that the framework for the performance conditions will remain the same.

(1) Adjusted EPS (50% of the Award)
For the EPS component of the LTIP award, performance will be measured by reference to the reported Adjusted EPS figure for the Financial Year ending in 2022. Similar to last year, the adjusted EPS targets will be set on an absolute basis as this provides clear line of sight for management and shareholders alike. Furthermore, the targets will represent appropriate year on year growth against the 2018 LTIP award targets in line with the progress against our 4-year strategic plan and taking into account the external operating environment. We will fully communicate details of targets to shareholders when the LTIP awards are granted.

(2) Total Shareholder Return (TSR) (50% of the Award)
TSR growth will be measured against two indices: the FTSE 250 Index (excluding investment trusts) and the FTSE 350 General Retailers Index. The performance period for this award shall commence at the beginning of the Company's 2019 Financial Year and shall terminate at the end of the 2021 Financial Year. This portion of the award will vest as follows:

FTSE 250 Index (15% of the Award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 250 Index return	Nil
Equal to FTSE 250 Index return	20%
10% p.a. above the FTSE 250 Index return	100%
Between FTSE 250 Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

FTSE 350 General Retailers Index (35% of the Award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 350 General Retailers Index return	Nil
Equal to FTSE 350 General Retailers Index return	20%
10% p.a. above the FTSE 350 General Retailers Index return	100%
Between FTSE 350 General Retailers Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

Chairman and Non-Executive Director Fees

Fees for the Chairman and Non-Executive Directors were reviewed in October 2018 and a 2% increase was applied to all fees. These increases were in line with those awarded to the wider workforce. The following table sets out the annual fee rates for the Non-Executive Directors as at 30 June 2019:

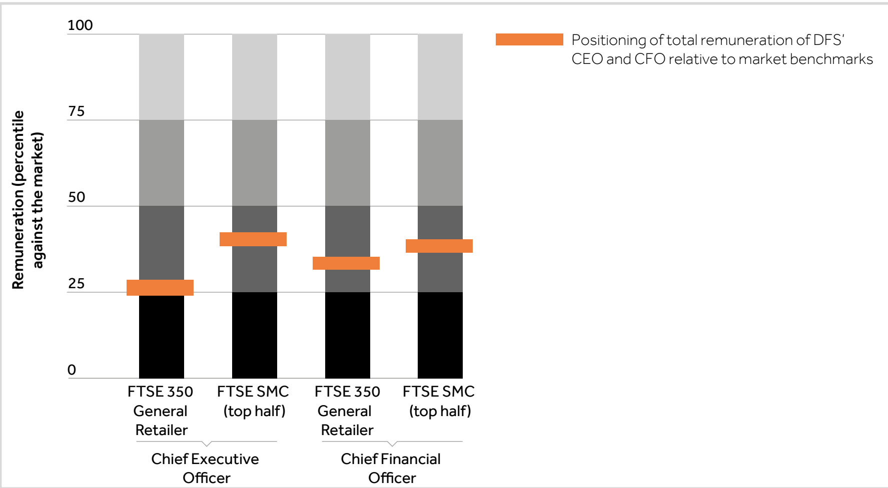
	FY19(i) £	FY18 £	% change
Chairman fee	**184**	184	0%
Senior Independent Director fee	**61**	61	0%
Chair of Audit/ Remuneration Committee fee	**58**	58	0%
Independent Non-Executive Director fee	**51**	51	0%

(i) Non-Executive fees will be kept under review for future periods. To the extent there are any increases to fees these will be in line with those awarded to the wider workforce and would be effective from April 2020.

Pay comparisons

Comparison of Executive Director Policy quantum to our peers

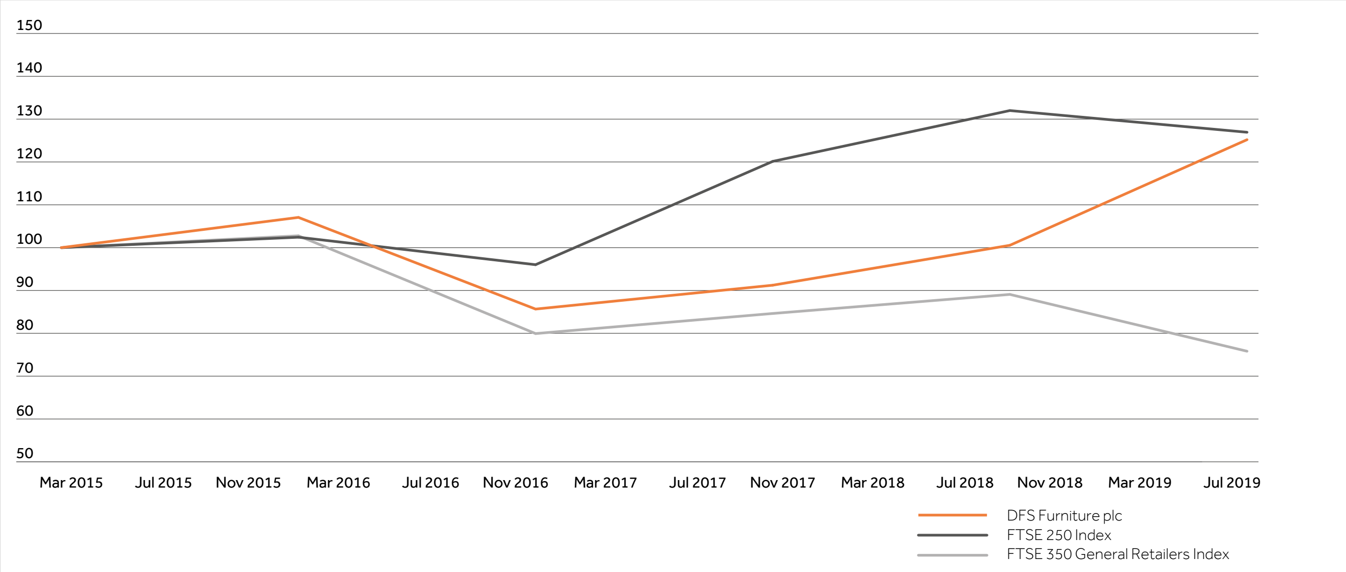
When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant market for talent against which we can compare remuneration levels. We believe the top half of the FTSE SmallCap and FTSE 350 General Retailers of a similar size currently represent our key markets for senior executive talent. The following chart shows the relative position of target total remuneration for our CEO and CFO compared to these talent markets.



Directors' remuneration report continued

Remuneration of CEO role versus wider company performance since IPO

The chart below illustrates the Group's Total Shareholder Return performance against the FTSE250 index and FTSE 350 General Retailers Index since 5 March 2015, the date of IPO, to the end of FY19 (28 June 2019). The peer groups here represent the Company's key markets for investment capital (noting this is separate from the peer groups used for pay benchmarking above).



The table below indicates the total single figure of remuneration for the CEO since IPO, along with the annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity.

Positioning of total remuneration of DFS' CEO and CFO relative to market benchmarks.

	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	**Ian Filby**	**Ian Filby**	Ian Filby	Ian Filby	Ian Filby
Single Figure	**474**	**374**	673	666	804	790
Annual Bonus (% of max)	**26.2%**	**32.2%**	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**28.6%**	**28.6%**	0%	0%	n/a	n/a

Notes:
Tim Stacey became the CEO and Executive Director on 1 November 2018. £266,666 reflects Tim Stacey's base salary between 1 November 2019 and 30 June 2019. Ian Filby was the CEO until 31 October 2018 and then stepped down from the Board. The totals above reflect the period these individuals were Executive Directors.

Percentage change in the CEO's remuneration.

The table below compares the percentage increase in the CEO's pay with the wider employee population. The Company considers DFS employees other than those whose remuneration includes piecework or commission, and excluding the Executive Directors, to be an appropriate comparator group. It should be noted for the comparison that FY19 was an eleven month financial period and FY18 was twelve months.

% change FY18 – FY19	**Base salary**	**Benefits**	**Annual bonus**
CEO	-14%	10%	-33%
Employee pay	2%	n/a	-2.3%

Notes:
Ian Filby was the CEO until 31 October 2018 and then stepped down from the Board. Tim Stacey became the CEO and Executive Director on 1 November 2018. The change in CEO remuneration has been calculated by adding together the remuneration paid in year to Tim Stacey and Ian Filby in respect of the period these individuals were Executive Directors in FY19, compared with Ian Filby's remuneration in FY18.

Relative Importance of spend on pay

The table below sets out the overall spend on pay for all employees compared with the returns distributed to shareholders.

Significant distributions	**2019**	2018	% change
Employee remuneration	**£167.4m**	£168.2m	0.5%
Distributions to shareholders (ord. Dividends and share buy backs)	**£23.8m**	£23.7m	0.4%

Notes:
1. The above figures are taken from notes 4 and 2 to the financial statements.

Part E: Employee value proposition and wider workforce considerations

The Committee oversees remuneration of the Chairman, Executive Directors and the Senior Leadership Team, having regard to pay conditions across the Group. The Committee's focus is on determining the Policy and practices to ensure that the incentives operated by the Company align with its culture and strategy. In line with the UK Corporate Governance Code, the Committee's terms of reference were expanded to ensure it has appropriate oversight of wider workforce pay and policies and incentives, which enables it to ensure that the approach to Executive remuneration takes into account the approach to broader workforce pay.

Wider workforce employee value proposition

The Group employs over 5,600 people across the UK, Republic of Ireland, the Netherlands and Spain. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our people across all parts of the Group. The various factors which make up our "Fair Deal" proposition is set out below.

Area	Details
Pay and benefits	• We have a clear reward philosophy across the Group as highlighted previously • We aim to be the market median payer of remuneration for good individual performance, believing that this approach balances fairness to the employee as well as responsible use of shareholders funds • Employees can share in our success via bonus schemes and the Sharesave scheme which is available in the UK and Republic of Ireland
Working environment	• We strive to create a positive working environment and promote the right behaviours through evidence of objective decision making, equity of treatment and trust in doing the right things in the right way • Company-wide groups generate positive engagement more broadly with activities such as the #HealthySelfie campaign in the 'Living Well' Workplace group • We launched Workplace by Facebook as an internal communication and engagement tool in 2017, and currently more than 2,300 of our colleagues use it on a daily basis to connect teams and support business efficiencies • We also continue to receive external recognition for excellence in employee conditions by the retention of our Top Employer certification from the Top Employers Institute
Development opportunities	• We provided access to development opportunities enabling growth within function or cross functionally • We have an award-winning apprenticeship programme which supports participants to achieve formal qualifications in their chosen field, complete the Duke of Edinburgh Gold award and gain valuable work experience. To date, 34 young people have successfully completed the programme and now hold permanent positions in the Group in a variety of areas including service upholstery, manufacturing, retail and administration • We provided access to development opportunities enabling growth within function or cross functionally • We actively participant in the national development of apprenticeship standards in manufacturing and retail for our industry.
Recognition	• We provide monetary and non-monetary recognition • We have visible celebrations of achievements • We have opportunities for peer led and hierarchical recognition

Cascade of remuneration across the group

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

Level	Employee numbers	Fixed remuneration	Annual bonus or sales commission plans	Restricted share plan	Long-Term incentive plan	Sharesave	Shareholding guidelines
Executive Directors	2	✓	✓		✓	✓	✓
Senior Leadership Team	6	✓	✓	✓	✓	✓	
Head of divisions / functions	c.75	✓	✓	✓		✓	
Managers	c.350	✓	✓	✓		✓	
All employees	5,000+	✓	✓			✓	

Notes:
1. Manager population may participate in the restricted share plan by invitation.

Oversight of wider workforce pay and policies

In order for the Committee to carry out its oversight review of wider workforce pay and policies and incentives under the UK Corporate Governance Code, the Committee has approved a process by which it will be provided with additional information, in the form of a Workforce Report, to carry out these responsibilities. This is an annual summary setting out the key details of remuneration changes for the senior management and the wider workforce. The Committee appreciates that the level and type of remuneration offered will vary across employees depending on the employee's level of seniority, the nature of his or her role, and the Group brand to which they belong.

The first Committee report is due to be considered by the Committee in 2020. Details of the findings on the alignment of pay across the Group will be communicated to employees and reported on in next year's report.

Consideration of employee views

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

To ensure the voice of our employees is fully considered at Board level, this year the Board reviewed how best to engage and communicate with our employees in line with the requirements of the new Code.

In June the Group launched voice of the employee listening sessions known as the Voice Forum. The purpose of these sessions is to understand the views of our employees better and ensure their views are factored in as part of decision making, including, where appropriate, decision on remuneration.

This employee Voice Forum is a further means of strengthening our governance frameworks and decision-making processes. Attendees have been chosen from our front-line teams, with representatives from all areas of the Group providing the Forum with feedback from their areas.

We will communicate more details on the Voice Forum and the role it plays in decisions around remuneration in next year's report.

The Forum will operate in addition to existing open communication via Workplace, and employee views are sought in an active program of engagement surveys, which are shared with the Board and with the Committee, the results of the surveys and the actions taken by the business are communicated back to employees

Gender pay gap reporting and diversity and inclusiveness initiatives

Gender Pay reporting

The UK Government Equalities Office legislation requires employers with more than 250 employees to disclose annually information on their gender pay gap. The Group is confident our male and female employees receive equal pay for equivalent jobs. We published our gender Pay Gap Reporting in February 2019 and it is available online: http://www.dfscorporate.co.uk/media/44273/Gender-Pay-Gap-2019.pdf

We recognise that there continues to be a gender pay gap in the business, although the mean and median gaps fell 1% in the year. DFS' employee base roughly has a two-thirds male, one-third female split driven mainly by the fact that historically our manufacturing, supply chain and retail business areas have, for various reasons, attracted a male bias workforce. Analysis shows that our 18% mean and 13% median pay gap is a result of more men in senior positions throughout all business areas. We note that we have no positions in the Group where there is a gender pay gap for men and women performing the same job.

The Group has a number of initiatives in place to work towards closing the gap. These are part of wider diversity and inclusiveness initiatives, which are described below.

Further information can be found in the Sustainability Report on page 41 of this Annual Report.

Diversity and inclusion

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

- We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. Wherever practicable we offer training and make adjustments to ensure disabled employees are not disadvantaged in the workplace.
- We are actively working to improve female representation in key business areas with a traditional skew towards men
- We are setting performance targets for a large proportion of the management population to focus on the gender split across all sectors of our business
- We are offering recruitment development workshops for hiring managers with a dedicated section on unconscious bias training
- We are building assessment criteria into our online recruitment processes that remove gender bias
- We have introduced a Group wide family friendly policies and increased time off for parents
- We have introduced flexible working and are creating the tools, mechanisms and environment to offer this to all employees

The Board is kept aware of progress and initiatives in the area of diversity and inclusiveness.

Part F: Annual Report on Remuneration for the Financial Year ended 30 June 2019

Single total figure of remuneration for Executive Directors – audited

The remuneration of Executive Directors showing the breakdown between components with comparative figures for the prior financial year is shown below. Figures provided have been calculated in accordance with the Regulations.

Name	Year	Base salary	Taxable benefits	Bonus	LTIP	Pension	Other	Total
Ian Filby	**2019**	**112**	**8**	**36**	**205**	**13**	**0**	**374**
	2018	439	26	158	–	50	0	673
Tim Stacey	**2019**	**267**	**21**	**70**	**87**	**29**	**0**	**474**
Nicola Bancroft	**2019**	**203**	**13**	**60**	**79**	**23**	**7**	**385**
	2018	272	17	95	–	35	10	429

Notes:

1. Taxable benefits comprise car and fuel allowance, private medical insurance (including cover for spouses and dependents), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses – the value of which has been included in the Taxable Benefits column
2. Ian Filby waived his entitlement to a pension contribution from the Group and a charitable donation of £50,000 (2017: £50,000) has been made as an alternative.
3. Tim Stacey became the CEO and Executive Director on 1 November 2018. Nicola Bancroft stepped down from the CFO role and the Board in March 2019. Ian Filby was the CEO until 31 October 2018 and then stepped down from the Board. Outcomes are prorated to reflect the period these individuals were Executive Directors
4. Figures for 2019 reflect the 11 month financial year

Incentive outcomes for 2019

Annual bonus outturn for the year – audited

Full details on the Company's performance during the financial year can be found in the Strategic report. The table below provides information on the targets for each measure, actual performance and resulting bonus payment for each Executive Director during the year. The performance targets and outcomes against them reflect the fact that the performance year FY19 was 11 months.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Group Revenue	15%	£873.6m	£889.8m	£914.2m	12.2%
			£901.0m		
Group underlying PBT	25%	£33.7m	£35.1m	£37.2m	0%
		£28.2m			
Group underlying cashflow	20%	£35.6m	£37.3m	£40.0m	0%
		£12.2m			
Net promoter score	20%	35.9%	37.1%	37.6%	0%
		33.0%			
Personal objectives	20%	Tim Stacey Ian Filby Nicola Bancroft			14.0% 20.0% 17.8%
Bonus outcome (% maximum)		Tim Stacey Ian Filby Nicola Bancroft			26.2% 32.2% 30.0%
Total bonus outcome (£)		Tim Stacey Ian Filby Nicola Bancroft			£69,760 £36,153 £59,956

Note:

1. For the shorter financial year the bonus opportunity has been pro-rated for 11/12 months to 92% of salary. Bonus opportunities were further pro-rated to reflect the period the individual was an Executive Director.
2. Tim Stacey became the CEO and Executive Director on 1 November 2018: max opportunity 67%. Nicola Bancroft stepped down from the CFO role and the Board in March 2019: max opportunity 67%. Ian Filby was the CEO until 31 October 2018 and then stepped down from the Board: max opportunity 25%.
3. Details on the performance against personal targets are set out on page 80 for Tim Stacey.
4. Although performance was measured over 11 months to reflect the shorter financial year, the timing of the bonus payments has not changed. Payments will be at the end of October in line with previous years.

Performance against personal objectives

Performance against the personal objectives and the Committee's assessment of performance for Tim Stacey's is set out in the table below.

As part of its assessment, the Committee also took into account Group health and safety objectives to ensure that a safe environment was in place for all employees and customers. The Committee was satisfied that timely reporting of health and safety and risk mitigation activities had been undertaken throughout the year with no major instances.

Director	Personal objectives set at the start of the year	Measures of success – assessment against targets	Outcome
Tim Stacey	**Strategy** – Lead the development of a new strategy for the Group, expressed in a 4-year plan	• New strategy and 4-year plan signed off by the Group Board by December 2018 • Investors and analysts engaged positively at Feb half year results presentations and roadshows (measure = feedback from investor community)	Achieved
	Sales – Drive core DFS like for like sales ahead of budget through omni-channel and innovation	• Core like for like DFS sales ahead of budget • New Omni-channel strategy agreed and signed off by November 18 • Innovation process established and initiatives tracked and driving growth by end of FY19	Partially achieved
	Leadership – Create climate and support to enable a high performing Executive team	• Clear plan that is executed in year through Executive team • Each Exec team member has a personal development plan in place • Engagement scores as measured by "Best Companies" for Exec team and business	Achieved
	PBT/ROCE – Achieve profit ambition in subsidiary businesses at least to budgeted PBT	• Achievement of PBT growth according to budget across the subsidiary businesses	Not achieved
	Leadership – Build a new culture and diverse workforce that represents our customer base and attracts the very best talent	• Values agreed and signed off by October 18 • Values activated and engaged across the business (measure = colleague understanding / recall of values) • Reduction in gender pay gap achieved	Achieved

As a result of the performance results shown above, the bonuses awarded to the Tim Stacey is £69,760 (26.2% of maximum opportunity, which was pro-rated for his time as an Executive Directors). His 2019 bonus will be paid in cash at the ordinary bonus payment date. No part of the bonus will be subject to deferral and no discretion was exercised by the Committee when determining the bonus outcomes.

LTIP awards vesting in relation to performance in 2018/19 – audited

The 2016 award was granted on 15 November 2016 and was assessed against the performance targets at the end of FY19 (i.e., to 30 June 2019). The final level of vesting of these awards was 28.6% as set out on page 68.

SAYE awards – audited

There were no SAYE awards granted to Executive Directors during the year.

Dilution

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

Payments to past Directors – audited

Ian Filby

Ian Filby stepped down as CEO of DFS and ceased to be a Director of the Group on 31 October 2018. Ian will remain an employee of the Group until 31 October 2019 at which time he will retire.

Ian was eligible to receive a pro-rated annual bonus in respect of FY19 to reflect time served as CEO during FY19. The bonus was based on financial and strategic objectives set by the Remuneration Committee as well as the Committee's assessment of Ian's handover to the incoming CEO. The results against the financial metrics are provided on page 79. In terms of the handover, the Committee concluded that Ian delivered a smooth and timely handover to the incoming CEO as well as providing additional support. Overall, Ian's bonus outcome for FY19 for the period he was an Executive Director is £36,153. Ian will be paid his bonus at the usual bonus payment date in October 2019.

Subject to Ian remaining an employee and retiring from the Group, Ian will be treated as a "good leaver" for the purposes of the LTIP on the relevant date of cessation of employment. Awards made to Ian under the LTIP in 2016 and 2017 will vest at the normal vesting date, subject to the achievement of the relevant performance conditions. The awards will be pro-rated for time until 31 October 2019 to reflect Ian's continued employment within the Group.

The table below sets out all unvested LTIP awards held by Ian Filby as at 30 June 2019:

Plan	Date of grant	Vesting date	Number of shares granted	Maximum number of shares capable of vesting (pro-rated to 31 October 2019)	Shares vesting following performance testing
2016 LTIP	15/11/2016	15/11/2019	249,612	246,192	70,287
2017 LTIP	16/11/2017	16/11/2020	298,593	194,514	In flight award

All incentive awards will continue to be subject to malus and clawback provisions in accordance with the DFS Policy. Any outstanding options held under the Sharesave may be exercised in accordance with the rules of the Sharesave plan.

Nicola Bancroft

Nicola Bancroft stepped down as CFO and ceased to be a Director of the Group on 29 March 2019. Nicola remained an employee of the Group until 10 July 2019, at which point she retired.

Nicola was eligible to receive an annual bonus in respect of FY19 to reflect time served during FY19. The bonus was based on the financial and strategic objectives set by the DFS Committee, as well as a number of personal objectives determined at the start of the year. The results against the financial metrics are provided on page 79. Nicola's personal objectives were linked to the development of the new strategy and other key business KPIs, as well as supporting progress within the business and transformation within the finance team. In addition, as part of the assessment of Nicola's personal objectives, the Committee took into consideration Nicola's delivery of a smooth handover to the incoming CFO. Overall, Nicola's bonus outcome for FY19 for the period she was an Executive Director is £59,956. Nicola will be paid her bonus at the usual bonus payment date in October 2019.

Nicola will not be eligible for a bonus in relation to FY20.

As Nicola is retiring, she will be treated as a "good leaver" for the purposes of the LTIP on the relevant date of cessation of employment. Awards made to Nicola under the LTIP in 2016, 2017 and 2018 will vest at the normal vesting date, subject to the achievement of the relevant performance conditions at that date. The awards will be pro-rated for time from the date of grant until 10 July 2019 to reflect Nicola's period of employment.

Plan	Date of grant	Vesting date	Number of shares granted	Maximum number of shares capable of vesting (pro-rated to 10 July 2019)	Shares vesting following performance testing
2016 LTIP	15/11/2016	15/11/2019	107,143	94,629	27,016
2017 LTIP	16/11/2017	16/11/2020	128,168	70,334	In flight award
2018 LTIP	30/11/2018	30/11/2021	169,014	34,357	In flight award

All incentive awards will continue to be subject to malus and clawback provisions in accordance with the DFS Policy. Any outstanding options held under the Sharesave may be exercised in accordance with the rules of the Sharesave plan.

Payments for loss of office – audited

None

Single figure remuneration table for Non-Executive Directors – audited

The remuneration of Non-Executive Directors showing the breakdown between components, with comparative figures for the prior year, is shown below. Figures provided have been calculated in accordance with the Regulations.

Director		Fees £'000	Other £'000	Total £'000
Ian Durant	**2019**	**168**	**–**	**168**
	2018	180	–	180
Luke Mayhew	**2019**	**56**	**–**	**56**
	2018	60	–	60
Alison Hutchinson	**2019**	**52**	**–**	**52**
	2018	13	–	13
Julie Southern	**2019**	**45**	**–**	**45**
	2018	56	–	56
Gwyn Burr	2018	42	–	42
Jo Boydell	**2019**	**31**	**–**	**31**
Steve Johnson	**2019**	**29**	**–**	**29**

Notes:
1. Julie Southern stepped down from the Board on 29 March 2019.
2. Alison Hutchinson was appointed Chair of the Remuneration Committee on 1 October 2019.
3. Jo Boydell was appointed to the Board on 6 December 2018 and as Chair of the Audit Committee on 1 April 2019.
4. Steve Johnson was appointed to the Board and its Committees on 6 December 2018.

Directors' remuneration report continued

Shareholding and other interests at 30 June 2019 – audited

Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain (as relevant) a personal shareholding equal to 250% of their base salary in the Company (this applies to existing Executive Directors only).

	Shareholding at 30 June 2019			Interests in shares under the LTIP (Conditional shares)			
Director	Number of beneficially owned shares[1]	% of salary held[2]	Shareholding requirement met	Subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 30 June 2019
Tim Stacey	386,263	245%	no	511,690	–	*2016 3 Year Option* – 9,782	907,735
Ian Filby	1,313,208	760%	n/a	548,205	–	*2016 3 Year Option* – 9,782	1,871,195
Nicola Bancroft	371,352	314%	n/a	199,320	–	–	570,672
Ian Durant	28,000	n/a	n/a	–	–	–	28,000
Jo Boydell	–	n/a	n/a	–	–	–	–
Alison Hutchinson	–	n/a	n/a	–	–	–	–
Steve Johnson	–	n/a	n/a	–	–	–	–
Luke Mayhew	44,121	n/a	n/a	–	–	–	44,121
Julie Southern	3,921	n/a	n/a	–	–	–	3,921
Total	**2,146,865**	**–**	**–**	**1,259,215**	**–**	**19,564**	**3,425,644**

Notes:
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Shareholding requirement calculation is based on the share price at the end of the year (£2.54 at 30 June 2019).

At 25 September 2019 there had been no movement in Directors' shareholdings and share interests from 30 June 2019.

Outstanding share awards

The following share awards remain outstanding as at 30 June 2019 for the Executive Directors (excluding the 2016 LTIP award for which performance has been tested):

Director	Type of award	Date of grant	Number of awards	Awards vested	Awards lapsed	Outstanding awards	Market price on date of grant	Normal vesting date
Tim Stacey	2017 LTIP	16/11/17	125,000	–	–	125,000	£1.90	16/11/20
	2018 LTIP	30/11/18	281,690	–	–	281,690	£2.13	30/11/21
	RSP	16/11/17	45,635	–	–	45,635	£1.90	16/11/19
			106,484	–	–	106,484	£1.90	16/11/20
	SAYE	07/12/16	9,782	–	–	9,782	£2.30	01/02/20

Details of LTIP award performance conditions

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Threshold level vesting	Maximum vesting
2017 LTIP	EPS growth	50%	Reporting underlying EPS	4% p.a.	10% p.a.	20%	100%
	TSR	25%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	20%	100%
		25%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%
2018 LTIP	EPS growth	50%	Reporting underlying EPS	23.0p	28.5p	20%	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	20%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%

Statement of implementation of Policy for the year ending 30 June 2020

See pages 70 to 75.

Matters covered during the Committee's meetings in FY19

The key matters covered by the Committee during the year are summarised below. During the year, the Committee also spent time considering remuneration arrangements for the outgoing CFO, Nicola Bancroft and for the incoming CFO, Mike Schmidt.

Matter	Sep 18	Nov 18	Apr 19	Jun 19
Approved bonus outcomes for 2018	•			
Approved bonus scorecard for FY19 and monitored interim performance	•		•	•
Signed-off LTIP performance outcomes for 2015 LTIP	•			
Approved LTIP performance targets for 2018 LTIP and monitored performance		•		•
Signed-off Directors Remuneration Report and new Policy	•			
Review of corporate governance code changes and market practice update			•	
Reviewed updates to the Committee's Terms of Reference			•	
Gender pay reporting and diversity and inclusiveness initiatives			•	
Signed-off post cessation shareholding policy				•
Reviewed format for wider workforce remuneration reporting				•

Note:
Details of meeting attendance by Committee members can be found on page 51 of this Annual Report.

Internal and external support for the Committee

The Chairman, the CEO and the CFO attend meetings at the invitation of the committee but are not present when their own remuneration is being discussed. The Company Secretary acts as Secretary to the Committee. The Committee is supported by the Chief People and Transformation Officer, Finance and Company Secretariat functions.

The Committee received external advice in FY19 from PwC during the year. The Committee appointed PwC as its advisers after a tender process in July 2015. PwC are considered by the Committee to be objective and independent. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee reviewed the nature of all the services provided during the year by PwC and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to PwC in respect of services to the Committee during the year were £117,000. Fees were determined based on the scope and nature of the projects undertaken for the Committee.

Service Contracts for Executive Directors

When setting notice periods, the Committee has regard to market practice and corporate governance best practice. The table below summarises the service contracts for our Executive Directors.

	Date of contract	Notice period
Tim Stacey	21 May 2018	6 months (Executive) or 12 months (Company)
Mike Schmidt	12 July 2019	6 months (Executive) or 6 months (Company)

All service contracts are available for viewing at the Company's registered office and at the AGM. The Executive Directors may accept outside appointments subject to approval of the Board and provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company. The Executive Directors concerned may retain fees paid for these services.

Letters of appointment for Non-Executive Directors

The Non-Executive Directors do not have service contracts but are appointed under letters of appointment which provide for a review after an initial three-year term terminable by either the Non-Executive Director or the Company with three month's prior written notice. Each Non-Executive Director is subject to annual re-election at the Company's AGM. The table below sets out the dates that each Non-Executive Director was first appointed as a Group Director.

	Date of appointment	Notice period
Ian Durant	2 May 2017	3 months (Non-Executive and Company)
Jo Boydell	6 December 2018	
Alison Hutchinson	1 May 2018	
Steve Johnson	6 December 2018	
Luke Mayhew	3 February 2015	

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

For and on behalf of the Committee

Alison Hutchinson
Chair of the Committee
25 September 2019

Directors' report

Introduction

The Directors present their Annual Report and audited financial statements for the 48 weeks ended 30 June 2019, in accordance with section 415 of the Companies Act 2006. Certain disclosure requirements for inclusion in this report have been incorporated by way of cross reference to the Strategic report and the Directors' Remuneration report) and should be read in conjunction with this report. .

The following also form part of this report:

- Greenhouse gas emissions, which can be found on page 44;
- Details of our anti-bribery and corruption procedures, which can be found on page 45;
- Employees, which can be found on pages 40 to 41;
- The Corporate Governance Report, which can be found on pages 48 to 53; and
- Our strategy and objectives, which can be found on pages 20 to 21.

Information regarding the Company's charitable donations can be found in the Sustainability and Responsibility report on page 42. No political donations were made in FY19 (FY18: £nil).

The Company

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

The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 48 weeks ended 30 June 2019. The Company has no overseas subsidiaries but operates branches in the Republic of Ireland, Spain and the Netherlands.

Results and dividends

The Group's results for the year are set out in the consolidated financial statements on pages 96 to 124. The Company only results of DFS Furniture plc are set out on pages 125 to 128. The Directors have declared an interim ordinary dividend of 3.7 pence per share which was paid on 19 June 2019, and also proposed a final dividend of 7.5 pence per share to be paid in respect of the 48 weeks ended 30 June 2019. It is intended that the final dividend will be paid on 27 December 2019 to all shareholders on the register on 6 December 2019. The Company's shares will trade ex-dividend from 5 December 2019.

Directors

The membership of the Board and biographical details of the directors are provided on pages 46 and 47. Changes to the directors during the year and up to the date of this report are set out below.

The Directors who served during the financial year were as follows:

Director	Position	Service in the year ended 30 June 2019
Ian Durant	Chair	Served throughout the year
Luke Mayhew	Senior Independent Non-Executive Director	Served throughout the year
Ian Filby	Chief Executive Officer	Resigned 31 October 2018
Tim Stacey	Chief Executive Officer	Appointed 1 November 2018
Julie Southern	Independent Non-Executive Director	Resigned 29 March 2019
Alison Hutchinson	Independent Non-Executive Director	Served throughout the year
Jo Boydell	Independent Non-Executive Director	Appointed 6 December 2018
Steve Johnson	Independent Non-Executive Director	Appointed 6 December 2018
Nicola Bancroft	Chief Financial Officer	Resigned 29 March 2019

Mike Schmidt was appointed to the Board on 11 July 2019. The Articles of Association provide that a Director may be appointed by an ordinary resolution of the shareholders or by the existing Directors either to fill a vacancy or as an additional Director. All of the Directors will in accordance with the UK Corporate Governance Code will retire from office and seek re-election at the Company's Annual General Meeting on 14 November 2019, with the exception of Luke Mayhew, who will step down on that date, and Mike Schmidt, Jo Boydell and Steve Johnson who will seek election for the first time.

The Executive Directors serve under rolling contracts that are terminable upon six months' notice from the Company and 12 months' notice from the Executive Director. The Non-Executive Directors are under letters of appointment. Copies of service contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and able to devote sufficient time to discharge their responsibilities.

Directors' interests

Information about the Directors' interests in the Ordinary Shares of the Company on 30 June 2019, or date of appointment if later, and any subsequent changes as at 23 September 2019 is set out in the Directors' remuneration report on page 82.

Directors' and Officers' insurance

During the financial year ended 30 June 2019 and up to the date of the Directors' Report the Company has maintained appropriate directors' and officers' liability insurance cover. A review is carried out on an annual basis to ensure that the Board remains satisfied that an appropriate level of cover is in place.

Directors' conflicts of interest

The Company has formal procedures in place for managing conflicts of interest. Should a director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with any Group company, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Employees

As at the year end the Company employed 5,468 employees (as set out in the gender analysis table on page 41). The Group places considerable value on the involvement of its employees and uses a number of ways to engage with employees on matters that impact them and on the performance of the Group.

The Company believes in encouraging Employee share ownership and operates an all-employee Save As You Earn Scheme.

Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders. No amendments are proposed at the 2019 AGM.Annual General Meeting ('AGM').

The Company's next AGM will take place on 14 November 2019 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA at 2.30pm, and the Chair of each of the Board's Committees will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM, including the resolutions to be proposed, will be sent to shareholders at least 21 clear days prior to the date of the meeting.

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

Share capital

Details of the Company's share capital are set out in note 21 to the consolidated financial statements. The Company has one class of Ordinary Shares and, as at 23 September 2019, the Company had an issued share capital of 213,030,601 Ordinary Shares of £1.50 each.

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

Other than the general provisions of the Articles of Association and prevailing legislation, there are no specific restrictions on the size of a holding or on the transfer of the Ordinary Shares. The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority to purchase own shares

At the last AGM of the Company on 30 November 2018, the Company was authorised to purchase a maximum of 10% of the Company's issued share capital. This authority will expire at the close of the next AGM on 14 November 2019 unless revoked, varied or renewed prior to that meeting.

Since the date of the last Annual Report, no shares have been purchased by the Company and 493,303 treasury shares have been utilised to satisfy share-based employee-awards and SAYE options. As at the date of this Annual Report, 844,719 Ordinary shares of £1.50 each are held by the Company as treasury shares with the expectation that they will be utilised to satisfy future share-based employee-award/SAYE option obligations.

A resolution will be proposed at the 2019 AGM to renew this authority.

Directors' report continued

Authority to allot shares
At the last AGM of the Company on 30 November 2018, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £105,765,729 (or up to £211,531,459 in connection with an offer by way of a rights issue).

As at the date of this Annual Report, no shares have been issued under this authority. This authority will expire at the conclusion of the 2019 AGM unless revoked, varied or renewed prior to that meeting.

A resolution will be proposed at the 2019 AGM to renew this authority.

Substantial Shareholders
As at 23 September 2019 the Company has been notified of the following holdings of voting rights in its shares under Rule 5 of The Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

	Number of voting rights	% of voting rights	Date of last notification
Franklin Templeton Fund Management Ltd	21,157,000	10.0	27 Aug 2018
Jupiter Asset Management	12,391,391	5.9	23 Oct 2015
Pelham Long/Short Small Cap Master Fund Ltd	12,292,942	5.8	11 Apr 2016
Aviva plc & subsidiaries	11,195,695	5.3	7 May 2019
J O Hambro Capital Management Ltd	10,804,588	5.1	24 Nov 2017
Standard Life Aberdeen plc	10,303,461	4.8	13 Sep 2019
SK Family Investment LLC	10,611,623	5.0	28 Sep 2017
Royal London Asset Management Ltd	8,589,347	4.1	16 Jun 2017
Canaccord Genuity Group inc.	8,000,000	3.8	20 Sep 2017

As at 23 September 2019, the Company had not received any further notifications of holdings of voting rights.

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

Going concern
The Group remains highly cash generative and currently has sufficient medium and long-term facilities in place, including a £250.0 million revolving credit facility in place until August 2022, of which £207.0 million is currently utilised at the date of this Annual Report. Further details of these facilities and the Group's financial management objectives are detailed in the financial statements.

On the basis of their assessment of the Group's financial position, forecasts and projections, the Company's Directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence as detailed in the Viability Statement on page 33. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditor and disclosure of information to auditor
The Directors who held office at the date of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each such Director has taken all the reasonable steps that they ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

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

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

Subsequent events
Between 30 June 2019 and the date of signing this report there have been no reportable subsequent events. This report has been approved by the Board of Directors and has been signed on its behalf by:

Elizabeth McDonald
Group Company Secretary
25 September 2019

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Each of the Directors whose names and functions are set out on pages 46 and 47 confirms that, to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition the Directors consider the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board.

Tim Stacey
Chief Executive Officer
25 September 2019

Mike Schmidt
Chief Financial Officer
25 September 2019

Independent auditor's report

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

1. Our opinion is unmodified

We have audited the financial statements of DFS Furniture plc ("the Company") and its subsidiaries (together "the Group") for the 48 week period ended 30 June 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2019 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 6 July 2015. The period of total uninterrupted engagement is for the 5 financial periods ended 30 June 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£1.4m (2018:£2.2m) 5.3% (2018: 5.9%) of Group profit before tax excluding non-underlying items	
Coverage	93% (2018:100%) of Group profit before tax	
Key audit matters		**vs 2018**
Recurring risks	Recoverability of DFS Trading Limited goodwill and of the parent's investment in subsidiaries	◄►
New risks	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	Going concern	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 30 (principal risks), page 33 (viability statement), page 56 (Audit Committee Report), page 101 (accounting policy).	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in Recoverability of DFS Trading Limited goodwill and of the parent's investment in subsidiaries and Going concern below, and related disclosures, and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. 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.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. **Our procedures included:** • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing Recoverability of DFS Trading Limited goodwill and of the parent's investment in subsidiaries, Going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Recoverability of DFS Trading Limited goodwill and of the parent's investment in subsidiaries and Going concern we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. • **Our results:** As reported under Recoverability of DFS Trading Limited goodwill and of the parent's investment in subsidiaries, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should 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.

Independent auditor's report continued

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Going concern	**Disclosure quality:** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • The impact of Brexit on the Group's supply chain. • Regulatory changes to the sale of financial products, including extended warranties. There are also less predictable but realistic second order impacts, such as the impact of Brexit on the erosion of customer confidence, which could result in a rapid reduction in sales. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Our procedures included:** • **Funding assessment:** assessed the committed level of finance, and its expiry, to ascertain the need for refinancing. Reviewing covenant compliance, both in year and for the forecast period; • **Historical comparisons:** reviewed the historical results in order to assess the directors' track record of forecasts versus actual cash flows achieved in the year and previously; • **Sensitivity analysis:** Considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. This was done through stress testing the forecasts against severe but plausible situations, including a reduction in sales due to consumer confidence, impact on the supply chain and the potential impact of a change in Financial Services regulation around insurance products. • **Benchmarking assumptions:** Benchmarked the assumptions behind the cash flow forecasts to third party evidence, including analyst reports and market data; • **Evaluation of directors' intent**: Evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, including reduction in capital expenditure, marketing costs and the level of dividends; • **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure through our specific client understanding, industry and market analysis and through cumulative audit knowledge. **Our results** • We found the going concern disclosure without any material uncertainty to be acceptable.

	The risk	Our response
Recoverability of DFS Trading Limited goodwill and of the parent's investment in subsidiaries (Group's goodwill in DFS Trading £479.9m; 2018: £479.9m; Parent company's investment in subsidiaries £244m; 2018: £241.5m) Refer to page 56 (Audit Committee Report), pages 105 and 127 (accounting policy) and page 113 (financial disclosures).	**Subjective estimate:** There is a risk, particularly in light of current political and economic uncertainty and more challenging market conditions, that the business may not meet expected growth projections in order to support the carrying value of goodwill in relation to DFS Trading Limited or the parent company's investment in subsidiaries. This risk remains significant in light of recent years of trading performance for DFS Trading Limited falling behind internal and market expectations. The Group support the goodwill balance and the parent company investment through a value in use calculation that has underlying assumptions of varying sensitivities. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** • **Historical comparisons**: Analysed the Group's previous forecasts against actual outcomes to assess the historical reliability of the forecasting. • **Benchmarking assumptions:** Compared the Group's trading forecasts against current trading performance and against anticipated growth in the furniture retail sector, and investigating any significant deviations, in order to challenge the assumptions present within the forecasts. This was performed through review of industry projections and using our knowledge of DFS Furniture plc and the retail sector. • **Sensitivity analysis:** Performed sensitivity analysis over revenue, profit margins, terminal growth rate, and discount factor in order to determine their impact on the value in use calculations. • **Our sector experience:** Engaged our own valuation specialists to assess and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculation, benchmarking each input against our own expectations, and comparing the overall rate to an expected range based on our own benchmarks. • **Comparing valuations:** Compared the sum of the discounted cash flows for all CGUs to the Group's market capitalisation to assess the reasonableness of those cash flows; and • **Assessing transparency:** Considered the adequacy of the Group's disclosures around the carrying value of goodwill and the impairment analysis. **Our results** • We found the carrying amount of goodwill in the group and the parent company's investment in subsidiaries to be acceptable.

Independent auditor's report continued

3. Key audit matters: including our assessment of risks of material misstatement

	The risk	Our response
Guarantee Provision (£7.4 million; 2018: £7.5 million) Refer to page 56 (Audit Committee Report), page 104 (accounting policy) and page 118 (financial disclosures).	**Subjective estimate:** The guarantee provision reflects the estimated cost of fulfilling the obligations arising from the product guarantee provided to retail customers of DFS Trading Limited. The amount of the provision is inherently uncertain and there is significant estimation involved in the provision model, including assumptions around: average cost per claim, volume of claims, and the average period over which calls are received. The effect of these matters is that, as part of our risk assessment, we determined that the value in use has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** • **Historical comparisons:** Compared expected volumes of calls against historical data. • **Test of details:** Tested key inputs of the calculated cost per call to supporting internal documentation and benchmarking to third party costs per call. Compared the timing of when items were sold to the timing over which calls are expected to arise. • **Expectation vs outcome:** Compared the timing of when items were sold to the timing over which calls are expected to arise. • **Methodology evaluation:** Assessed the reasonableness of Group's forecasting methodology by comparing prior period's provision recognised in respect of sales incurred during prior period against staff costs incurred during the current year in relation to calls received in year in relation to last year's sales. • **Sensitivity analysis:** Performed sensitivity testing on certain inputs to the calculation of the provision including average cost per claim and the percentage of orders on which calls are received, in order to determine their impact on the calculations. • **Assessing transparency:** Determined whether the group's disclosures in relation to the provision, the assumptions on which it is based and sensitivities around those assumptions are adequate. **Our results** We found the resulting estimate of the guarantee provision to be acceptable.

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

Materiality for the group financial statements as a whole was set at £1.4m (2018: £2.2m), determined with reference to a benchmark of group profit before tax, normalised to exclude non-underlying items as disclosed in note 3, being acquisition related costs and additional consideration, restructuring costs and integration costs, of which it represents 5.3% (2018: 5.9%). The group team performed procedures on the items excluded from normalised group profit before tax.

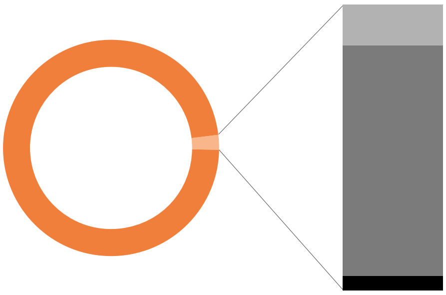
Materiality for the parent company financial statements as a whole was set at £0.7m (2018:£2.1m), determined with reference to a benchmark of company total assets, of which it represents 0.13% (2018: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.07m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 9 (2018: 9) reporting components, we subjected 4 (2018: 9) to full scope audits for group purposes.
For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Group profit before tax excluding non-underlying items
£26.8m (2018: £37.2m)

Group materiality
£1.4m (2018: £2.2m)



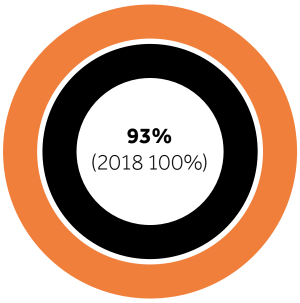
£1.4m
Whole financial statements materiality (2018: £2.2m)

£1.2m
Range of materiality at 9 components (£0.7m-£1.2m)
(2018: £0.4m to £2.1m)

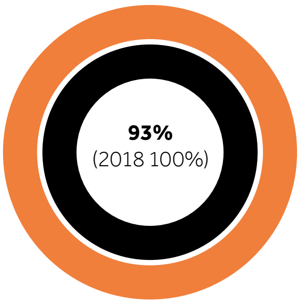
£0.07m
Misstatements reported to the Audit Committee (2018:£0.11m)

Revenue Group materiality

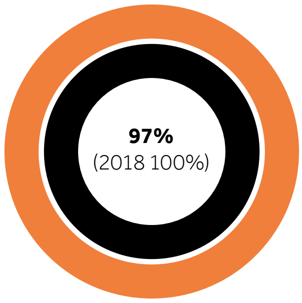
Group Revenue



Group profit before tax



Group total assets



Full scope for group/statutory audit purposes 2019 Full scope for group/statutory audit purposes 2018

5. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 3 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 33 is materially inconsistent with our audit knowledge.
- We have nothing to report in these respects.

Independent auditor's report continued

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within Strategic Report page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 87, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified financial service legislation as the area most likely to have such an effect, recognising the nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

25 September 2019

Consolidated income statement

for 48 weeks ended 30 June 2019 (52 weeks ended 28 July 2018)

		48 weeks to 30 June 2019			52 weeks to 28 July 2018		
	Note	Underlying £m	Non-underlying £m	Total m	Underlying £m	Non-underlying £m	Total £m
Gross sales	1,2	**1,165.0**	**–**	**1,165.0**	1,125.6	–	1,125.6
Revenue	2	**901.0**	**–**	**901.0**	870.5	–	870.5
Cost of sales		**(383.8)**	**–**	**(383.8)**	(363.6)	–	(363.6)
Gross profit		**517.2**	**–**	**517.2**	506.9	–	506.9
Selling and distribution costs		**(392.8)**	**–**	**(392.8)**	(380.6)	–	(380.6)
Administrative expenses	3	**(59.3)**	**(4.4)**	**(63.7)**	(50.2)	(9.9)	(60.1)
Operating profit before depreciation and amortisation		**65.1**	**(4.4)**	**60.7**	76.1	(9.9)	66.2
Depreciation		**(23.3)**	**–**	**(23.3)**	(24.1)	–	(24.1)
Amortisation		**(4.9)**	**–**	**(4.9)**	(4.2)	–	(4.2)
Operating profit	2,3	**36.9**	**(4.4)**	**32.5**	47.8	(9.9)	37.9
Finance income	5	**0.2**	**–**	**0.2**	0.1	–	0.1
Finance expenses	5	**(10.3)**	**–**	**(10.3)**	(10.7)	(1.5)	(12.2)
Profit before tax		**26.8**	**(4.4)**	**22.4**	37.2	(11.4)	25.8
Taxation	6	**(5.1)**	**0.8**	**(4.3)**	(7.7)	0.7	(7.0)
Profit for the period		**21.7**	**(3.6)**	**18.1**	29.5	(10.7)	18.8
Earnings per share							
Basic	7	**10.3p**	**(1.7)p**	**8.6p**	14.0p	(5.1)p	8.9p
Diluted	7	**10.1p**	**(1.7)p**	**8.4p**	13.9p	(5.0)p	8.9p

Consolidated statement of comprehensive income

for 48 weeks ended 30 June 2019 (52 weeks ended 28 July 2018)

	48 weeks to 30 June 2019 £m	52 week to 28 July 2018 £m
Profit for the period	**18.1**	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	**9.7**	6.0
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**(6.1)**	6.3
Recognised in finance expense	**(0.6)**	(1.3)
Income tax on items that are or may be reclassified subsequently to profit or loss	**(0.5)**	(1.6)
Other comprehensive expense for the period, net of income tax	**2.5**	9.4
Total comprehensive income for the period	**20.6**	28.2

Consolidated balance sheet

at 30 June 2019 (28 July 2018)

	Note	30 June 2019 £m	28 July 2018 £m
Non-current assets			
Property, plant and equipment	8	**89.9**	91.1
Intangible assets	9	**539.0**	537.0
Other financial assets	11	**1.4**	1.6
Deferred tax assets	12	**8.7**	8.0
		639.0	637.7
Current assets			
Inventories	13	**54.8**	54.4
Other financial assets	11	**6.3**	3.7
Trade and other receivables	14	**32.8**	31.2
Cash and cash equivalents		**29.8**	47.2
		123.7	136.5
Total assets		**762.7**	774.2
Current liabilities			
Trade payables and other liabilities	15	**(225.1)**	(228.5)
Provisions	19	**(5.0)**	(4.9)
Other financial liabilities	16	**–**	(0.1)
Current tax liabilities		**(0.8)**	(2.7)
		(230.9)	(236.2)
Non-current liabilities			
Interest bearing loans and borrowings	17	**(194.0)**	(195.7)
Provisions	19	**(5.6)**	(5.9)
Other financial liabilities	16	**(0.7)**	(1.1)
Other liabilities	15	**(79.7)**	(82.9)
		(280.0)	(285.6)
Total liabilities		**(510.9)**	(521.8)
Net assets		**251.8**	252.4
Equity attributable to owners of the Company			
Share capital	21	**319.5**	319.5
Share premium	21	**40.4**	40.4
Merger reserve	21	**18.6**	18.6
Treasury shares	21	**(2.1)**	(3.3)
Cash flow hedging reserve	21	**7.0**	4.0
Retained earnings		**(131.6)**	(126.8)
Total equity		**251.8**	252.4

These financial statements were approved by the Board of Directors on 25 September 2019 and were signed on its behalf by:

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Company registered number: 7236769

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 year	–	–	–	–	–	18.8	18.8
Other comprehensive income/(expense)	–	–	–	–	11.0	(1.6)	9.4
Total comprehensive income/(expense) for the year	–	–	–	–	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**
Profit for the period	–	–	–	–	–	18.1	18.1
Other comprehensive income/(expense)	–	–	–	–	3.0	(0.5)	2.5
Total comprehensive income/(expense) for the period	–	–	–	–	3.0	17.6	20.6
Dividends	–	–	–	–	–	(23.8)	(23.8)
Treasury shares issued	–	–	–	1.2	–	(1.2)	–
Share based payments	–	–	–	–	–	2.6	2.6
Balance at 30 June 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**7.0**	**(131.6)**	**251.8**

Consolidated cash flow statement

for 48 weeks ended 30 June 2019 (52 weeks ended 28 July 2018)

	Note	**48 weeks to 30 June 2019 £m**	52 weeks to 28 July 2018 £m
Operating profit		**32.5**	37.9
Adjustments for:			
Depreciation, amortisation and impairment		**28.2**	28.3
Gain on sale of property, plant and equipment		**(0.8)**	(0.9)
Accrued acquisition consideration		**–**	5.0
Share based payment expense		**2.6**	2.8
Increase in trade and other receivables		**(1.6)**	(1.7)
Increase in inventories		**(0.4)**	(4.7)
(Decrease)/Increase in trade and other payables		**(10.2)**	11.0
Decrease in provisions		**(0.3)**	(1.1)
Net cash from operating activities before tax		**50.0**	76.6
Tax paid		**(7.4)**	(9.1)
Net cash from operating activities		**42.6**	67.5
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.2**	1.0
Interest received		**0.2**	0.1
Acquisition of subsidiaries		**–**	(20.1)
Acquisition of trade and assets		**–**	(1.2)
Acquisition of property, plant and equipment		**(17.5)**	(17.3)
Acquisition of other intangible assets		**(6.9)**	(4.7)
Net cash from investing activities		**(23.0)**	(42.2)
Cash flows from financing activities			
Proceeds from new loan		**–**	197.0
Interest paid		**(7.7)**	(7.4)
Exceptional refinancing costs		**–**	(1.9)
Repayment of borrowings		**(2.0)**	(200.0)
Payment of finance lease liabilities		**(3.5)**	(3.1)
Ordinary dividends paid		**(23.8)**	(23.7)
Net cash from financing activities		**(37.0)**	(39.1)
Net decrease in cash and cash equivalents		**(17.4)**	(13.8)
Cash and cash equivalents at beginning of period		**47.2**	61.0
Cash and cash equivalents at end of period	26	**29.8**	47.2

Notes to the consolidated financial statements

at 30 June 2019

1 Accounting policies

DFS Furniture plc ("the Company") is a company incorporated and domiciled in the United Kingdom.

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

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

1.1 Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 48 weeks to 30 June 2019 (last year 52 weeks to 28 July 2018).

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 125 to 128.

Going concern

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £250.0m revolving credit facility in place until August 2022. Further details of these facilities and the Group's financial management objectives are detailed in the financial statements.

The directors have conducted an assessment of the Group's financial position, forecasts and projections including consideration of the challenges and uncertainties presented by the current trading environment as outlined in the Strategic Report. On the basis of this assessment the Company's directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence as detailed in the Viability Statement on page 33 and they therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.2 Basis of consolidation

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

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

1.3 Gross sales and revenue

Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods to external customers, being the total amount payable by the customer ("gross sales") less: value added and other sales taxes, the costs of obtaining interest free credit on behalf of customers and the amounts payable to third parties relating to products for which the Group acts as an agent. For products where the Group acts as an agent, the amount recognised in revenue is the net fee receivable by the Group.

Many of the Group's customers choose to take advantage of the interest-free credit that the Group makes available. This credit is provided by external finance houses, who pay the Group the gross sales value of the customer order on delivery, less a fee for taking responsibility for payment collection and bearing the full credit risk for any future default by the customer. The fee due to the finance house varies depending on the amount borrowed by the customer, the length of the repayment term and the LIBOR rate at the time of the transaction.

In calculating reported revenue in accordance with IFRS the Group is required to deduct these fees from the value of the customer order. Reported revenue will therefore vary depending on the proportion of customers who choose to take up the interest free credit offer, the average duration of the interest free loan period and the prevailing LIBOR rates.

For the purposes of managing its business the Group focuses on gross sales, which is defined as the total amount payable by customers, inclusive of VAT and other sales taxes and prior to any accounting adjustments for interest-free credit fees or aftercare product costs. The Directors believe gross sales is a more transparent measure of the activity levels and performance of its stores and online channels as it is not affected by customer preferences on payment options. Accordingly gross sales is presented in this annual report in addition to statutory revenue, with a reconciliation between the two measures provided in note 2 to the financial statements.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised when goods have been delivered to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured. Receipt of goods by the customer represents the completion of the Group's performance obligation under the sales contract and payment is received prior to or immediately after delivery. Expected future costs of satisfying the Group's obligations under long-term product guarantees offered to customers are determined at the time of the sale, provided for separately (note 19) and charged to cost of sales.

Notes to the consolidated financial statements continued

at 30 June 2019

1 Accounting policies continued

1.4 Expenses

Non-underlying items

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

- significant profit or loss on the disposal of non-current assets
- material impairment charges
- significant non-recurring tax charges or credits
- costs associated with significant corporate, financial or operating restructuring, including acquisitions
- initial costs of establishing operations in new geographical territories

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

Royalty payments

Royalties payable to brand partners on sales of branded products are charged to cost of sales when the related product is delivered to the customer.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. The Group has no significant contingent rental arrangements.

Finance lease payments

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

Finance income and expenses

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

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

1.5 Employee benefits

Defined contribution plans

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

Short-term benefits

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

Share based payments

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

1.6 Taxation

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

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

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

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

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

1 Accounting policies continued

1.7 Foreign currency

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

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

1.8 Business combinations

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

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

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

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

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

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

1.9 Property, plant and equipment

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

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

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

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

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

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

1.10 Intangible assets and goodwill

Goodwill

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

Other intangible assets

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

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

Amortisation

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

- computer software and website costs 3 years
- acquired brand names 10 to 20 years

Notes to the consolidated financial statements continued
at 30 June 2019

1 Accounting policies continued

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

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

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

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

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

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

1.15 Derivative financial instruments and hedging

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

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

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

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

1 Accounting policies continued

1.15 Derivative financial instruments and hedging continued

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

1.16 Significant areas of estimation and judgment

In the application of the Group's accounting policies, the Directors are required to make judgments, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, but may differ from actual results. No significant areas of judgement arose in the current financial statements. Significant areas of estimation for the Group are explained below:

Contingent consideration

As detailed in note 9, the terms of the acquisition of Sofology Limited included deferred contingent consideration payable based on profits of the acquired business post-acquisition. The value of this deferred consideration has yet to be finalised, and therefore the financial statements include an estimated accrual of the amount potentially payable of £5.0m. This estimate is based on an analysis of the detailed terms of the sale and purchase agreement and consideration of the possible outcomes of the expert determination process. The final value of the consideration payable may therefore materially differ from the amount accrued.

The following are important estimates relating to material balances in the Group's financial statements, but which do not meet the IFRS-defined criteria of a significant estimate:

Customer guarantees

The Group maintains a provision for its obligations under long term product guarantees offered to its customers. In determining the value of this provision estimates are made of the number of future claims that will be received and the cost of satisfying those claims. Further details are provided in note 19. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 30 June 2019.

Net realisable value of inventories

As detailed in note 13, the Group makes estimates of applicable selling prices to determine the net realisable value of inventories. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 30 June 2019.

Goodwill impairment

Goodwill is tested annually for impairment by comparing its carrying value to a calculation of the value in use of the relevant cash-generating units. This exercise requires estimates to be made of future cash flows arising from each cash-generating unit and the appropriate discount rate to apply. Further details of the key assumptions underlying the calculation are provided in note 9. The Directors have concluded that no reasonably possible change in these assumptions would result in the recognition of an impairment within the next twelve months and accordingly the carrying value of goodwill is not considered a significant estimate as at 30 June 2019.

1.17 New accounting standards

In the period ended 30 June 2019, the Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Further details of the impact of the adoption of these standards are given below. There are no other new standards, amendments to existing standards or interpretations that are effective for the first time in the period ended 30 June 2019 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.
- 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.

A number of new or revised standards and interpretations have been issued which are not yet effective or endorsed by the EU, and which have not therefore been applied by the Group in these financial statements. IFRS 16 Leases, which applies to the Group from FY20.

Notes to the consolidated financial statements continued
at 30 June 2019

1 Accounting policies continued
1.17 New accounting standards continued
IFRS 16 Leases
IFRS 16 Leases is applicable to the Group for the period beginning 1 July 2019 and will have a material impact on the Group's financial statements for the period to 28 June 2020.

IFRS 16 eliminates the previous distinction between finance leases and operating leases under IAS 17 and instead requires lessees to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Rental payments currently recognised in the income statement will be replaced by depreciation of the right of use asset (on a straight line basis) and a finance cost for the unwinding of the discount on the liability (which is higher in the earlier years of the lease term). IFRS 16 will therefore accelerate the timing of the recognition of lease costs in the income statement, although the total expense recognised in the income statement over the life of the lease will be unchanged.

The adoption of the new standard does not affect the overall cash flows of the Group, although the revised presentation within the cash flow statement will result in an increase in operating cash flows and a decrease in financing cash flows.

Transition
The Group has a large number operating leases, the majority of which relate to leased property. As at 30 June 2019 the Group had non-cancellable operating lease commitments of £695.1m (note 25). The Group also leases the majority of its commercial and other vehicles – these arrangements were previously accounted for as finance leases under IAS17 and therefore the accounting is not materially changed on transition to IFRS 16.

The Group is adopting the modified retrospective method with a transition date of 1 July 2019 meaning that comparative figures will not be restated. Lease liabilities will be calculated as the present value of future lease payments from the date of transition. Where the necessary historical information is available, the right of use asset will be calculated from the lease commencement date; otherwise the asset value will equal the value of the liability at transition after adjustments for prepayments and accrued lease liabilities recognised as at 30 June 2019. The cumulative effect of the adoption of IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019.

Impact on the financial statements
For existing lease commitments at the transition date, the Group expects to recognise a lease liability of approximately £535m-£555m and a right-of-use asset of approximately £420m-£440m. The net impact to the right-of-use asset for any prepayments or accrued lease liabilities recognised as at 30 June 2019 is expected to be a reduction of approximately £64m-£68m. As a result, the cumulative impact on retained earnings at transition is expected to be a reduction of approximately £27m-£71m.

For the period to 28 June 2020, the Group anticipates an approximate increase in operating profit of approximately £80m as a result of a reduction in the operating lease charge. The profit before tax is expected to decrease by approximately £4m-£6m, due to an increase in depreciation and interest on the right-of-use asset and lease liability.

The standard contains key areas of significant judgement, including the determination of applicable discount rates and lease terms. The Group will endeavour to apply a consistent approach to these areas of judgement. Where it is practicable to do so, the Group will apply any exemptions or practical expedients available within the standard.

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	
	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m	**48 weeks to 30 June 2019 £m**	52 weeks to 28 July 2018 £m	**48 weeks to 30 June 2019 £m**	52 weeks to 28 July 2018 £m
DFS	**850.2**	898.5	**–**	–	**850.2**	898.5
Sofology	**237.7**	155.2	**–**	–	**237.7**	155.2
Other segments	**77.1**	71.9	**0.5**	0.6	**77.6**	72.5
Eliminations	**–**	–	**(0.5)**	(0.6)	**(0.5)**	(0.6)
Gross sales	**1,165.0**	1,125.6	**–**	–	**1,165.0**	1,125.6

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Total segments gross sales	**1,165.0**	1,125.6
Less: value added and other sales taxes	**(183.5)**	(175.8)
Less: costs of interest free credit and aftercare products	**(80.5)**	(79.3)
Revenue	**901.0**	870.5
Of which:		
Furniture sales	**839.5**	807.6
Sales of aftercare products	**61.5**	62.9
Revenue	**901.0**	870.5

48 weeks to 30 June 2019	**DFS £m**	**Sofology £m**	**Other £m**	**Total £m**
Revenue	**650.6**	**187.7**	**62.7**	**901.0**
Cost of sales	**(262.5)**	**(92.3)**	**(29.0)**	**(383.8)**
Gross profit	**388.1**	**95.4**	**33.7**	**517.2**
Selling & distribution costs (excluding property costs)	**(217.1)**	**(52.7)**	**(23.9)**	**(293.7)**
Brand contribution (segment profit)	**171.0**	**42.7**	**9.8**	**223.5**
Property costs				**(99.1)**
Underlying administrative expenses				**(59.3)**
Underlying EBITDA				**65.1**

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 & 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

Notes to the consolidated financial statements continued

at 30 June 2019

2 Segmental Analysis continued

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Underlying EBITDA	**65.1**	76.1
Non-underlying items	**(4.4)**	(9.9)
Depreciation & amortisation	**(28.2)**	(28.3)
Operating profit	**32.5**	37.9
Finance income	**0.2**	0.1
Finance expenses	**(10.3)**	(12.2)
Profit before tax	**22.4**	25.8

A geographical analysis of revenue is presented below:

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
United Kingdom	**872.0**	839.7
Europe	**29.0**	30.8
Total revenue	**901.0**	870.5

Segment assets and liabilities

	Assets		Liabilities	
	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
DFS	**645.4**	662.4	**(236.6)**	(249.6)
Sofology	**91.0**	87.3	**(66.1)**	(61.7)
Other segments	**34.6**	33.5	**(37.4)**	(33.2)
Total segments	**771.0**	783.2	**(340.1)**	(344.5)
Loans and financing	**–**	–	**(194.0)**	(195.7)
Financial assets/(liabilities)	**7.7**	5.3	**(0.7)**	(1.2)
Current tax	**–**	–	**(0.8)**	(2.7)
Deferred tax	**8.7**	8.0	**–**	–
Eliminations	**(24.7)**	(22.3)	**24.7**	22.3
Total Group	**762.7**	774.2	**(510.9)**	(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	
	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
DFS	**24.5**	20.7	**19.5**	21.4
Sofology	**3.8**	2.3	**5.9**	4.3
Other segments	**1.1**	4.1	**2.8**	2.6
Total Group	**29.4**	27.1	**28.2**	28.3

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):

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Depreciation on tangible assets	**23.3**	24.1
Net gain on disposal of property, plant and equipment	**(0.8)**	(0.9)
Amortisation of intangible assets	**4.9**	4.2
Cost of inventories recognised as an expense	**393.8**	371.2
Write down of inventories to net realisable value	**0.2**	0.6
Other costs of sales	**(10.2)**	(8.2)
Operating lease rentals	**73.6**	74.2

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Non-underlying items		
Acquisition related professional fees	**0.2**	2.6
Estimated additional consideration	**–**	5.0
Integration costs	**3.3**	2.0
Restructuring costs	**0.9**	0.3
	4.4	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 9). Restructuring costs relate to exceptional restructuring activity within the DFS brand and Group support centre, to align with the revised ways of working following the Sofology Limited acquisition.

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Auditor's remuneration:		
Audit of these financial statements	**0.2**	0.1
Audit of the financial statements of Group subsidiaries	**0.1**	0.1
Amounts receivable by the Company's auditor and its associates in respect of:		
All other services	**–**	0.1
	0.3	0.3

4 Staff numbers and costs

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

	Number of employees	
	48 weeks to 30 June 2019	52 weeks to 28 July 2018
Production	**1,132**	1,088
Warehouse and transport	**1,097**	1,033
Sales and administration	**3,227**	2,751
	5,456	4,872

The aggregate payroll costs of these persons were as follows:

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Wages and salaries	**145.7**	147.3
Social security costs	**15.5**	14.9
Other pension costs	**3.7**	3.3
	164.9	165.5
Share based payment expense (equity settled)	**2.6**	2.8
	167.5	168.3

Notes to the consolidated financial statements continued
at 30 June 2019

5 Finance income and expense

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Finance income		
Interest income on bank deposits	**0.2**	0.1
Total finance income	**0.2**	0.1
Finance expense		
Interest payable on senior loan facility	**–**	(0.1)
Interest payable on senior revolving credit facility	**(6.8)**	(7.0)
Bank fees	**(0.2)**	(0.1)
Fair value lease adjustment unwind (note 15)	**(2.7)**	(3.0)
Unwind of discount on provisions	**(0.1)**	(0.1)
Finance lease interest	**(0.5)**	(0.4)
Underlying finance expense	**(10.3)**	(10.7)
Non-underlying refinancing costs	**–**	(1.5)
Total finance expense	**(10.3)**	(12.2)

Non-underlying finance costs relate to the refinancing of the Group's borrowings (note 17).

6 Taxation

Recognised in the income statement

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Current tax		
Current period	**5.8**	8.2
Adjustments for prior years	**(0.3)**	(0.1)
Current tax expense	**5.5**	8.1
Deferred tax		
Origination and reversal of temporary differences	**(1.4)**	(0.9)
Deferred tax rate change	**0.1**	–
Adjustments for prior years	**0.1**	(0.2)
Deferred tax expense	**(1.2)**	(1.1)
Total tax expense in income statement	**4.3**	7.0

Reconciliation of effective tax rate

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Profit before tax for the period	**22.4**	25.8
Tax using the UK corporation tax rate of 19% (2018: 19%)	**4.3**	4.9
Non-deductible expenses	**1.1**	2.6
Tax exempt revenues	**(0.3)**	–
Effect of tax rates in foreign jurisdictions	**0.3**	(0.2)
Recognition of previously unrecognised tax losses	**(0.9)**	–
Adjustments in respect of prior years	**(0.3)**	(0.3)
Impact of change in tax rate on deferred tax balances	**0.1**	–
Total tax expense	**4.3**	7.0

The Finance Act 2016, which was substantively enacted in September 2016, included provisions to reduce the rate of UK corporation tax to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, 17% has been applied when calculating deferred tax assets and liabilities at 30 June 2019.

6 Taxation continued

Income tax recognised in other comprehensive income

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Effective portion of changes in fair value of cash flow hedges	**1.6**	1.0
Net change in fair value of cash flow hedges reclassified to profit or loss	**(1.1)**	0.8
Deferred tax asset in respect of share based payments	**–**	(0.2)
	0.5	1.6

7 Earnings per share

Statutory earnings per share

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

Diluted earnings per share is calculated using the same net profit or loss for the financial period attributable to ordinary equity holders of the parent Company, but increasing the weighted average number of ordinary shares by the dilutive effect of potential ordinary shares. Potential ordinary shares arise from employee based payment arrangements (note 24). Where share based payments are subject to performance conditions, they are included as potential ordinary shares to the extent that the performance conditions have been met at the reporting date. Details of share based payment vesting conditions are provided in the Director's Remuneration report.

	48 weeks to 30 June 2019 pence	52 weeks to 28 July 2018 pence
Basic total earnings per share	**8.6**	8.9
Diluted total earnings per share	**8.4**	8.9

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Profit for the period attributable to equity holders of the parent Company	**18.1**	18.8

	30 June 2019 No.	28 July 2018 No.
Weighted average number of shares in issue for basic earnings per share	**212,008,955**	211,631,564
Dilutive effect of employee share based payment awards	**3,144,296**	1,301,607
Weighted average number of shares in issue for diluted earnings per share	**215,153,251**	212,933,171

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.

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Profit for the period attributable to equity holders of the parent Company	**18.1**	18.8
Non-underlying loss after tax	**3.6**	10.7
Underlying profit for the period attributable to equity holders of the parent Company	**21.7**	29.5

	48 weeks to 30 June 2019 pence	52 weeks to 28 July 2018 pence
Underlying basic earnings per share	**10.3**	14.0
Underlying diluted earnings per share	**10.1**	13.9

Notes to the consolidated financial statements continued
at 30 June 2019

8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
Cost				
Balance at 29 July 2017	7.7	114.8	24.6	147.1
Additions	0.9	15.8	5.7	22.4
Acquisitions	–	17.1	1.6	18.7
Disposals	(0.2)	(3.7)	(4.7)	(8.6)
Balance at 28 July 2018	8.4	144.0	27.2	179.6
Additions	0.3	17.8	4.4	22.5
Acquisitions	–	–	–	–
Disposals	(0.1)	(0.2)	(3.3)	(3.6)
Balance at 30 June 2019	**8.6**	**161.6**	**28.3**	**198.5**
Depreciation and impairment				
Balance at 29 July 2017	1.1	60.4	11.4	72.9
Depreciation charge for the period	0.2	17.8	6.1	24.1
Disposals	(0.2)	(3.7)	(4.6)	(8.5)
Balance at 28 July 2018	1.1	74.5	12.9	88.5
Depreciation charge for the period	0.2	17.6	5.5	23.3
Disposals	–	(0.1)	(3.1)	(3.2)
Balance at 30 June 2019	**1.3**	**92.0**	**15.3**	**108.6**
Net book value				
At 29 July 2017	6.6	54.4	13.2	74.2
At 28 July 2018	7.3	69.5	14.3	91.1
At 30 June 2019	**7.3**	**69.6**	**13.0**	**89.9**

Leased plant and machinery
Included in the total net book value of motor vehicles is £10.5m (2018: £9.2m) in respect of assets held under finance leases. Depreciation for the period on these assets was £3.6m (2018: £3.2m).

Capital commitments
At 30 June 2019 the Group had contracted capital commitments of £5.4m (2018: £3.9m) for which no provision has been made in the financial statements.

9 Intangible assets

	Computer software £m	Brand names £m	Goodwill £m	Total £m
Cost				
Balance at 29 July 2017	15.1	3.0	485.0	503.1
Additions	4.7	–	–	4.7
Acquisitions	1.3	13.8	29.6	44.7
Balance at 28 July 2018	21.1	16.8	514.6	552.5
Additions	6.9	–	–	6.9
Balance at 30 June 2019	**28.0**	**16.8**	**514.6**	**559.4**
Amortisation and impairment				
Balance at 29 July 2017	10.9	0.4	–	11.3
Amortisation charge for the period	3.1	1.1	–	4.2
Balance at 28 July 2018	14.0	1.5	–	15.5
Amortisation charge for the period	3.5	1.4	–	4.9
Balance at 30 June 2019	**17.5**	**2.9**	**–**	**20.4**
Net book value				
At 29 July 2017	4.2	2.6	485.0	491.8
At 28 July 2018	7.1	15.3	514.6	537.0
At 30 June 2019	**10.5**	**13.9**	**514.6**	**539.0**

Goodwill

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

	Goodwill	
	2019 £m	2018 £m
DFS Trading Limited	**479.9**	479.9
Sofology Limited	**28.4**	28.4
The Sofa Workshop Limited	**5.3**	5.3
DFS Spain	**1.0**	1.0
	514.6	514.6

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

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations for each cash generating unit. Selling prices and related costs are based on past practice and expected future changes in the market. A terminal value was then calculated on the basis of the four year plan and the expected long-term growth rate for the UK upholstery furniture sector of 2.3%. These cash flow forecasts were then discounted at pre-tax discount rates between 10.7% and 12.2% (2018: 10.1%-11.6%). The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

Notes to the consolidated financial statements continued
at 30 June 2019

9 Intangible assets continued

Goodwill continued

These calculations showed a significant headroom between the calculated value in use and the carrying value of goodwill in the financial statements. A number of sensitivities were then applied to the base case model to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. This analysis applied a number of challenging scenarios, including: possible shortfalls in cash flows compared to plan, a decrease in the long term growth rate of the UK upholstery market, and changes in applicable discount rates. On the basis of this analysis the Directors concluded that a reasonably possible change in assumptions would not lead to an impairment being recognised.

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 £26.0m (equivalent to £25m 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.

As noted in last year's annual report, the post-acquisition performance of the business strengthened and £5.0m of additional consideration was subsequently accrued in FY18, recognised as a non-underlying expense in the income statement. The accounting confirmation procedures under the sale and purchase agreement have not yet concluded, however the Directors' view of the amount potentially payable has not changed and accordingly this accrual remains in place at 30 June 2019. On determination and settlement of the final amount due, any difference between that and the amount accrued 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.

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

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

Multiyork

On 27 December 2017 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 was accounted for as a business combination, was £1.2m and was recognised as goodwill. In addition, £0.1m of related acquisition costs were recognised in non-underlying administrative expenses in the prior year.

10 Investments in subsidiaries

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

	Principal activity
Diamond Holdco 2 Limited[1]	Intermediate holding company
Diamond Holdco 7 Limited[1]	Intermediate holding company
DFS Furniture Holdings plc[1]	Intermediate holding company
DFS Furniture Company Limited[1]	Intermediate holding company
DFS Trading Limited[1]	Furniture retailer
Coin Retail Limited (Jersey)[2]	Intermediate holding company
Coin Furniture Limited[3]	Furniture retailer
The Sofa Workshop Limited[4]	Furniture retailer
DFS Spain Limited[1]	Furniture retailer
Sofology Limited[5]	Furniture retailer
C.S Lounge Suites Limited[5]	Dormant
Soundsofa Limited[5]	Dormant
Loveseats Limited[5]	Dormant
Slothworks Limited[5]	Dormant
Sofasound Limited[5]	Dormant
Sofaworks Limited[5]	Dormant
Sleepology Limited[5]	Dormant
Haydock Furniture Limited[5]	Dormant

Registered offices:

1. Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster DN6 7NA.
2. 13-14 Esplanade, St Helier, Jersey JE1 1BD.
3. The Pavilion, 118 Southwark Street, London, SE1 0SW.
4. Venture House 4th Floor, 27-29 Glasshouse Street, London W1B 5DF.
5. Ashton Road, Golborne, Warrington, WA3 3UL.

11 Other financial assets

	30 June 2019 £m	28 July 2018 £m
Non-current		
Foreign exchange contracts	**1.4**	1.6
Current		
Foreign exchange contracts	**6.3**	3.7

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

12 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	30 June 2019 £m	28 July 2018 £m
Fixed asset timing differences	**3.9**	3.8
Fair value lease creditor	**4.8**	5.0
Remeasurement of derivatives to fair value	**(1.1)**	(0.6)
Tax losses carried forward	**1.5**	0.9
Brand names	**(2.2)**	(2.2)
Share based payments	**1.1**	0.8
Other temporary differences	**0.7**	0.3
Net tax assets	**8.7**	8.0

Notes to the consolidated financial statements continued

at 30 June 2019

12 Deferred tax continued

The deferred tax movement in the period is as follows:

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
At start of period	**8.0**	9.8
Credited/(charged) to the income statement:		
Fixed asset timing differences	**0.1**	1.1
Fair value lease creditor	**(0.2)**	(0.2)
Tax losses carried forward	**0.6**	(0.1)
Brand names	**–**	0.3
Share based payments	**0.3**	0.1
Other temporary differences	**0.4**	(0.1)
Acquisition of subsidiaries	**–**	(1.3)
Recognised in the statement of comprehensive income	**(0.5)**	(1.6)
At end of period	**8.7**	8.0

13 Inventories

	30 June 2019 £m	28 July 2018 £m
Raw materials and consumables	**5.9**	5.7
Finished goods and goods for resale	**56.5**	56.2
	62.4	61.9
Provision for net realisable value	**(7.6)**	(7.5)
	54.8	54.4

In applying its accounting policy for inventory, the Group identifies those items where there is a risk that net realisable value does not exceed cost, due to either the age of condition of the item. An estimate of the net realisable value of such items is made based on the sale of similar items in the past, taking into account expected future opportunities for sale, and their carrying value reduced by an appropriate provision.

14 Trade and other receivables

	30 June 2019 £m	28 July 2018 £m
Trade receivables	**9.1**	7.6
Prepayments	**22.8**	22.6
Accrued income	**0.6**	0.6
Other receivables	**0.3**	0.4
	32.8	31.2

No interest is charged on trade receivables; the Group bears no credit risk in respect of amounts due from retail customers under interest free credit arrangements. Following the Group's adoption of IFRS 15, prepayments and accrued income are presented separately and comparative figures are presented on the same basis. Prepayments and accrued income do not include impaired assets.

15 Trade payables and other liabilities

	30 June 2019 £m	28 July 2018 £m
Current		
Payments received on account	**42.2**	37.1
Trade payables	**106.9**	120.4
Other creditors including other tax and social security	**26.9**	32.4
Accruals	**43.3**	33.5
Deferred income	**1.9**	1.8
Finance lease liabilities	**3.9**	3.3
	225.1	228.5

	30 June 2019 £m	28 July 2018 £m
Non-current		
Fair value lease creditor	**24.0**	25.4
Accruals	**34.1**	35.7
Deferred income	**13.4**	14.6
Finance lease liabilities	**8.2**	7.2
	79.7	82.9

Payments on account represent contract liabilities under IFRS 15,which will be realised through revenue in the subsequent financial year. Trade payables do not bear interest and are paid within agreed credit terms. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the reporting date. On implementation of IFRS 15, accruals and deferred income are now presented separately for current and comparative periods.

On the acquisition of the DFS business by the current parent Company in 2010 and also on the acquisition of Sofology Limited in 2017 a number of fair value adjustments were made, including the recognition of a liability representing the present value of certain unfavourable lease obligations as assessed at the date of acquisition. This fair value lease creditor is released to the income statement over the remaining life of the related leases (expiring in 2030), with the unwind of the discount recognised as a finance expense (note 5).

16 Other financial liabilities

	30 June 2019 £m	28 July 2018 £m
Non-current		
Interest rate derivatives	**0.7**	1.1
Current		
Foreign exchange contracts	**–**	0.1

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23). Interest rate derivatives are used to hedge interest rate risk on the Group's floating rate debt (note 23).

17 Other interest-bearing loans and borrowings

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

	30 June 2019 £m	28 July 2018 £m
Senior revolving credit facility	**195.0**	197.0
Unamortised issue costs	**(1.0)**	(1.3)
	194.0	195.7

The revolving credit facility bears interest at a rate of 3 month LIBOR plus 2.10% and is repayable in full on 2 August 2022. The revolving credit facility is secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Company and DFS Furniture Holdings plc. On 25 September 2019 the Group increased the size of the revolving credit facility from £230.0m to £250.0m through an accordion facility.

Notes to the consolidated financial statements continued

at 30 June 2019

17 Other interest-bearing loans and borrowings continued

Finance lease liabilities

Finance lease liabilities are payable as follows:

	30 June 2019			28 July 2018		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**4.3**	**(0.4)**	**3.9**	3.7	(0.4)	3.3
Between one and five years	**8.7**	**(0.5)**	**8.2**	7.6	(0.4)	7.2
More than five years	**–**	**–**	**–**	–	–	–
	13.0	**(0.9)**	**12.1**	11.3	(0.8)	10.5

18 Employee benefits

Defined contribution pension plans

The Group operates a number of defined contribution pension plans under which contributions by the employees and the Group are administered by trustees in funds separate from the Group's assets. The costs of these schemes are charged to the income statement as they become payable under the rules of the scheme. The total pension cost of the Group for the period was £3.7m (2018: £3.3m).

19 Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 28 July 2018	7.5	2.4	0.9	10.8
Provisions made during the period	4.2	0.2	–	4.4
Reclassification from accruals	–	–	–	–
Provisions used during the period	(4.0)	(0.3)	(0.1)	(4.4)
Provisions released during the period	(0.3)	–	–	(0.3)
Unwind of discount	–	0.1	–	0.1
Balance at 30 June 2019	**7.4**	**2.4**	**0.8**	**10.6**
Current	4.0	0.2	0.8	5.0
Non-current	3.4	2.2	–	5.6
	7.4	**2.4**	**0.8**	**10.6**

The Group offers a long-term guarantee on its upholstery products and in accordance with accounting standards a provision is maintained for the expected future cost of fulfilling these guarantees on products which have been delivered before the reporting date. In calculating this provision the key areas of estimation are the number of future claims, average cost per claim and the expected period over which claims will arise (nearly all claims arise within two years of delivery). The Group has considered the sensitivity of the calculation to these key areas of estimation, and determined that a 10% change in either the average cost per claim or the number of expected future calls would change the value of the calculated provision by £0.6m. The Directors have therefore concluded that reasonably possible variations in estimate would not result in a material difference.

Property provisions relate to onerous contracts and other obligations in respect of the Group's property leases including an estimate of dilapidation costs based on anticipated lease expiries and renewals. Other provisions relate to payment of refunds to customers for payment protection insurance policies and other regulatory costs.

20 Dividends

The following dividends were recognised and paid during the period:

	Pence per ordinary share	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Final ordinary dividend for FY17	7.5p	**–**	15.9
Interim ordinary dividend for FY18	3.7p	**–**	7.8
Final ordinary dividend for FY18	7.5p	**15.9**	–
Interim ordinary dividend for FY19	3.7p	**7.9**	–
		23.8	23.7

The Directors recommend a final dividend of 7.5p in respect of the financial period ended 30 June 2019 ("FY19"), resulting in a total proposed dividend of £15.9m. Subject to shareholder approval it is intended that this dividend will be paid on 27 December 2019. DFS Furniture plc shares will trade ex-dividend from 5 December 2019 and the record date will be 6 December 2019. This dividend has not therefore been recognised as a liability in these financial statements.

21 Capital and reserves

Share capital

Ordinary shares of £1.50 each	Number of shares '000	Ordinary shares £m
Allotted, called up and fully paid		
At the start and end of the financial period	213,030	319.5

Share premium

The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue ordinary shares on 11 March 2015.

Merger reserve

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

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

During the period ending 30 July 2016 the Company purchased 1,500,000 of its own ordinary shares at a total cost of £3.7m for the purpose of satisfying employee share based payment awards. During the period 511,489 of these shares (2018: 130,729) were used to satisfy employee share based payment awards.

Cash flow hedging reserve

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

Notes to the consolidated financial statements continued
at 30 June 2019

22 Financial instruments: categories and fair value

	30 June 2019 £m	28 July 2018 £m
Financial assets		
Derivatives in designated hedging relationships	**7.7**	5.3
Loans and receivables	**9.4**	8.0
Cash	**29.8**	47.2
Financial liabilities		
Derivatives in designated hedging relationships	**(0.7)**	(1.2)
Senior revolving credit facility	**(194.0)**	(195.7)
Amortised cost	**(210.2)**	(216.8)
Finance lease obligations	**(12.1)**	(10.5)

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.

23 Financial instruments: risk management

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

Liquidity risk

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

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

30 June 2019	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	**199.6**	**–**	**–**	**–**	**199.6**
Finance lease liabilities	**4.3**	**3.6**	**5.1**	**–**	**13.0**
Senior revolving credit facility	**5.8**	**5.8**	**211.5**	**–**	**223.1**
Other liabilities	**4.9**	**2.2**	**0.6**	**2.1**	**9.8**
	214.6	**11.6**	**217.2**	**2.1**	**445.5**
Derivatives: net settled	**0.7**	**–**	**–**	**–**	**0.7**
Derivatives: gross settled					
Cash in flows	**(135.9)**	**(68.6)**	**–**	**–**	**(204.5)**
Cash out flows	**143.6**	**55.7**	**–**	**–**	**199.3**
Total cash flows	**223.0**	**(1.3)**	**217.2**	**2.1**	**441.0**

23 Financial instruments: risk management continued

28 July 2018	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	206.0	–	–	–	206.0
Finance lease liabilities	3.7	3.3	4.3	–	11.3
Senior revolving credit facility	6.0	6.0	209.8	–	221.8
Other liabilities	4.8	3.9	0.6	2.3	11.6
	220.5	13.2	214.7	2.3	450.7
Derivatives: net settled	1.1	0.7	–	–	1.8
Derivatives: gross settled					
Cash in flows	(125.5)	(49.2)	–	–	(174.7)
Cash out flows	120.9	46.6	–	–	167.5
Total cash flows	217.0	11.3	214.7	2.3	445.3

Interest rate risk management

The Group's operating profit is affected by the cost of providing interest free credit to its customers. A fall in LIBOR rates would have a positive impact on operating profit and a rise in LIBOR rates would impact operating profit negatively. However, with the current low LIBOR rates any increases or decreases at present would largely be mitigated by the LIBOR 'floor' mechanisms used by the external providers of credit to the Group's customers. Excluding the effect of these floors, an increase in LIBOR of one percentage point would reduce the Group's reported revenue by 0.5%.

The Group is exposed to interest rate risk on its senior revolving credit facility, which bears interest at a floating rate of 3 month GBP LIBOR plus 2.10%. In order to provide some certainty over the future cash flows associated with this debt, the Group has in place four participating interest rate swaps and caps. The effect of these instruments is to fix the interest rate payable on the senior revolving credit facility to a maximum level while allowing the Group to retain some benefit on a proportion of the facility where LIBOR remained below 1.39%. The fair values of the Group's interest rate derivatives are as follows:

	30 June 2019 £m	28 July 2018 £m
Interest rate swaps		
Derivatives in designated hedging relationships	**(0.7)**	(1.1)

Foreign exchange risk management

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

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

	30 June 2019		28 July 2018	
	Notional amount £m	**Fair value £m**	Notional amount £m	Fair value £m
Derivatives in designated hedging relationships				
US Dollar	**199.3**	**5.9**	167.5	5.2

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

	Assets		**Liabilities**	
	30 June 2019 £m	28 July 2018 £m	**30 June 2019 £m**	28 July 2018 £m
US Dollar	**6.4**	8.2	**(16.3)**	(7.6)
Euro	**4.8**	4.0	**(1.1)**	(1.6)

Notes to the consolidated financial statements continued

at 30 June 2019

23 Financial instruments: risk management continued

Foreign currency sensitivity analysis

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

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

Positive figures represent an increase in profit or equity.

	Income statement		Equity	
	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m	**48 weeks to 30 June 2019 £m**	52 weeks to 28 July 2018 £m
US Dollar	**1.0**	(0.1)	**(20.7)**	(17.3)
Euro	**(0.4)**	(0.2)	**–**	–

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

Financial risk management

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

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

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

Capital management

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

24 Share based payments

The Group has three share based payment schemes in operation:

Long Term Incentive Plan (LTIP)

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

LTIP awards vest after a three year performance period (other than those granted shortly after Admission vested on 31 July 2017) subject to the achievement of performance measures based on earnings per share and total shareholder return targets. Further information on LTIP performance targets and awards made to Directors is given in the Directors' Remuneration Report on pages 63 to 83.

Restricted Share Plan (RSP)

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

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

Save as Your Earn (SAYE)

SAYE schemes are currently available to all employees in the UK and Republic of Ireland, with invitations to participate generally issued on an annual basis and subject to HMRC rules. The current maximum monthly savings limit for the schemes is £500. Options are granted at the prevailing market rate less a discount of 20% and vest three years from the date of grant.

24 Share based payments continued

The movements in outstanding awards under each of the schemes are summarised below; no awards vested or were exercised during the period and at 30 June 2019 no outstanding awards were exercisable.

	LTIP No.	RSP No.	SAYE No.
Outstanding at the beginning of the period	1,856,129	3,102,167	2,673,807
Granted	725,302	1,215,352	556,475
Forfeited	(187,338)	(271,586)	(261,012)
Exercised	–	(485,243)	(26,246)
Lapsed	(366,756)	–	(7,677)
Cancelled	–	–	(321,911)
Outstanding at the end of the period	**2,027,337**	**3,560,690**	**2,613,436**
Weighted average remaining contractual life (months)	**17.4**	**18.3**	**15.6**

Fair value calculations

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

	LTIP	RSP	SAYE
Grant date	30 November 2018	30 November 2018	7 December 2018
Share price at date of grant	£2.10	£2.10	£2.29
Exercise price	Nil	Nil	£1.83
Volatility[3]	28.5-29.5%	–[2]	24.0%
Expected life	3 years	3 years	3.1 years
Risk free rate	0.8%	–[2]	0.5%
Dividend yield	–[1]	5.4%	5.0%
Fair value per share			
Market based performance conditions[3]	£1.23-£1.38	–	–
Non-market based performance condition/no performance condition	£2.10	£1.78	£0.40

1. LTIP participants are entitled to receive dividend equivalents on unvested awards therefore dividend yield does not impact the fair value calculation.
2. Volatility and risk free rates do not impact the fair value calculation for awards with no exercise price or market based performance condition.
3. The 2018 LTIP grant included a number of required holdings periods, giving a range of volatility and fair values.

As the Company had only limited share price history at the date of grant, expected volatility was based on a proxy volatility determined from the median volatility of a group of appropriate comparator companies within the FTSE All Share index. Expected life has been assumed to equate to the vesting period of the awards.

The total share based payment expense included in administration costs in respect of the above schemes was £2.6m (2018: £2.8m).

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	30 June 2019 £m	28 July 2018 £m
Less than one year	**84.4**	84.1
Between one and five years	**312.0**	315.0
More than five years	**298.7**	342.8
	695.1	741.9

The Group has entered into operating leases in respect of stores, warehouses and equipment. These non-cancellable leases have remaining terms of between 3 months and 15 years. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

During the period £73.6m was recognised as an expense in the income statement in respect of operating leases (2018: £74.2m). At 30 June 2019, future rentals receivable under non-cancellable leases where the Group is the lessor were £8.1m (2018: £8.7m).

Notes to the consolidated financial statements continued
at 30 June 2019

26 Net debt

	28 July 2018 £m	Cash flow £m	Other non-cash changes £m	**30 June 2019 £m**
Cash in hand, at bank	47.2	(17.4)	–	**29.8**
Cash and cash equivalents	47.2	(17.4)	–	**29.8**
Senior revolving credit facility	(195.7)	2.0	(0.3)	**(194.0)**
Finance lease liabilities	(10.5)	3.5	(5.1)	**(12.1)**
Total net debt	(159.0)	(11.9)	(5.4)	**(176.3)**

Non-cash changes include the addition of new finance leases within the period of £5.1m and the amortisation of capitalised debt issue costs of £0.3m.

27 Related parties

Key Management Personnel

At 30 June 2019, Directors of the Company held 0.2% of its issued ordinary share capital (2018: 0.8%), and a further 0.0% (2018: 0.2%) was held by other key management personnel.

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

	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Emoluments	**3.9**	2.7
Share based payments expense	**0.8**	0.5
Company contributions to money purchase schemes	**0.1**	0.1
	4.8	2.8

During the financial period, the Group made purchases on a commercial, arms-length basis totalling £0.6m from Joules Group plc, a company at which Ian Filby was also a director.

Company balance sheet
at 30 June 2019

	Note	30 June 2019 £m	28 July 2018 £m
Non-current assets			
Investments	29	**244.1**	241.5
Current assets			
Amounts due from Group companies	30	**293.0**	293.0
Current liabilities			
Amounts due to Group companies	31	**(94.9)**	(71.2)
Net assets		**442.2**	463.3
Capital and reserves			
Called up share capital	32	**319.5**	319.5
Share premium	32	**40.4**	40.4
Merger reserve	32	**18.6**	18.6
Treasury shares	32	**(2.1)**	(3.3)
Retained earnings		**65.8**	88.1
Equity shareholders' funds		**442.2**	463.3

These financial statements were approved by the Board of Directors on 25 September 2019 and were signed on its behalf by:

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Company statement of changes in equity
at 30 June 2019

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Retained earnings £m	Total equity £m
Balance at 29 July 2017	**319.5**	**40.4**	**18.6**	**(3.7)**	**14.4**	**389.2**
Profit for the year	–	–	–	–	95.0	95.0
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive expense for the year	–	–	–	–	–	–
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)**	**88.1**	**463.3**
Profit for the period	–	–	–	–	–	–
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive income/(expense) for the period	–	–	–	–	–	–
Dividends	–	–	–	–	(23.7)	(23.7)
Treasury shares issued	–	–	–	1.2	(1.2)	–
Share based payments	–	–	–	–	2.6	2.6
Balance at 30 June 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**65.8**	**442.2**

Notes to the Company financial statements

at 30 June 2019

28 Accounting policies

Basis of preparation

The financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In these financial statements the Company has applied the exemption available under FRS101 in respect of the following disclosures:

- a cash flow statement and related notes
- comparative period reconciliations
- disclosures in respect of transactions with wholly owned subsidiaries
- disclosures in respect of capital management
- the impact of new but not yet effective IFRSs

As the consolidated accounts of the Company include the equivalent disclosures, the Company has also taken the exemption available under FRS 101 in respect of IFRS 2 *Share Based Payments* disclosures of group settled share based payments. Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account. The Company's profit for the period was £nil (2018: £95.0m).

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The Company heads a group which is highly cash generative, with sufficient medium and long term facilities in place to enable it to meet its obligations as they fall due. The directors are therefore satisfied that the Company will be able to continue in operational existence, as detailed in the Group's Viability Statement on page 33, and have therefore continued to prepare the Company's financial statements on the going concern basis.

Investments

Investments are stated at cost, less any accumulated impairment losses. Carrying values of investments in subsidiary companies are reviewed for impairment when a possible indicator of impairments is identified, based on a value in use calculation.

Amounts due from and to Group companies

Amounts receivable from or payable to other companies within the Company's Group are recognised initially and fair value and subsequently measured at amortised cost less any provision for impairment.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income. Deferred tax is provided on temporary differences between the carrying amounts if assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Share based payments

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

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Notes to the Company financial statements continued
at 30 June 2019

29 Investments

	Shares in subsidiary undertakings	
	48 weeks to 30 June 2019 £m	52 weeks to 28 July 2018 £m
Cost and net book value		
At the start of the financial period	**241.5**	238.7
Additions	**2.6**	2.8
At the end of the financial period	**244.1**	241.5

Details of the Company's investments are given in note 10. Additions in the current and prior period relate to capital contributions made in respect of share based payments schemes for the Group's employees. No impairment indicators or impairment charges were identified in either in the current or previous financial period.

30 Debtors

	30 June 2019 £m	28 July 2018 £m
Amounts due from subsidiary undertakings	**293.0**	293.0

31 Creditors: amounts due in less than one year

	30 June 2019 £m	28 July 2018 £m
Amounts due to subsidiary undertakings	**94.9**	71.2

32 Capital and reserves

Share capital

Ordinary shares of £1.50 each	**Number of shares '000**	Ordinary shares £m
Allotted, called up and fully paid		
At the start and end of the financial period	**213,030**	319.5

Share premium

The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue ordinary shares on 11 March 2015.

Merger reserve

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

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

During the period ending 30 July 2016 the Company purchased 1,500,000 of its own ordinary shares at a total cost of £3.7m for the purpose of satisfying employee share based payment awards. During the period 511,489 of these shares (2018: 130,729) were used to satisfy employee share based payment awards.

Financial history

		FY19 52 weeks[4]	FY19 48 weeks[3]	FY18[1]	FY17	FY16	FY15[2]
Gross sales	£m	**1,287.2**	**1,165.0**	1,125.6	990.8	980.4	913.1
Revenue	£m	**996.2**	**901.0**	870.5	762.7	756.0	706.1
Underlying EBITDA	£m	**90.2**	**65.1**	76.1	82.4	94.4	89.2
Underlying profit before tax excluding brand amortisation	£m	**50.2**	**28.2**	38.3	50.2	64.6	22.4
Profit before tax	£m	**43.6**	**22.4**	25.8	50.1	64.5	10.7
Basic earnings per share	p	**16.5**	**8.6**	8.9	18.7	28.3	4.3
Ordinary dividends per share	p	**11.2**	**11.2**	11.2	11.2	11.0	9.3
Special dividends per share	p	**–**	**–**	–	9.5	–	–
Purchase of own shares	£m	**–**	**–**	–	–	3.7	–
Total shareholder return	%	**+31.9**	**+31.5**	+1.9	+6.5	-21.5	+11.8

Notes
1. Sofology acquired 30 November 2017.
2. IPO 10 March 2015.
3. Audited statutory period: 48 weeks ended 30 June 2019.
4. Unaudited proforma period: 52 weeks ended 30 June 2019.

Alternative performance measures

In reporting the Group's financial performance, the Directors make use of a number of alternative performance measures (APMs) in addition to those defined or specified under EU-adopted International Financial Reporting Standards (IFRS).

The Directors consider that these APMs provide useful additional information to support understanding of underlying trends and business performance. In particular, APMs enhance the comparability of information between reporting periods by adjusting for non-underlying items. APMs are therefore used by the Group's Directors and management for internal performance analysis, planning and incentive setting purposes in addition to external communication of the Group's financial results.

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. Definitions of APMs may vary from business to business and accordingly the Group's APMs may not be directly comparable to similar APMs reported by other entities.

Notes to FY19

The Group has changed its accounting reference date to 30 June and accordingly the statutory audited results for FY19 are for the 48 weeks ended 30 June 2019. To enable meaningful comparatives for reported key performance indicators (KPIs), unaudited pro-forma figures for the 52 weeks ended 30 June 2019 have also been presented.

Sofology was acquired on 30 November 2017 and therefore contributed for only eight months (34 weeks) of the comparative period.

APM	Definition	Rationale
Like-for-like revenue	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.	Provides insight into year on year changes in the underlying trading environment by excluding distortions from new showroom openings.
LTM FY19	Last twelve months/52 weeks ended 30 June 2019 (unaudited, pro-forma period).	A twelve month period is required to enable comparison to reported results for previous periods. The seasonal nature of the Group's activity means that certain KPIs are only meaningful when assessed on a full year basis.
Gross sales	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.	Key measure of overall sales performance which unlike IFRS revenue is not affected by the extent to which customers take up the Group's interest free credit offering.
Brand contribution	Gross profit less selling and distribution costs, excluding property and administration costs.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA	Earnings before interest, taxation, depreciation and amortisation.	A commonly used simple cash profit measure.
Non-underlying items	Certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance.	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA	Earnings before interest, taxation, depreciation and amortisation, as adjusted for non-underlying items.	Simple cash profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation	Profit before tax adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology, Dwell and Sofa Workshop.	Profit measure widely used by investors and analysts.
Underlying earnings per share	Post-tax earnings per share as adjusted for non-underlying items.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
Free cash flow	Sum of underlying EBITDA, less gross capital expenditure and changes in working capital.	Measure of the cash flow generated by the Group beyond that required to invest in its business activities.
Leverage (or gearing)	The ratio of period end net debt to underlying EBITDA for the previous twelve months.	Key measure for banking facilities which indicates the relative level of borrowing to profit.
Return on capital employed (ROCE)	Post-tax operating profit before non-underlying items plus operating lease charges, expressed as a percentage of the sum of: property, plant & equipment, computer software, working capital and 8x operating lease charges.	Represents the post-tax return the Group achieves on the investment it has made in its business.

Reconciliations to IFRS measures

EBITDA	FY19 £m	LTM FY19 £m	FY18 £m
Operating profit	**32.5**	**54.3**	37.9
Depreciation	**23.3**	**25.8**	24.1
Amortisation	**4.9**	**5.0**	4.2
EBITDA	**60.7**	**85.1**	66.2

Underlying EBITDA	FY19 £m	LTM FY19 £m	FY18 £m
EBITDA	**60.7**	**85.1**	66.2
Non-underlying operating items	**4.4**	**5.1**	9.9
Underlying EBITDA	**65.1**	**90.2**	76.1

Underlying profit before tax and brand amortisation	FY19 £m	LTM FY19 £m	FY18 £m
Profit before tax	**22.4**	**43.6**	25.8
Non-underlying items	**4.4**	**5.1**	11.4
Amortisation of brand names	**1.4**	**1.5**	1.1
Underlying profit before tax and brand amortisation	**28.2**	**50.2**	38.3

Free cash flow	LTM FY19 £m	FY18 £m
Underlying EBITDA	**90.2**	76.1
Acquisition of property, plant and equipment	**(19.4)**	(17.3)
Acquisition of other intangible assets	**(6.9)**	(4.7)
Cash capital expenditure	**(26.3)**	(22.0)
Share based payment expense	**2.6**	2.8
Increase in debtors	**(1.9)**	(1.7)
Increase in inventories	**3.2**	(4.7)
Increase in trade and other payables	**25.5**	11.0
Decrease in provisions	**(0.7)**	(1.1)
Change in working capital	**28.7**	6.3
Free cash flow generation	**92.6**	60.4

Leverage	LTM FY19 £m	FY18 £m
Underlying EBITDA	**90.2**	76.1
Period end net debt (note 26)	**176.3**	159.0
Leverage (net debt/underlying EBITDA)	**1.95x**	2.09x

Return on capital employed	LTM FY19 £m	FY18 £m
Operating profit	**54.3**	37.9
Non-underlying operating items	**5.1**	9.9
Operating lease charge	**80.2**	74.2
Pre-tax return	**139.6**	122.0
Effective tax rate	***19.0%***	*20.7%*
Tax adjusted return – **A**	**113.1**	96.7
Property, plant and equipment	**89.9**	91.1
Computer software	**10.5**	7.1
	100.4	98.2
Inventories	**54.8**	54.4
Trade receivables	**9.1**	7.6
Prepayments	**22.8**	22.6
Accrued income	**0.6**	0.6
Other receivables	**0.3**	0.4
Payments received on account	**(42.2)**	(37.1)
Trade payables	**(106.9)**	(120.4)
Working capital	**(61.5)**	(71.9)
8 times lease charge	**641.6**	593.6
Total capital employed – **B**	**680.5**	619.9
ROCE – **A/B**	**16.6%**	15.6%

Shareholder information

Contacts

Chief Executive Officer
Tim Stacey

Chief Financial Officer
Mike Schmidt

Group Company Secretary & General Counsel
Elizabeth McDonald

Investor relations
Philip Hutchinson

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LS1 4DA

Remuneration adviser
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Embankment Place London
WC2N 6RH

Brokers
Peel Hunt Limited & Jefferies International Limited

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

Equiniti
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Equiniti is a trading name of Equiniti Limited.

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

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

For institutional investor enquiries, please contact:
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Annual General Meeting 2019
This year's AGM will be held at 2.30pm on 14 November 2019 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA

Financial calendar

FY19 full year results	26 September 2019
Annual General Meeting	14 November 2019
Record date for FY19 final dividend	6 December 2019
Payment date for FY19 final dividend	27 December 2019
FY19 half year results	March 2020
Payment date for FY20 interim dividend	June 2020

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Report and Accounts
Registered number 7236769
30 June 2019

Company No. 07236769