5 October 2017 **For immediate release**

DFS Furniture plc

Preliminary Results

STRATEGIC PROGRESS MAINTAINED IN CHALLENGING MARKET

DFS Furniture plc, (the "Group"), the market leading retailer of living room and upholstered furniture in the United Kingdom today announces its preliminary results for the 52 weeks ended 29 July 2017 (prior year: 52 weeks ended 30 July 2016)

Financial Summary:

- Gross sales up 1.1% to £990.8 million (FY16: £980.4 million)
- Revenue up 0.9% to £762.7 million (FY16: £756.0 million)
- EBITDA down 12.7% to £82.4 million (FY16: £94.4 million)
- Profit before tax down 22.3% to £50.1 million (FY16: £64.5 million)
- Underlying EPS down 21.1% to 18.7p (FY16: 23.7p)
- Higher leverage primarily due to lower profitability: 1.75x net debt / EBITDA (FY16: 1.45x)
- Final dividend of 7.5p per share proposed, giving a total ordinary dividend of 11.2p for the year (+1.8%; FY16: 11.0p)
- Special dividend of 9.5p per share paid in the year; total dividends in year of 20.7p

Operational Summary:

- Very challenging furniture market environment in the second half leading to revenue and profit impacts for FY17
- Strategic progress maintained:
  - Broadening our appeal to customers
    - Continued strong metrics of Aardman marketing campaign
    - 20% growth in partnership brand upholstery orders and new Joules partnership to produce their first sofa collection
    - Announcement of acquisition of Sofology in FY18, subject to regulatory approval
  - UK store network development
    - Three new 10-15,000 sq. ft. DFS stores opened in UK and ROI
    - Opening of a third small store trial in Crawley
  - International development
    - Netherlands trading in line with expectations
    - Second store opened in Spain (Malaga)
  - Full utilisation of retail space
    - 17 UK Customer Distribution Centres operating at year end
    - 39 DFS stores with converted warehouse space at year end
  - Omnichannel
    - Continued double digit growth in revenue
- Record level of customer satisfaction scores; average post-purchase NPS above 85%; established customer NPS (surveyed 6 months post order) rising from 31.2% to 34.2%

DFS Chief Executive Officer Ian Filby said:

"We have continued to make good strategic progress across all our key areas of growth, while our financial performance reflects the current challenges of the UK furniture market. In particular we were delighted to announce the acquisition of Sofology and the exclusive licensing partnership with the British lifestyle brand Joules.

Historically DFS has been able to build its market leading position and generate strong cashflow for shareholders in all environments by leveraging its fundamental strengths. Our recent strategic investments and operating efficiency programme support our confidence in our ability to deliver modest profit growth and cash returns in the current financial year and we continue to have excellent prospects for the long term."

Key Performance Indicators

	FY17	FY16	YoY change
Financial KPIs			
Gross sales[1]	£990.8m	£980.4m	+1.1%
Revenue	£762.7m	£756.0m	+0.9%
EBITDA[2]	£82.4m	£94.4m	-12.7%
Profit before tax	£50.1m	£64.5m	-22.3%
Underlying earnings per share[3]	18.7p	23.7p	-21.1%
Free cash flow[4]	£57.0m	£75.6m	-24.6%
Cash conversion[5]	69.2%	80.1%	-10.9%pt
Non-financial KPIs			
Number of UK & ROI DFS stores	113	109	
Post purchase Net Promoter Score	85.2%	83.9%	
Established Customer Net Promoter Score	34.2%	31.2%	
Online revenue growth rate	+10.7%	+15.6%	
Growth in partnership brand sales	20%	33%	
Average no. of stores with converted warehouse space[6]	36	19	

Notes:

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

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

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

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

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

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

Analyst Presentation

DFS will be hosting an analyst presentation at 9.00am today. The presentation slides and a listen only web-cast facility will be available through the Group's corporate website: www.dfscorporate.co.uk. There will be a telephone dial-in facility available on +44 (01452) 569393 with passcode 91935307. The presentation slides will be made available on the Group's website: www.dfscorporate.co.uk. A replay facility will be available for two weeks after the event. To access the replay please dial +44 (0)1452 550000 and use passcode 91935307.

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About DFS Furniture plc

DFS is the clear market leading retailer of living room furniture in the United Kingdom. We design, manufacture, sell and deliver to our customers an extensive range of furniture products. The business operates a retail network of living room furniture stores in the United Kingdom and Europe, together with an online channel. These have been established and developed gradually over 48 years of operating history. We attract customers to our stores and website through our substantial and continued investment in nationwide marketing activities and our reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options.

CHAIR'S STATEMENT

This is my first statement as Chair of the DFS Board. Since joining the Board in May 2017 I have spent time visiting many areas of our business including the design studios, stores, factories, CDCs and central functions. I have met customers and joined sales assistants on a sales training course. I have been impressed by the pride, energy and enthusiasm of the colleagues I have encountered and gained valuable insights into the uniqueness and strengths of the DFS business model.

This year has been a challenging one for the Group. Although we saw strong revenue growth in the first six months of the financial year, continuing uncertainty in the economy led to a significant deterioration in the consumer market which impacted sales in the second half of the year. The continued weakness of Sterling against the US Dollar has also created a headwind for gross margins, some of which we have been able to mitigate through the actions that we have taken. As a consequence, although revenue was slightly ahead of last year, we have experienced a decrease in reported profit before tax.

Against this markedly tougher trading environment the Group has continued to progress its strategy and has maintained its investment in the business. This has included the acquisition, subject to regulatory approval, of Sofology. In addition to the anticipated synergies from scale benefits arising from the acquisition, the inclusion of another strong distinctive brand in the Group's portfolio further broadens our appeal to customers.

In the light of the market-wide downturn in demand, revenue growth in the existing store estate is likely to be harder to achieve over the financial year ahead than in the recent past. Therefore while management will continue to pursue the levers of our growth strategy, opportunities to drive operating efficiencies and product margin growth will also be areas of focus. We will also see the benefits of the recent successful refinancing of the Group's debt on favourable terms.

People

The commitment of our colleagues to delivering outstanding customer service and our continued investment in developing our people have again been illustrated by further increases in Net Promoter Scores, a measure of customer satisfaction. I would like to thank everyone in the DFS team for their continued hard work and dedication.

Board

In May 2017, I succeeded Richard Baker as Non-Executive Chair. Under his leadership DFS achieved substantial growth and transformed from private ownership to a publicly listed company while retaining the key strengths that have made the business successful for almost fifty years. On behalf of the Board I would like to thank Richard for his invaluable contribution to the business over the last seven years.

Dividend

Notwithstanding the current subdued sales environment, our longer term expectations for the future earnings and cash flow generation of the business have enabled the Board to recommend maintaining a final dividend of 7.5 pence (FY16: 7.5 pence), taking the full year ordinary dividend for the year to 11.2 pence (FY16: 11.0 pence). Together with the special dividend of 9.5 pence paid in June 2017, total dividends per share for FY17 were 20.7 pence (FY16: 11.0 pence). The Chief Financial Officer's Review below provides further information on our dividend policy.

Conclusion

Historically, DFS has been able to build its position in the UK living room furniture market during challenging trading conditions by successfully leveraging its fundamental strengths in store sales densities, scale of operations, flexible cost base and vertically integrated business model. Therefore while we expect the trading environment to continue to be very challenging in the short term, the Board considers the Group has excellent prospects to continue to deliver attractive shareholder returns over the longer term.

Ian Durant

Chair of the Board

CHIEF EXECUTIVE'S OPERATING REVIEW

While our results reflect the impact of the very challenging UK furniture market environment that developed in the second half of our financial year, we have continued to make progress with our established long-term strategic initiatives designed to strengthen our business for the future. These include forging a new exclusive brand partnership with Joules; the continuing roll-out of the Dwell and Sofa Workshop brands; strong double-digit growth in our market-leading online business; further progress in Spain and our international trial in The Netherlands; the achievement of record customer satisfaction as measured by the Net Promoter Score mechanism; being named as "Best Improver" and in the "Top 30 Big Companies" within the Sunday Times Best Companies to work for survey; and the acquisition, subject to regulatory approval, of the distinctive and complementary Sofology business.

Strategic update

DFS's performance has long been underpinned by an efficient operating platform, which we are working to develop further. Our scale enables us to realise cost advantages relative to other specialist furniture competitors across a range of activities, from buying and advertising through to warehousing and two-man customer delivery. Following investment in technology and infrastructure, DFS's operating platform is now being leveraged by our subsidiaries Dwell and Sofa Workshop, and we believe that as our CDC roll-out completes further Group efficiency opportunities will be delivered. With the announced acquisition of Sofology we believe that our operating platform will be further enhanced through the combination, driving the release of synergies throughout the Group. However, and critically, each brand's operating management will retain direct control over all aspects of the customer experience, thereby ensuring a distinctive brand proposition is maintained.

Our key strategic levers for the delivery of future growth continue:

Broadening our appeal to customers

We have focused on extending our appeal to an even broader range of customers, to enhance our position as the UK leader in living room furniture across all customer segments. I am pleased to report that, a year ahead of plan, we have achieved our long-term target to gain a 25% share of the "aspirational consumer" market, without diminishing our appeal to those customers traditionally most focused on value. We believe that this progress can continue and we have seen very strong brand metrics from our recent Aardman campaigns, in particular on 'brand love', 'acceptability' and also critically the 'call to action'.

Alongside our material progress in changing the style and content of all our marketing and customer communications, the sustained appeal of our Exclusive and Partnership Brands has made an important contribution to this rebalancing of the DFS business. We have continued to develop new ranges under the French Connection, Country Living and House Beautiful brands. We have also continued to benefit from the sale of selected ranges from our own Sofa Workshop brand within the DFS store estate.

Further plans are in place for the ongoing growth of our externally branded ranges within DFS. Reflecting this focus and the scale that these external brands now have within DFS, we have amended our branded sales key performance indicator definition to only include the external partnership brands sold, currently French Connection, Country Living, House Beautiful and G-Plan.

Since the year end we have announced an important expansion of our brand portfolio with the signing of a new brand partnership with the lifestyle brand Joules to produce their first sofa collection. This will be produced in our own factories and its roll-out to DFS stores will begin late in 2017.

The acquisition of Sofology will also add a strong, distinctive brand and business to the Group's portfolio, further broadening our appeal to customers. Leveraging the strength of the DFS Group operating platform creates the potential for some £4 million of near-term synergy benefits in the purchasing of advertising, interest-free credit, upholstery and other services. In the medium to longer term there is scope for further revenue synergies, and for better utilisation of both companies' warehousing facilities and delivery fleets, together with potential for further Group benefits through shared innovation in the future.

The proven ability of DFS and Sofology to trade well alongside each other in multiple locations means that there will be no store closures as a result of the acquisition and Sofology's store opening programme will continue with the added benefit of DFS's own insights, CACI store model, and strong landlord relationships. As with the previous acquisitions of Sofa Workshop and Dwell, Sofology will retain full, independent control of its customer experience and all customer-facing activities.

As previously announced, completion of the acquisition is conditional on clearance from the Competition and Markets Authority ("CMA") and the Financial Conduct Authority ("FCA"). We are pleased to report that FCA clearance has been received, while the CMA merger notice was filed on 2 October 2017 and its 40 working day Phase 1 investigation is now underway and is scheduled to complete no later than 27 November 2017. Should a Phase 2 referral be required, the transaction is then likely to complete in late spring 2018.

DFS store network development

Our well-established programme of opening new 10-15,000 sq ft DFS stores in the UK and Republic of Ireland at the rate of three to five per annum has continued to plan, with a new store in Ashford opening in the second half, following first half openings at Salisbury and Truro. A further three new full-size stores are scheduled to open in the current year at Wednesbury, Rugby and Haverfordwest. A major refit of our Croydon store is also currently underway, as part of a redevelopment of the whole retail park. This will deliver a substantial reduction in our property costs there, and is scheduled to open before Boxing Day.

Our small format store operating model development work continues, and we intend to open a fourth small store in a further location outside the M25, following our opening at Crawley in November 2016.

We have a clearly defined new store pipeline in place to maintain our established rate of expansion over the next two years, subject to final negotiation.

International development

Our measured strategy of international development continues to progress in line with our plans. In The Netherlands, we opened three new stores during the year at Villa Arena, Heerlen and Den Haag and will open a further new store at Eindhoven in the autumn. This will result in a total of six stores in the country, providing sufficient scale and spread for us to begin a trial on the potential sales uplift from national marketing in 2018. This will fall within the scope of our budgeted operating loss in The Netherlands, which we expect to be in the range of £2 - 3 million for a further year.

In Spain, we opened a second store in Malaga during the year, to make DFS more accessible to the substantial British expatriate community there, and also made our interest free credit proposition available to both British and Spanish customers within the country. Notwithstanding the uncertainties surrounding Brexit, the business has performed well and made a contribution to operating profit during the year.

Retail space optimisation

Our accelerated programme of establishing Customer Distribution Centres ("CDCs"), to consolidate our DFS store delivery operations into larger and more efficient offsite facilities, had delivered 17 operational UK CDCs by the end of the year, serving a total of 72 stores. Of these, 39 had benefited from the conversion of their former warehouse space to retail use by the year-end, while the weighted average of converted stores operational through the year was 36. We will complete the CDC opening programme early in the current financial year, with the commissioning of a further two distribution centres.

We opened 15 new co-located Dwell stores within former DFS warehouse space during the year, and now have a total of 30 stores across the UK. Driven principally by new store openings we were pleased to see Dwell's gross sales in the period grow by over 36% to £40m. The investment in pre-opening costs, establishing new store teams, double-running costs for the new national distribution centre in Milton Keynes together with the impact of cost of goods inflation following exchange rate movements, contributed to the generation of a small operating loss at Dwell in the year. Dwell's enlarged operations are becoming better-established and are thus expected to return to profitability in FY18, while also continuing to generate strong sales growth. We now plan six further co-located Dwell store openings in the current financial year, with a final 10 co-located openings to be completed in FY19.

Sofa Workshop achieved double-digit percentage sales growth and solid profitability during the year, and we have achieved pleasing results by replacing stand-alone stores in Exeter and Edinburgh with co-located stores alongside DFS. A further five such co-locations are planned for the current year to bring the total store estate up to 25. While ensuring that we retain Sofa Workshop's distinct identity in branding, staffing and customer service, we are creating the potential for valuable synergies and enhancing existing profitability by bringing its logistics and technology platforms within the DFS Group.

Omnichannel

An effective web presence is of critical importance, given the multiple roles the site now plays: as a showroom when customers begin their research, as a significant transactional channel, and now as a key tool in customer service. We have retained our strong market leadership, with dfs.co.uk continuing to attract over 40% of all online specialist-sector traffic, and unique website visitor numbers continuing to grow.

We have maintained our level of investment in the channel to enhance our customers' experience, providing them with improved visibility and control while also reducing our own customer service costs. This is particularly evident in customers' increasing use of the online channel to make enquiries, track the progress of orders, and complete payments. During the year we also launched a transactional clearance web channel, offering our ex-showroom models at significant savings with live stock availability, allowing us to clear our limited stock more effectively.

Operating efficiencies

We believe our strategy will continue to drive growth in excess of the living room furniture market over the long-term, however we also recognise that with the currently uncertain consumer retail environment, our Group must be prepared for a range of short-term scenarios for market growth. While we expect to benefit from the cost flexibility intrinsic within our business model should market volumes decline, we are also undertaking a number of actions to strengthen our gross margin and thereby drive operating profit growth.

As we outlined previously, during FY17 we have sought to mitigate the impact of foreign exchange related cost of goods inflation primarily through new product introduction and range respecification, with limited product price changes. This programme has made substantial progress, however the full benefits are only partly reflected within the financial results just reported, with further benefits expected to be delivered in FY18.

Furthermore, with the benefit of historical and ongoing investment in our Group technology and logistics infrastructure we have identified opportunities to improve customer service while reducing costs. As an example, since the start of August 2017, we have commenced a closure programme for our national distribution centre activities, with all finished goods now delivered direct to our CDC network, and we are pursuing a number of efficiencies in retail processes that have been enabled through the use of new technology.

Customer service

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

I am pleased to report a further improvement in our overall post-purchase NPS to a record 85.2% during the year, compared with 83.9% in the prior year, and an improvement in established customer satisfaction (surveyed six months after orders are placed) to 34.2%, compared with 31.2% in FY16.

Corporate responsibility

At DFS, we believe in responsible business. We want to interact with our customers, colleagues, shareholders, suppliers and the people in the communities in which we operate in a way that has a positive impact on society and the environment while supporting the Group's longer term commercial and strategic objectives.

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

Our exceptional team of more than 4,200 people is central to achieving our success and ongoing investment in the training and development of all of our people remains a priority for the Group. Reflecting the vital role our store colleagues have in delivering outstanding customer service and driving retail performance, we have reinforced our long-standing sales skills programmes with the introduction of leadership training for all managers in the retail organisation. We are also proud of our award-winning apprenticeship programme, which is now delivering highly-skilled colleagues to our business, and this year we have established a Diversity Working Group to develop and implement new and ongoing initiatives to ensure our teams better reflect our customer base. We are pleased to receive external recognition for excellence in employee conditions by the continuation for the fourth year of our Top Employer certification from the Top Employers Institute, and also our recognition within the Sunday Times' Top 30 Best Big Companies to Work For.

Outlook

The UK furniture market continues to be very challenging and the outlook for the sector remains uncertain. Since early July our order intake has however been satisfactory, seeing a limited decline in year-on-year like-for-like order intake that we believe is consistent with the overall furniture retail market and is within the range of our expectations for the full year.

Historically DFS has been able to build its market leading position and generate strong cash flow for shareholders in all environments by leveraging its fundamental strengths in store sales densities, scale of operations, flexible cost base and vertically integrated business model. We therefore intend to maintain our plans for growth investment and we believe the acquisition of Sofology further strengthens the Group's position and creates additional opportunities for earnings growth in the future.

Although group sales will inevitably be affected by the market environment, we have identified opportunities to drive operating efficiencies and reduce financing costs that are expected to deliver near-term benefits, particularly in the second half of the financial year. Furthermore some pre-opening and similar costs will not recur. Based on these plans and the current market environment, we would expect to achieve modest, second-half weighted profit growth and good cash generation in the current financial year and we continue to have excellent prospects for the longer term.

Ian Filby

Chief Executive Officer

FINANCIAL REVIEW

Although the financial year began with a continuation of the positive trading that we had experienced in FY16, at the time of our interim results we noted the increased risk of a softer market environment in the remainder of the year. The weakening in demand proved unexpectedly severe and resulted in a material change to our outlook for the full financial year, as outlined in our June trading update. Against the backdrop of this tougher trading environment we have maintained our investment in the business to deliver growth in the longer term, while taking actions to meet the challenges of the market in its current phase, the benefits of which will be more fully realised in FY18.

Sales and revenue

The slow-down in trading in the second half resulted in full year performance at a lower rate than the 7% gross sales growth reported at the interim. Group gross sales for the full financial year increased by 1.1% to £990.8 million (FY16: £980.4 million) and Group revenue was £762.7 million, up 0.9% on the previous year (FY16: £756.0 million). The full year increase was driven by the continued growth in our Dwell and Sofa Workshop brands, which offset a small (0.6%) decrease in DFS revenue.

Gross margin

Gross profit for the year reduced by 10.3% to £120.5 million (FY16: £134.3 million). The weakening of Sterling against the US Dollar continued to represent a significant challenge to gross margin, which decreased by 200 basis points to 15.8% (FY16: 17.8%).

We reported at our interim results that the action plans we have pursued on our sourcing and range mix, together with efficiencies in marketing and other parts of our cost base, were beginning to have an effect. Although we made further progress on these to generate an improved gross margin in the second half, the decrease in sales volumes in the latter part of the year, exacerbated by additional cost pressures from European suppliers limited the overall benefit of these initiatives.

We have chosen to continue to invest heavily in our marketing spend, which is a key driver of our business and the living room furniture market overall. While we saw some media cost inflation early in FY17, this had reversed by the end of the financial year, and we expect this deflationary trend to persist into FY18.

We continued the substantial growth programme in Dwell, which opened 15 stores and a new national warehouse in the financial year, doubling the size of its retail network. In pursuing this growth strategy, we have incurred some significant non-recurring costs associated with pre-opening store costs, embedding high quality new store teams and double-running of the new national Dwell warehouse. These costs, together with the industry-wide headwind of exchange rate linked cost of goods inflation have led to an EBITDA loss in FY17 of £1.7 million (FY16: £0.3 million EBITDA profit). We expect the full benefits of the 15 FY17 Dwell new store openings will be realised during FY18, and for Dwell to return an operating profit in the year.

As we move forward into FY18 we will continue to give priority to our strategic development and the maintenance of our value for money proposition and competitive price points. As a consequence of our six CDC and eight UK and international new store openings in FY17 and further openings planned for FY18, we expect our property costs (rent and rates together) to increase by c. £5 million in FY18. Offsetting this impact however we expect revenue growth from the additional retail space and have also identified further opportunities to drive operating efficiencies and product margin growth, as detailed in the Chief Executive’s Review.

Our US Dollar purchases are fully hedged for the year ahead, giving us certainty on buying prices, however also implying we will face, before mitigating action, an overall £7 million expected headwind on product margin in the first half of FY18.

Given benefits flowing from the cost inflation mitigation and operating efficiency plans previously established, and those also currently being implemented we however anticipate that our full year gross margin will be above that seen in FY17, driven by a higher gross margin in the second half of FY18.

Central costs

Administrative expenses decreased by 4.5% to £38.1 million (FY16: £39.9 million). As anticipated in last year's report, investment in Dwell and Sofa Workshop's central infrastructure, group-wide share based payment expenses and other plc-related costs increased in FY17, however this was more than offset by savings in bonuses and other incentive payments as a result of the lower profits, and other savings.

Operating profit and EBITDA

The net impact of the sales and margin effects noted above was a 12.7% decrease in EBITDA for the year to £82.4 million (FY16: £94.4 million), with a reduced EBITDA margin of 10.8% (FY16: 12.5%).

Reflecting the additional capital investment from the CDC and retail space optimisation programme, depreciation and amortisation charges increased to £21.9 million (FY16: £18.6 million) resulting in operating profit of £60.5 million (FY16: £75.8 million). We expect that depreciation and amortisation charges will again rise in FY18 towards £25 million, reflecting historical levels of investment.

Finance costs

Interest payable primarily relates to the Group's senior bank facility of £200 million (together with an undrawn revolving credit facility of £30.0 million). Shortly after the year end the Group completed a successful refinancing of this debt, with a new £230 million revolving credit facility in place until August 2022. The terms of this new facility allow us to flex the level of borrowings to more closely meet short term requirements and is therefore expected to reduce our total financing costs by c.£1 million p.a. for a comparable level of gearing.

Tax

The effective tax rate for the year was 21.1% (FY16: 22.0%, excluding non-underlying credit received last year), higher than the UK Corporation Tax rate applicable in the period of 19.67% (FY16: 20.0%). The variance to the applicable rate is primarily due to disallowable depreciation on non-qualifying assets.

Earnings per share

Changes in the Group's capital structure as a consequence of the IPO in 2015 have now annualised and earnings per share calculations are now comparable on an underlying basis. Excluding the effect of the exceptional tax credit in FY16, earnings per share for FY17 were 18.7p, a decrease of 21.1% on the prior year.

Capital expenditure

Cash capital expenditure for the year of £28.3 million (FY16: £24.5 million) was in line with the £28-30 million guidance we gave last year. Investment was primarily connected to the acceleration of the CDC and retail space optimisation programme, new store openings in the UK and Europe and further investment in our omnichannel infrastructure.

The CDC warehouse opening programme is due to be completed during the first half of FY18 and we therefore anticipate cash capital expenditure for next year to be at a more typical level of between £24-26 million.

Cash flow and balance sheet

The Group continues to be strongly cash generative and despite the lower profit, record capital expenditure and the payment of a £20.1m special dividend, we closed the financial year with net debt of £144.5 million (FY16: £137.1 million). While this gearing ratio of 1.75 times EBITDA (FY16: 1.45 times) is outside our previously stated target at year end of 1.5 times due to the reduced profits in FY17, the Board will target returning to the guidance range over the next two financial years, subject to any potential requirement to pay consideration in excess of the initially announced £25 million for the acquisition of Sofology per the contingent consideration arrangements.

Dividend

The positive trading performance in the first half and continued strong cash generation of the business allowed us to declare and pay in the year a special dividend of 9.5 pence per share in addition to an ordinary interim dividend of 3.7 pence per share.

The weaker performance in the second half and resulting lower profit for the full year meant that adhering to our stated policy of distributing 45-50% of profits after tax would have resulted in a significant reduction in final dividend in contrast to our commitment to a progressive full-year dividend. This pay-out ratio remains our intention in the longer term and the strong long-term profit growth and cash returns that we expect the business to deliver in the future will allow us to return to within our policy range over time. .

The Board has therefore proposed maintaining the final dividend at 7.5 pence (FY16: 7.5 pence) taking the full year ordinary dividend to 11.2 pence, an increase of 1.8% on last year (11.0 pence per share) and representing a distribution of 60% of profit after tax.

Returning capital to shareholders remains an important part of our strategy, subject always to the capital requirements of the business, including acquisitions, and the current trading environment.

Nicola Bancroft

Chief Financial Officer

Consolidated income statement

	Note	**2017 Total £m**	2016 Underlying £m	2016 Non-underlying £m	2016 Total £m
Gross sales	*2*	**990.8**	980.4	-	980.4
Revenue	*2*	**762.7**	756.0	-	756.0
Cost of sales		**(642.2)**	(621.7)	-	(621.7)
Gross profit		**120.5**	134.3	-	134.3
Administrative expenses		**(38.1)**	(39.9)	-	(39.9)
Operating profit before depreciation and amortisation		**82.4**	94.4	-	94.4
Depreciation		**(19.4)**	(16.4)	-	(16.4)
Amortisation		**(2.5)**	(2.2)	-	(2.2)
Operating profit	*3*	**60.5**	75.8	-	75.8
Finance income		**0.2**	0.3	-	0.3
Finance expenses	*4*	**(10.6)**	(11.6)	-	(11.6)
Profit before tax		**50.1**	64.5	-	64.5
Taxation		**(10.6)**	(14.1)	9.9	(4.2)
Profit for the period		**39.5**	50.4	9.9	60.3

Statutory earnings per share					
Basic	*5*	**18.7p**	23.7p	4.6p	28.3p
Diluted	*5*	**18.6p**	23.5p	4.6p	28.1p

Consolidated statement of comprehensive income

	2017 £m	2016 £m
Profit for the year	**39.5**	60.3
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	**1.8**	(0.6)
Net change in fair value of cash flow hedges reclassified to profit or loss	**(5.8)**	(4.1)
Income tax on items that are/may be reclassified subsequently to profit or loss	**0.8**	0.9
Other comprehensive expense for the period, net of income tax	**(3.2)**	(3.8)
Total comprehensive income for the period	**36.3**	56.5

Consolidated balance sheet

	2017 £m	2016 £m
Non-current assets		
Property, plant and equipment	**74.2**	65.1
Intangible assets	**491.8**	491.2
Deferred tax assets	**9.8**	9.1
	575.8	565.4
Current assets		
Inventories	**36.6**	34.9
Other financial assets	**-**	3.1
Trade and other receivables	**24.5**	26.4
Cash and cash equivalents	**61.0**	66.7
	122.1	131.1
Total assets	**697.9**	696.5
Current liabilities		
Trade payables and other liabilities	**(165.6)**	(159.3)
Provisions	**(5.1)**	(6.6)
Other financial liabilities	**(3.5)**	(0.1)
Current tax liabilities	**(3.8)**	(3.0)
	(178.0)	(169.0)
Non-current liabilities		
Interest bearing loans and borrowings	**(198.8)**	(198.3)
Provisions	**(5.2)**	(5.1)
Other financial liabilities	**(3.5)**	(6.1)
Other liabilities	**(67.3)**	(67.4)
	(274.8)	(276.9)
Total liabilities	**(452.8)**	(445.9)
Net assets	**245.1**	250.6
Equity attributable to equity holders of the parent		
Share capital	**319.5**	319.5
Share premium	**40.4**	40.4
Merger reserve	**18.6**	18.6
Treasury shares	**(3.7)**	(3.7)
Cash flow hedging reserve	**(7.0)**	(3.0)
Retained earnings	**(122.7)**	(121.2)
Total equity	**245.1**	250.6

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 1 August 2015	**319.5**	**40.4**	**18.6**	**-**	**1.7**	**(156.3)**	**223.9**
Profit for the year	-	-	-	-	-	60.3	60.3
Other comprehensive income/(expense)	-	-	-	-	(4.7)	0.9	(3.8)
Total comprehensive income/(expense) for the period	-	-	-	-	(4.7)	61.2	56.5
Dividends	-	-	-	-	-	(27.3)	(27.3)
Purchase of own shares	-	-	-	(3.7)	-	-	(3.7)
Share based payments	-	-	-	-	-	1.2	1.2
Balance at 30 July 2016	**319.5**	**40.4**	**18.6**	**(3.7)**	**(3.0)**	**(121.2)**	**250.6**
Profit for the year	-	-	-	-	-	39.5	39.5
Other comprehensive income/(expense)	-	-	-	-	(4.0)	0.8	(3.2)
Total comprehensive income/(expense) for the period	-	-	-	-	(4.0)	40.3	36.3
Dividends	-	-	-	-	-	(43.8)	(43.8)
Share based payments	-	-	-	-	-	2.0	2.0
Balance at 29 July 2017	**319.5**	**40.4**	**18.6**	**(3.7)**	**(7.0)**	**(122.7)**	**245.1**

Consolidated cash flow statement

	2017 **£m**	2016 £m
Operating profit	**60.5**	75.8
Adjustments for:		
Depreciation, amortisation and impairment	**21.9**	18.6
Gain on sale of property, plant and equipment	**(0.8)**	(0.6)
Share based payment expense	**2.0**	1.2
Decrease/(increase) in trade and other receivables	**1.9**	(1.1)
Increase in inventories	**(1.7)**	(6.6)
Increase in trade and other payables	**2.2**	11.6
(Decrease)/increase in provisions	**(1.5)**	1.2
	84.5	100.1
Tax paid	**(9.7)**	(11.4)
Non-underlying prior year tax credit received	**-**	5.9
Net cash from operating activities	**74.8**	94.6
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**1.0**	0.8
Interest received	**0.2**	0.3
Acquisition of business	**-**	(1.5)
Acquisition of property, plant and equipment	**(25.2)**	(21.9)
Acquisition of other intangible assets	**(3.1)**	(2.6)
Net cash from investing activities	**(27.1)**	(24.9)
Cash flows from financing activities		
Interest paid	**(7.3)**	(8.7)
Payment of deferred consideration on acquisition	**-**	(2.3)
Payment of finance lease liabilities	**(2.3)**	(1.7)
Purchase of own shares	**-**	(3.7)
Ordinary dividends paid	**(23.7)**	(27.3)
Special dividends paid	**(20.1)**	-
Net cash from financing activities	**(53.4)**	(43.7)
Net (decrease)/increase in cash and cash equivalents	**(5.7)**	26.0
Cash and cash equivalents at beginning of period	**66.7**	40.7
Cash and cash equivalents at end of period	**61.0**	66.7

Notes to the condensed consolidated financial statements

1 Basis of preparation

The condensed consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 29 July 2017 (last year 52 weeks to 30 July 2016).

The financial information included in these condensed consolidated financial statements does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the 52 weeks ended 30 July 2016 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The auditor's report for those accounts was unqualified, did not included a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.Accounting policies

Going concern

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £230.0 million revolving credit facility in place until August 2022.

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

2 Segmental Analysis

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

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

	External sales		**Internal sales**		**Total gross sales**	
	2017	2016	**2017**	2016	**2017**	2016
	£m	£m	**£m**	£m	**£m**	£m
Retail	**990.8**	980.4	**0.6**	1.2	**991.4**	981.6
Other segments	**-**	-	**88.9**	91.0	**88.9**	91.0
Eliminations	**-**	-	**(89.5)**	(92.2)	**(89.5)**	(92.2)
Gross sales	**990.8**	980.4	**-**	-	**990.8**	980.4

	2017	2016
	£m	£m
Total segments gross sales	**990.8**	980.4
Less: value added and other sales taxes	**(153.8)**	(152.0)
Less: costs of interest free credit and aftercare products	**(74.3)**	(72.4)
Revenue	**762.7**	756.0

2 Segmental Analysis (continued)

	2017 £m	2016 £m
Retail underlying EBITDA	**75.3**	87.4
Other segments underlying EBITDA	**7.1**	7.0
	82.4	94.4
Depreciation & amortisation	**(21.9)**	(18.6)
Operating profit	**60.5**	75.8
Finance income	**0.2**	0.3
Finance expenses	**(10.6)**	(11.6)
Profit before tax	**50.1**	64.5

A geographical analysis of revenue is presented below:

	2017 £m	2016 £m
United Kingdom	**736.6**	734.2
Europe	**26.1**	21.8
Total revenue	**762.7**	756.0

3 Operating profit

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

	2017 £m	2016 £m
Depreciation on tangible assets	**19.4**	16.4
Net gain on disposal of property, plant and equipment	**(0.8)**	(0.6)
Amortisation of intangible assets	**2.5**	2.2
Cost of inventories recognised as an expense	**326.4**	315.2
Write down of inventories to net realisable value	**0.6**	0.4
Operating lease rentals	**61.6**	58.9

4 Finance expense

	2017 £m	2016 £m
Interest payable on senior loan facility	**(7.1)**	(7.9)
Bank fees	**(0.2)**	(0.3)
Fair value lease adjustment unwind	**(2.9)**	(3.0)
Unwind of discount on provisions	**(0.1)**	(0.1)
Finance lease interest	**(0.3)**	(0.3)
Total finance expense	**(10.6)**	(11.6)

5 Earnings per share

	2017 Pence	2016 pence
Basic earnings per share	**18.7**	28.3
Diluted earnings per share	**18.6**	28.1

	2017 £m	2016 £m
Profit attributable to equity holders of the parent company	**39.5**	60.3

	2017 £m	2016 £m
Weighted average number of shares for basic earnings per share	**211,530,721**	212,896,904
Dilutive effect of employee share based payment awards	**753,518**	1,222,417
Weighted average number of shares for diluted earnings per share	**212,284,239**	214,119,321

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.

	2017 £m	2016 £m
Profit attributable to equity holders of the parent company	**39.5**	60.3
Exceptional tax credit	**-**	(9.9)
Underlying profit attributable to equity holders of the parent	**39.5**	50.4

	2017 Pence	2016 pence
Underlying basic earnings per share	**18.7**	**23.7**
Underlying diluted earnings per share	**18.6**	**23.5**

6 Dividends

			2017 £m	2016 £m
Interim ordinary dividend for FY15	3.1p	paid	**-**	6.6
Final ordinary dividend for FY15	6.2p	paid	**-**	13.2
Interim ordinary dividend for FY16	3.5p	paid	**-**	7.5
Final ordinary dividend for FY16	7.5p	paid	**15.9**	-
Interim ordinary dividend for FY17	3.7p	paid	**7.8**	-
Special dividend for FY17	9.5p	paid	**20.1**	-
			43.8	27.3

The directors recommend a final dividend of 7.5 pence per share in respect of the financial period ended 29 July 2017, resulting in a total proposed dividend of £15.9 million. Subject to shareholder approval it is intended that this dividend will be paid on 27 December 2017. DFS Furniture plc shares will trade ex-dividend from 7 December 2017 and the record date will be 8 December 2017. This dividend has not therefore been recognised as a liability in these financial statements.

7 Financial instruments

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

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

8 Capital expenditure

For the 52 weeks to 29 July 2017, acquisition of property, plant and equipment (including those acquired under finance leases) totalled £28.7 million (2016: £24.1 million). Acquisitions of intangible assets (computer software) totalled £3.1 million (2016: £2.6 million).

At 29 July 2017 the Group had contracted capital commitments of £3.4 million (2016: £3.4 million) for which no provision has been made in the financial statements.

9 Net debt

	2016 £m	Cash flow £m	Other non-cash changes £m	2017 £m
Cash in hand, at bank	66.7	(5.7)	-	**61.0**
Cash and cash equivalents	66.7	(5.7)	-	**61.0**
Senior loan facility	(198.3)	-	(0.5)	**(198.8)**
Finance lease liabilities	(5.5)	2.3	(3.5)	**(6.7)**
Total net debt	(137.1)	(3.4)	(4.0)	**(144.5)**

10 Annual General Meeting

The Annual General Meeting will be held on Friday 1 December 2017 at 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA. The Annual Report and Accounts and Notice of Meeting will be sent to shareholders and copies will be available from the Company's registered office: 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA and on the Company's website at www.dfscorporate.co.uk.

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

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