# The sofa experts

Annual report and accounts 2017

# DFS is the leading retailer of living room and upholstered furniture in the UK.

As the sofa experts we are able to offer our customers an unbeatable combination of great products, great service and great value.

Turnover to meet some of the sofa experts team →

## Our sofa experts

DFS has been built on long-term investments in British craftsmanship, manufacturing and people. Here are just a few of the inspiring team behind our sofas:

## Design

**Lauren Harris, Designer**
Design Studio, Long Eaton

Lauren's role at DFS ranges from designing products and selecting fabrics to ultimately creating the future looks of DFS products. With her background in fine art, Lauren has a meticulous eye for detail which helps her design beautiful and quality pieces of furniture.

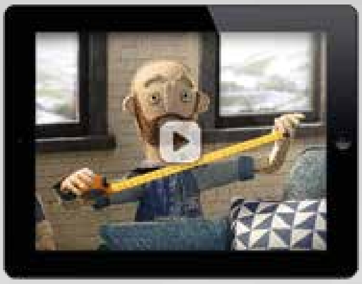
Find out what we've been working on → 8

## Manufacture

**Michael Coleman, Upholsterer**
Lincoln House factory

Michael started out as an apprentice with us where he trained in both the traditional and modern methods of upholstering. Eighteen years on, Michael has mastered both methods so you know that whatever style of sofa you choose, it will be made to the highest possible standard.

Find out what we've been working on → 8



To see our team in action in our recent TV adverts, visit www.youtube.com/user/dfs

## Retail

**Samuel Osieyo, Sales Advisor**
Sidcup store

With so many styles, colours and fabrics to choose from at DFS, talented sales advisors like Sam are vital to answer any questions and help our customers find their perfect sofa.

Find out what we've been working on → 8

## Service

**Dawn Randall, Quality Administrator**
Northern Upholstery factory

Dawn has worked as a quality administrator for the past two years. She's on hand to answer any enquiries about orders and to help keep everything on track.

Find out what we've been working on → 9

# Summary of the year

## Financial

| Gross sales | Revenue |
|---|---|
| £990.8m | £762.7m |
| ↑ 1.1% (FY16: £980.4m) | ↑ 0.9% (FY16: £756.0m) |

| EBITDA | Profit before tax |
|---|---|
| £82.4m | £50.1m |
| ↓ 12.7% (FY16: £94.4m) | ↓ 22.3% (FY16: £64.5m) |

| Underlying earnings per share | Leverage |
|---|---|
| 18.7p | 1.75x |
| ↓ 21.1% (FY16: 23.7p) | ↑ 20.7% (FY16: 1.45x) |

**Final dividend**

**7.5p**

per share proposed, giving a total ordinary dividend of 11.2p for the year ↑ 1.8% (FY16: 11.0p)

**Special dividend**

**9.5p**

paid in the year giving total returns to shareholders of 20.7p per share

## Operational

- Very challenging furniture market environment in the second half leading to revenue and profit impacts for FY17
- Strategic progress maintained:

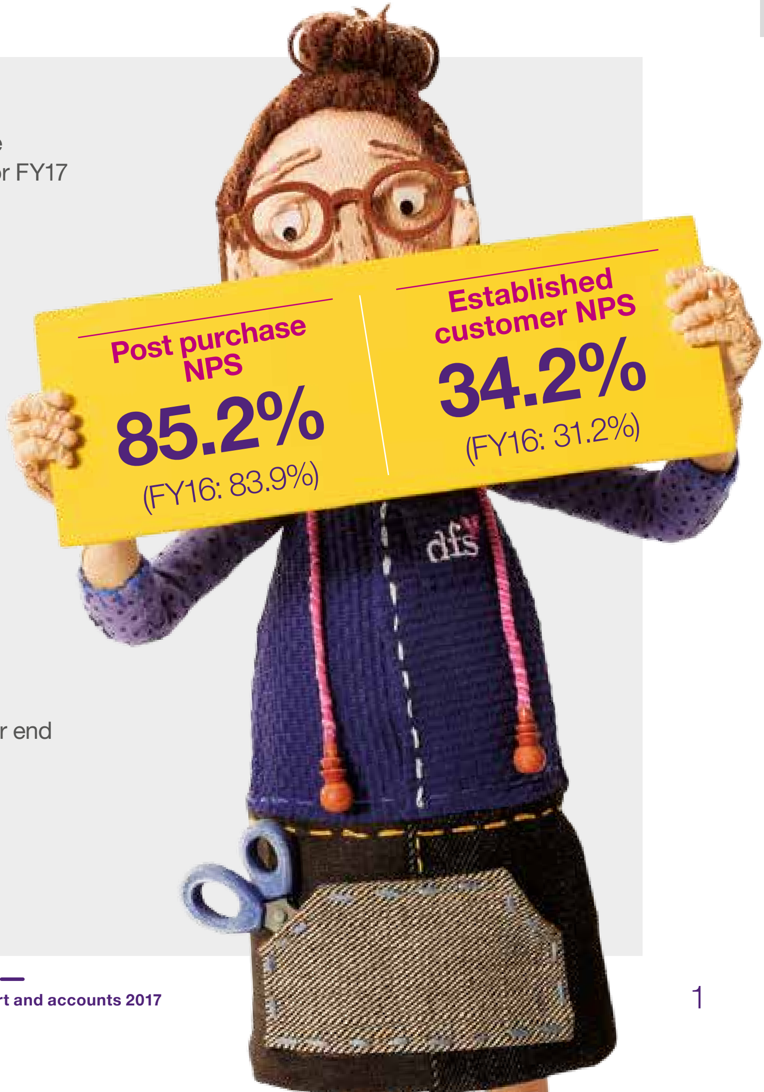
  Broadening our appeal to customers
  - Continued strong metrics of Aardman marketing campaign
  - 20% growth in partnership brand upholstery orders and new Joules partnership to produce their first sofa collection
  - Announcement of acquisition of Sofology in FY18, subject to regulatory approval

  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 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 (NPS)



# Our business

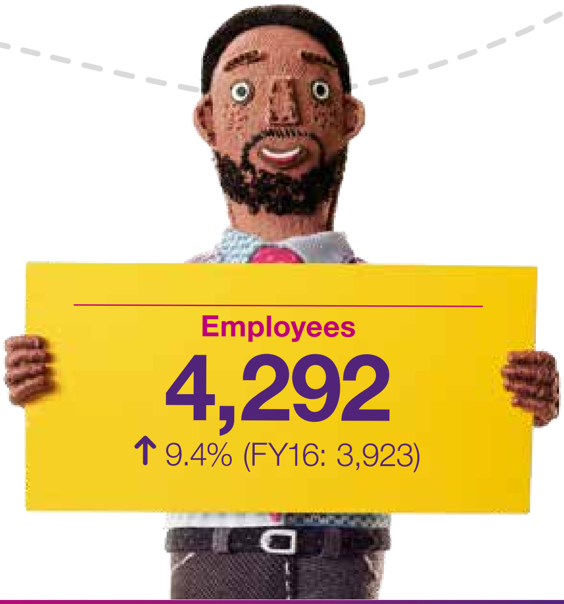
## DFS is the leading living room furniture retailer in the UK – passionate about making and selling high quality, great looking sofas and other furniture since 1969

### What we do

At DFS, we have almost 50 years of experience in designing, manufacturing, selling, delivering and installing an extensive range of sofas and other living room furniture products.

Our products are complemented by our market-leading interest-free credit offer, British Standards accreditation, long-term guarantees and comprehensive after-sales service. Through our broad core DFS product range, together with our premium branded partnerships and our subsidiaries Sofa Workshop and Dwell, we really do offer something for everyone.

Our heritage and focus make us the clear UK living room furniture experts. Through our scale, specialism and in-house manufacturing expertise we are able to offer our customers strong combination of great products, great service and great value.




### Design & inspire

We inspire our customers through our dominant and distinctive advertising that encourages customers to consider a sofa purchase, through our in-house design and buying expertise, which ensures that we are always at the forefront of home furnishing trends, and using our market-leading, interactive website – where our live chat video service allows us to engage with our customers face-to-face.

### Retail

Our nationwide showroom network is staffed by a knowledgeable, well-trained and highly motivated retail sales team; they are complemented by our transactional website, apps and telephone call centres to deliver a market-leading omnichannel experience that is available to our customers 24 hours a day, 365 days a year.

### Manufacture

Our five UK factories produce more than a quarter of the furniture we sell; this vertical integration enhances our competitive edge by improving efficiency, enhancing buying insight, strengthening quality control and substantially reducing delivery lead times for our made-to-order products.

### Service

We employ our own delivery crews to provide a full installation service to our customers. Top quality aftercare is also guaranteed, with a nationwide team of 200 specialist upholsterers on hand to visit customers in their homes and address any service issues.

See our business model to find out more → 8

## Our subsidiary brands

While we are famous for and primarily focused on the DFS brand that drives the majority of Group revenues and profits, we are also proud and excited to own two complementary, strongly-branded and fast-growing subsidiaries, that we expect to contribute meaningfully as part of our Group in future.

dwell
live like this

A retailer of stylish modern furniture, lighting, bedding and home accessories, operating from 30 stores, mostly co-located alongside DFS showrooms, and a successful e-commerce platform.

SOFA WORKSHOP
our craft, your creation

Offers high-quality, handmade, British sofas that can be customised in size or fabric to meet customers' exact specifications. Operates 20 stores, the majority of which are located in 'Cathedral Cities'.

**Marseille Corner sofa**
Dwell

## Our locations

Today the DFS Group employs more than 4,200 people and operates 120 retail stores in the UK, the Republic of Ireland, the Netherlands and Spain, a comprehensive online channel, over 20 distribution centres and our own five factories in the UK.

**UK & ROI**

- DFS stores
- Sofa Workshop stores
- Dwell stores
- Factories
- DFS/Dwell/Sofa Works

**The Netherlands**

**Spain**

# A challenging year for the Group

**Ian Durant** | Chair of the Board

Against a markedly tougher trading environment, the Group has maintained its investment in the business.

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 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.

**Overview**

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.

Further details on our strategic plans can be found in the Chief Executive's Review on pages 20 to 23.

### 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.

There were no other changes to the Board during the year. The Governance section of this report on page 40 provides further details of the activities of the Board and its committees.

### 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 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 on pages 26 to 27 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
4 October 2017


## Leading scale

…which allows us to offer customers a proposition that competitors struggle to match, while generating sector-leading margins and cash returns.

Our vertically integrated model brings advantages in cost, customer service and responsiveness. Our scale – with upholstery sales greater than those of our next four specialist competitors combined – confers considerable cost benefits across the value chain.

## Unmatched consumer recognition, and high customer satisfaction

…built upon our almost 50 years of expert focus, sustained investment in memorable advertising, ongoing innovation, and comprehensive physical and online presence.

## Proven ability to achieve above market growth

…across all stages of the economic cycles that we have experienced throughout our long operating history.

We have grown gross sales by more than £240m since 2012, and seen consistent growth in our share of the UK upholstery market over the long term.

## Attractive, long term shareholder returns

…with strong profitability and free cash generation underpinning both value growth and cash returns to shareholders.

See our business model for more information → 8

# Market overview

## Over the long term we have captured market share, achieving our success through offering great service, choice and value


We are the clear leader in the living room furniture market.

**Living room furniture market share 2016**

**18.3%**

↑ 0.3%pt vs 2015

### Large potential customer base

DFS has a specialist focus on the retail upholstered furniture segment which accounts for over two thirds of the living room furniture market. The UK living room furniture market was estimated by GlobalData to be valued at just over £4.5 billion in 2016. We also offer a selected range of beds, dining and other furniture giving access to other segments in the market.

### Clear leader in the segment

DFS is the clear leader in the living room furniture market with 18.3% share by value (as estimated by GlobalData for 2016). We see three broad categories of companies actively competing in the living room furniture retail market: Specialist Chains such as DFS, ScS, Harveys, Sofology, Furniture Village and Oak Furniture Land / Sofastore; 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.

New furniture will be located at the heart of a customer's home for a number of years. As a result, most customers will perform significant research and typically visit multiple retailers in order to find the right products for them. This depth of research often encourages customers to prefer to choose to purchase from Specialist Chains and Independents that have the specialist sales staff and breadth of product range to appeal to the broadest range of customers. This trend can be seen in the combined market share of these two categories now accounting for approximately two-thirds of retail sales and having grown from 2010 to 2016.

### Steady growth trends over long-term periods

Between 1995 and 2016, the UK upholstered furniture segment of the furniture market has grown by 2.9% per annum on a compound annual growth basis, driven by a c.7 year replacement cycle and underpinned by demographic trends.

The segment is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability.

Although the outlook is uncertain and the trading market in the first half of calendar year 2017 has been challenging, current levels of consumer confidence still remain significantly above those seen during the financial crisis and the number of housing transactions and the rate of consumer credit growth have not as yet changed markedly.

## Key market drivers

### Consumer confidence

Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. While levels of consumer confidence have been impacted by the outcome of the EU Referendum, as of September 2017, they remain well above the lows seen in 2008.

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

Consumer confidence[1]

| | |
|---|---|
| **Sept 2017** | **-9.0** |
| 2016 | -3.3 |
| 2015 | 3.1 |
| 2014 | -2.6 |
| 2013 | -18.6 |
| 2008-12 | -26.0 |
| 2006-07 | -6.2 |

**Consumer confidence[1]**

**-9.0**

(2016: -3.3)

### 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 2008-2012 albeit still at levels significantly beneath the 2006 peak.

2. HMRC - number of residential property transactions completions with a value over £40,000 for England and Wales, seasonally adjusted

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

| | |
|---|---|
| **2017 YTD** | **-2.5%** |
| 2016 | 1,230 |
| 2015 | 1,226 |
| 2014 | 1,223 |
| 2013 | 1,067 |
| 2008-12 | 893 |
| 2006-07 | 1,644 |

**Housing transactions ('000s[2])**

**-2.5%**

(2016: +0.3%)

### 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 steadily improved since 2010 lows.

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

Net unsecured lending growth[3] (%)

| | |
|---|---|
| **Aug 2017** | **9.8** |
| 2016 | 10.1 |
| 2015 | 7.7 |
| 2014 | 5.9 |
| 2013 | 3.6 |
| 2009-12 | -0.5 |
| 2006-08 | 5.6 |

**Net unsecured lending growth[3]**

**9.8%**

(2016: average 10.1%)

See our business model for more information → 8

## Our business model

# Our vertically integrated model and other sources of competitive advantage bring significant advantages in cost, customer service and responsiveness

## What we do

### Design & inspire

- We inspire consumers to consider a purchase through sustained and memorable advertising and best-in-class website.
- We have a specialist in-house design team that drives our range innovation.

### Retail

- We have a national network of well-invested showrooms staffed by well-trained and highly motivated sales teams.
- Our leading website, apps and call centres serve to complement our physical presence.

### 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 experienced workforce.

## How our approach is different

- Our marketing budget is many times bigger than any other specialist competitor, giving the clear leading share of voice in sector advertising.
- Through in-house design we ensure our ranges stay on-trend, rapidly following fashion-led and seasonal themes.

- With our high sales densities we are able to invest significantly in both the physical store environment and also in training and pay for the teams that look after our customers.
- Our high brand awareness also makes us an anchor tenant for many retail park landlords allowing us to secure prime units on attractive terms.

- Few of our competitors benefit from in-house manufacturing which gives us cost insight, first-hand knowledge of how to drive quality standards and also lead-time advantages.
- By flexing our in-store ranging through the year we are able to keep our factories operating at close to peak capacity thereby spreading their fixed costs most efficiently.


## Service

- We back our products with a comprehensive installation service, a 15 year structural guarantee and a team of over 200 upholsterers to address any after-sales issues.
- We make our products more affordable through interest-free credit and demonstrate quality through established independent accreditations.

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- Through direct control over the customer experience we can ensure we deliver high quality service.
- Our substantial scale allows us to operate vertically integrated service activities while maintaining very efficient operating costs.

## Creating value for stakeholders

**Customers**
Unrivalled range, spanning styles, price points, in-house and Exclusive brands, supported with exceptional service and 15 year guarantees.

**Average post-purchase NPS**

**>80%**

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**Employees**
Outstanding training, attractive pay and rewarding career paths.

**Over five years' service**

**44%**

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**Suppliers**
Longstanding, mutually beneficial partnerships.

**Customer orders sourced from British factories**

**c.40%**

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**Shareholders**
Attractive growth and cash returns.

**Cash returns to shareholders since March 2015**

**>£70m**

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**Community**
Charitable contributions, employment and apprenticeship opportunities, and taxes.

**Raised for charitable causes in FY17**

**>£4m**

# Strategy for growth

| Strategic priority & description | Progress 2017 |
|---|---|
| **01 Broadening our product and brand appeal** | |
| Building on our leadership across all segments of the upholstered furniture market we aim to increase our appeal to older and more affluent 'aspirational customers' while retaining our core mass market appeal.<br><br>The DFS tradition of making all products to order, and our own UK manufacturing base, have provided a strong platform to achieve this by broadening the DFS product range, developing exclusive brand partnerships with leading brands such as French Connection, Country Living and House Beautiful and acquiring complementary businesses. | • We set a target to reach a share in the 'aspirational' customer segment of 25% by the end of FY18, however we have now achieved this target a year ahead of schedule.<br>• We have achieved this target without weakening our strong share in and focus on our other core customer segments.<br>• Building on this success, in August 2017 we announced a partnership to design, manufacture and retail an exclusive range of Joules branded upholstery and agreed terms to acquire Sofology.<br><br>See our strategy in action → 12 |
| **02 Exploit UK and ROI roll-out opportunities** | |
| We see continued potential to build on our nationwide store coverage by both opening three to five profitable new stores each year in the traditional 10-15,000 sq ft DFS store format and by developing smaller stores of as little as 2,500 sq ft in high footfall urban locations.<br><br>Our proven, bespoke customer catchment area model enables us to predict accurately where future store opening opportunities exist. | • Three new larger format stores were successfully opened in FY17 at Salisbury, Truro and Ashford, and we also opened a third smaller urban store in Crawley.<br>• We have identified and secured further locations for additional 10-15,000 sq ft stores that are each predicted to generate over £500,000 of incremental EBITDA net of existing store cannibalisation. |
| **03 Establish presence in international markets** | |
| Our ability to extend the DFS brand to new markets was first demonstrated by our successful expansion into the Republic of Ireland, where we opened our first store in 2012, and is continuing with our more recent developments in The Netherlands and Spain. | • We continue to be encouraged by the results of our trial in The Netherlands. We now have five stores operational with a sixth store due to open in Eindhoven in November 2017. To continue the learnings from this trial we will conduct a national marketing test campaign in 2018, to understand the potential opportunity from further roll-out.<br>• The DFS Spain operation acquired in October 2015 has benefited from showroom refurbishment and the opening of a second store in Malaga. |
| **04 Full utilisation of store retail space** | |
| Releasing former warehouse space in our store estate enables us to generate incremental retail sales while consolidating warehousing and delivery in lower cost and more logistically efficient offsite locations.<br><br>A store-in-store concept to expand the Dwell brand alongside DFS has been proven to deliver a superior sales and profit performance in relevant catchments compared with trials of using the additional space to retail beds and dining furniture. | • In FY16 we accelerated our planned Customer Distribution Centre ("CDC") conversion programme, and as at the end of FY17 we had a total of 17 CDCs with the final two CDCs opening in early FY18.<br><br>See our strategy in action → 15 |
| **05 Maintain online leadership** | |
| We have the clear market-leading online platform in our sector, accounting for over 40% of upholstery segment web traffic, and a proven track record of growing margin-enhancing sales through this channel.<br><br>With most customers now beginning their research on potential furniture purchases online, our website provides both inspiration to visit our physical stores and the opportunity to make direct purchases through a convenient, interactive platform that is available 24 hours per day throughout the year. | • Sales completed online continued to show double digit growth during FY17.<br>• Integrating online technology into our stores through the roll-out of "Swoosh" furniture visualisation technology across the DFS estate demonstrates our ability to offer our customers a true omnichannel proposition. |

| KPIs | Targets |
|---|---|
| **Growth in partnership brand sales** 20% (2016: 33%) | • We will continue to grow sales of branded products ahead of DFS retail sales.<br>• We will not compromise our strong range and focus on our other core customer segments. |
| **Number of DFS stores (UK & ROI)** 113 (2016: 109) | • We will open between three and five UK and ROI stores each financial year using our large and medium 10,000-15,000 sq ft formats.<br>• Each of these traditional formats is targeted to achieve cash payback within two years on the initial c. £1m operating and capital expenditure (including incremental logistics assets).<br>• We will continue to test and learn from our trial small-format (2,000-5,000 sq ft) stores. |
| **Number of international stores** 7 (2016: 3) | • Building on our success in the ROI, we aim to develop a profitable national network of 10-20 stores in The Netherlands, which leverages our UK infrastructure and proven operating model.<br>• We will continue development of our Spanish store presence to profitably serve significant ex-pat communities in Southern Spain, giving us a foothold in the overall Spanish market. |
| **Stores with converted warehouse space** 36 (2016: 19) | • We will open six further Dwells in FY18 and five further Sofa Workshops.<br>• Completion of retail space conversion will take place in FY19.<br>• Retail space released by our CDC openings will either be converted into new Dwell or Sofa Workshop stores, allow us to downsize our retail footprint, or be used to sell an extended range of furniture.<br>• Once fully rolled out in FY19, our programme is targeted to deliver incremental annual EBITDA of an average of £650,000-£700,000 per CDC. |
| **Online growth rate** 10.7% (2016: 15.6%) | • We will continue to maintain a share of over 40% of upholstery segment web traffic.<br>• Our significant investment in key future online technologies, in particular mobile web, personalisation and strengthening the omnichannel customer experience will continue. |

01

## Aspiration and exclusivity

Building on the success that we have seen with our French Connection, House Beautiful and Country Living ranges, we have announced an exclusive partnership with Joules, the British modern-country brand famous for their distinctive colours, prints, details and quality. We will see the first range of Joules sofas, handmade to order in our own British factories, launched in DFS stores ahead of our key post-Christmas trading period.


"We are delighted to be working with these great British brands. We bring our sofa expertise and they each bring their own unique style.

— **Philip Watkin, Director of Design**
Design Studio, Long Eaton

**St Ives**
**Country Living range**
DFS


dfs
the sofa experts
0%
£500

## Supply Chain Investment

04


Through our retail space conversion initiative we are transforming the physical infrastructure of our customer delivery operations into a modern and cost-efficient network of larger CDC warehouses. Accompanying this infrastructure investment we have also invested heavily, in partnership with a leading data science provider, to develop a bespoke delivery arranging and van routing technology platform. This platform is now successfully operating in 16 CDCs and will roll out fully in FY18, leading to significant improvements in vehicle utilisation and increased availability of choice for customers on delivery windows.

“

Our customers are getting a more convenient delivery service as well as a wider range of products in-store.

**— Muz Hussain, Area Manager**
East Midlands

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

## How we manage risk

### Identify

The Group has an established risk register which is coordinated and analysed by the Group's Internal Audit function to facilitate regular review of key risks by the Directors. Each identified risk is allocated to a member of the Executive Board. The Directors maintain overall responsibility for risk management throughout the Group and oversee the implementation by the Executive Board and operational management of processes to manage these risks. The Audit Committee reviews the Group's internal risk register on a regular basis.

### 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.

See corporate governance for more on how risk is managed → 40-46

**Link to strategic priority**

- 01 Broadening our product and brand appeal
- 02 Exploit UK and ROI roll-out opportunities
- 03 Establish presence in international markets
- 04 Full utilisation of store retail space
- 05 Maintain online leadership

**Movement**

- ▲ Increase
- = Unchanged
- ▼ Decrease

| Risk | Link to strategy | Mitigation | Movement |
|---|---|---|---|
| **Economy and consumer market conditions**<br>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.<br>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. | 01 02 03 04 05 | 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 Marketing Officer is a member of the Executive Board.<br>Detailed sales information by product and store is reviewed daily, enabling changes to product selection, incentive structures and advertising strategy to be made on a dynamic basis to optimise sales.<br>The Group's interest-free credit offer allows customers to spread the cost into affordable monthly payments. | ▲ |
| **Product and innovation**<br>Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of the business.<br>A failure to predict changes in customer tastes or the impact of changes in the competitor environment could reduce the Group's revenues and market share. | 01 | Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value 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.<br>Quality Level Agreements are in place with all upholstery suppliers, reinforced with internal quality control procedures to rapidly identify and rectify product liability and recall issues. Compliance with fire regulations and other quality standards is supported by independent external testing.<br>The Group has a focus on offering outstanding customer care and service. This is underpinned by our established use of Net Promoter Score ("NPS") at all touch points of the consumer journey to ensure our brand is growing, trusted and appealing. | = |
| **Expansion of retail store network**<br>The growth of the Group depends on its ability to open and operate new stores on a timely and cost-effective basis while continuing to increase sales at existing stores. This includes successfully achieving incremental sales from retail space released by roll out of Customer Distribution Centres.<br>Competition for desirable retail sites has historically been significant, which may reduce the availability and/or increase the rental costs of such sites. Successful execution of any new store roll-out also depends upon a number of other factors, including the hiring, training and retention of qualified personnel and the capability of the Group's existing information technology and distribution systems to accommodate new stores. | 02 03 04 | The Group continuously reviews the location and format of its stores and their contribution to overall results. A detailed appraisal model is applied to assess the payback period and expected profitability of each potential new store, including its impact on existing stores in the area. Appraisals are subject to thorough review and approval by the Board before any investment is made.<br>The Group's property portfolio is reviewed regularly to ensure it remains appropriate and cost-effective for the needs of the business.<br>The Group has an established supporting infrastructure in place to recruit and train new employees and fit out and open stores to schedule. | = |

# Risks and uncertainties

continued

| Risk | Link to strategy | Mitigation | Movement |
|---|---|---|---|
| **Website and IT systems**<br>The Group's websites are a key component of its omnichannel proposition and a failure to review and innovate in this competitive area could impact achievement of the Group's strategic growth plans.<br>Websites and other parts of the Group's operations depend upon the continued availability and integrity of its IT systems. | 05 | The Group continues to make substantial investment in both website development and marketing to maintain its market-leading position. An established team of experienced staff in this field are supported with ongoing relationships with external partners.<br>The Group engages with independent third parties to actively monitor both customer satisfaction with its digital services and the emergence of new online competitors.<br>Full back up and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated. Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated. Third party penetration testing is carried routinely to check the resilience of the Group's systems to cyber-attack. | = |
| **Consumer finance**<br>The majority of the Group's sales are to customers that utilise its interest-free finance offerings, which are provided by external finance houses that, in return for a fee, bear the risk of customer default. Credit standards 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. | 01 | The Group has longstanding relationships with a number of finance houses, with long term contracts in place with two providers which more than cover the total requirement for customer finance. These arrangements enable a redistribution of business in the event of withdrawal by one or more providers, and surety on acceptance rates and fee levels. These key metrics are continuously reviewed to ensure that each provider remains competitive.<br>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. | = |
| **Supply chain**<br>A large portion of the Group's products are supplied by a core of manufacturers, with many produced in continental Europe and Asia. 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.<br>Increases in finished goods and underlying commodity prices may negatively impact the Group's trading margins. | 01 | 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.<br>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.<br>Fixed prices are negotiated for finished goods 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.<br>In response to the significant change in foreign currency exchange rates following the EU Referendum, the Group has established detailed plans to actively manage its cost base and supply chain to mitigate these risks as far as possible. Foreign currency hedging is in place twelve months ahead to provide stability of prices of overseas sourced raw materials and finished goods. | = |

| Risk | Link to strategy | Mitigation | Movement |
|---|---|---|---|
| **People**<br>The success of the Group depends significantly on its ability to attract and retain a workforce that includes experienced sales, product design and production personnel and to retain members of its senior management team, many of whom have significant experience in the Group's business and industry.<br>The physical nature of our products and handcrafted production processes involves a number of manual activities, increasing the complexity of health and safety compliance. | 01 02 03 04 05 | Employee remuneration 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.<br>Working practices and policies are under review with the aim of improving the diversity of the Group's people and making DFS an attractive employer for all.<br>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.<br>The Group continued to make significant investment in training employees in health and safety requirements. Dedicated internal teams are supported where needed by external advisers in specialist areas. | = |
| **Financial risk and liquidity**<br>A downturn in the macroeconomic environment may impact the Group's ability to obtain financing.<br>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. | 02 03 05 | The Group regularly reviews its financing arrangements to ensure it has adequate funds in place and financing costs are kept to a minimum. In August 2017 the Group's existing £200 million term loan was replaced with a new five year £230 million revolving credit facility. The new facility is expected to result in a significant saving in financing costs.<br>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. No financial instruments are entered into for speculative purposes. | = |
| **Regulatory environment**<br>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.<br>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. | 01 02 03 04 05 | Comprehensive training and monitoring programmes (including 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.<br>A Reputational Risk Committee is in place to monitor management information and review 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.<br>Forthcoming General Data Protection Regulations could increase compliance costs for the Group and affect the ways in which customer data is used. A detailed project, supported by external advisors, is underway to determine the impact and ensure the Group's continuing compliance with data protection requirements. | = |

### 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 16 to 19 of this Annual Report and considered a period of four years from 29 July 2017. A period of four years was selected by the Directors since it reflects the period over which the Group's various growth initiatives are anticipated to have a key impact on the business profile and corresponds to the Group's normal planning cycle.

Those risks which could significantly affect the future viability of the Group were identified and their potential impacts on the financial performance and viability of the Group were assessed under a number of severe but plausible scenarios.

This assessment included sensitivity and stress-testing analysis of the impact of reduced revenues and a decrease in gross margin both separately and collectively. The analysis takes into account the high level of variable and discretionary spend in the Group's business model and the existence and effectiveness of other mitigating actions the Group could take, including the restriction of dividend payments.

In developing the viability assessment it has been assumed that the Group's £230.0 million revolving credit facility (in place from August 2017) will continue to be available at least until its maturity in August 2022.

Based upon this assessment, the Directors have confirm 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 four year assessment period.

# Strategic progress maintained in a challenging market

**Ian Filby** | Chief Executive Officer

> "We have continued to make good progress in the implementation of our strategy in all key areas, while our financial performance reflects the currently challenging UK furniture market. We believe our strategic investment has strengthened the long-term position of the Group and enhanced our ability to deliver future growth.

## Overview

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 position 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 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 36% to £40 million. 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 ten 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
4 October 2017

## Key performance indicators

# Measuring performance

## Financial KPIs

### Gross sales (£m)

**+1.1%**

| | |
|---|---|
| **2017** | **990.8** |
| 2016 | 980.4 |
| 2015 | 913.1 |
| 2014 | 853.4 |
| 2013 | 804.3 |

**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**
Weakening consumer demand has limited FY17 sales growth.

### Underlying EBITDA (£m)

**-12.7%**

| | |
|---|---|
| **2017** | **82.4** |
| 2016 | 94.4 |
| 2015 | 89.2 |
| 2014 | 82.3 |
| 2013 | 83.8 |

**Description**
Underlying EBITDA means underlying earnings before interest, taxation, depreciation and amortisation, (adjusted in FY14 for £2.3m relating to start-up losses of acquired businesses and prior period bonus adjustments).

**Performance**
Underlying EBITDA reflects lower sales growth and impact of foreign exchange rates on gross margin.

### Free cash flow (£m)

**-24.6%**

| | |
|---|---|
| **2017** | **57.0** |
| 2016 | 75.6 |
| 2015 | 70.7 |

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

**Performance**
The reduction in free cash flow reflects lower EBITDA combined with increased capital investment.

### Cash conversion (%)

| | |
|---|---|
| **2017** | **69.2** |
| 2016 | 80.1 |
| 2015 | 79.2 |

**Description**
Cash conversion is free cash flow expressed as a percentage of Underlying EBITDA.

**Performance**
Cash conversion percentage was impacted by increased capital expenditure on new store openings and retail space conversion programme.

### ROCE (%)

| | |
|---|---|
| **2017** | **18.7** |
| 2016 | 21.2 |
| 2015 | 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 & equipment, computer software, working capital and 8x operating lease charges.

**Performance**
ROCE has decreased primarily due to the lower EBITDA.

## Non-financial KPIs

### Number of DFS stores

+4

| | |
|---|---|
| **2017** | **113** |
| 2016 | 109 |
| 2015 | 105 |

**Description**
Number of UK and Republic of Ireland stores trading at the end of the financial period.

**Performance**
The increase in UK and Republic of Ireland stores is in line with our longstanding target of 3-5 stores per year.

### Net promoter score (%)
Post purchase customer satisfaction

+1.3% pt

| | |
|---|---|
| **2017** | **85.2** |
| 2016 | 83.9 |
| 2015 | 78.8 |

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

**Performance**
Continued improvement in strong post-purchase scores.

### Net promoter score (%)
Established customer satisfaction

+3.0% pt

| | |
|---|---|
| **2017** | **34.2** |
| 2016 | 31.2 |
| 2015 | 21.9 |

**Description**
Average across all DFS stores based on established customer satisfaction surveys.

**Performance**
Established customer surveys are six months after order. Further progress achieved in FY17.

### Online growth rate (%)

10.7%

| | |
|---|---|
| **2017** | **10.7** |
| 2016 | 15.6 |
| 2015 | 17.5 |

**Description**
Year-on-year change in sales generated by internet/telephone/live chat channels.

**Performance**
Continued strong growth in omnichannel sales.

### Growth in partnership brand sales (%)

20%

| | |
|---|---|
| **2017** | **20** |
| 2016 | 33 |
| 2015 | 94 |

**Description**
Year-on-year change in value of sales orders of external partnership brand product ranges.

**Performance**
New ranges have continued to be developed with our partner brands (French Connection, House Beautiful, Country Living).

### Stores with converted warehouse space

36

| | |
|---|---|
| **2017** | **36** |
| 2016 | 19 |
| 2015 | 8 |

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

**Performance**
The acceleration of our CDC opening programme has continued throughout FY17.

# Financial review

## Continued investment in growth

**Nicola Bancroft** | Chief Financial Officer

"The current challenges within our market sector and the continued uncertainty of the wider economy have required us to plan and prepare for a range of possible scenarios for the year ahead.

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 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 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 pa 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 18.7 pence, 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 £20.1 million 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 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
4 October 2017

## Corporate responsibility

# At DFS, we believe in responsible business

We want to interact with our customers, employees, 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 don't view corporate responsibility as a separate business activity, so each member of our Executive Board takes responsibility for relevant matters within their area.

Our priorities and areas of focus are summarised opposite:

### Our approach

**The Board**
Oversight of CSR matters and performance

**Executive Board**
Responsibility for focus areas

**Areas of focus**
People | Customers | Environment
Product & suppliers | Community

**Who benefits**
Employees | Communities | Suppliers
Customers | Shareholders

### People

**Focus areas:**
- Training and development
- Health & safety
- Diversity
- Fair reward

**Primary responsibility:**
Chief People Officer

Find out more → 29

### Customers

**Focus areas:**
- Customer satisfaction
- Service

**Primary responsibility:**
Chief Marketing Officer
Chief Operating Officer

Find out more → 32

### Products & suppliers

**Focus areas:**
- Quality & safety
- Sustainability & ethical sourcing
- Modern slavery

**Primary responsibility:**
Chief Commercial Officer

Find out more → 33

### Environment

**Focus areas:**
- Energy use & $CO_2$ emissions
- Waste & recycling

**Primary responsibility:**
Chief People Officer
Chief Commercial Officer

Find out more → 35

### Community

**Focus areas:**
- Engaging our people
- Giving something back

**Primary responsibility:**
Chief People Officer

Find out more → 35

## People

Our exceptional team of more than 4,200 people are central to achieving our success and ongoing investment in the training and development of all of our people remains a priority for the Group.

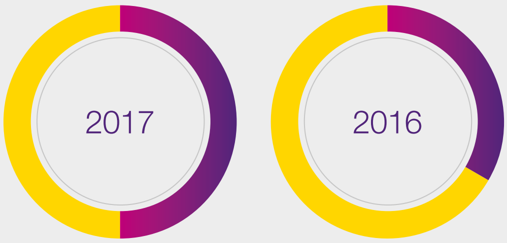
This year we have again delivered close to 4,000 days of formal training, accredited to National Standards, in a diverse range of areas including customer service, health and safety, sales and administration and management skills.

We are also proud of our award-winning apprenticeship programme, which is now delivering highly-skilled employees to our business (see pages 30-31).

DFS firmly believes in the benefits of a diverse workforce. The gender analysis of employee numbers is reported to the operating board on a monthly basis and monitored against targets for sales and management teams. DFS has established a Diversity Working Group to develop and implement new and ongoing initiatives to further improve our gender balance. The gender balance of employees at July 2017 is as opposite:

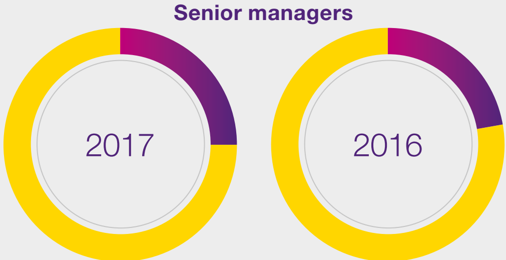

## Gender analysis

### Directors




| | 2017 | | 2016 |
|---|---|---|---|
| Female | 3 (50%) | Female | 2 (33%) |
| Male | 3 (50%) | Male | 4 (67%) |

### Senior managers




| | 2017 | | 2016 |
|---|---|---|---|
| Female | 2 (25%) | Female | 2 (22%) |
| Male | 6 (75%) | Male | 7 (78%) |

### All other employees


| | 2017 | | 2016 |
|---|---|---|---|
| Female | 1,473 (34%) | Female | 1,378 (34%) |
| Male | 2,867 (66%) | Male | 2,702 (66%) |

# Corporate responsibility
continued

DFS aims to reward 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.

During the year we introduced Workplace by Facebook as an internal communications tool, providing a flexible and innovative means of sharing information and connecting people right across the business. This is an exciting development to our ongoing routes of communication with employees which include manager briefings, company presentations and conferences as well as regular newsletters, including a monthly update directly from the Chief Executive.

Employee views are sought through regular feedback sessions with Directors and an active programme of employee engagement surveys, the results of which are communicated back to staff. This year we were delighted to be recognised as Best Improver in the Sunday Times Top 30 Big Companies List, reaching 26th place.

DFS aims to support the health and welfare of our employees and their families through a variety of initiatives including life and critical illness cover, and an employee assistance service. 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.

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.

### Health & safety

We are committed to promoting a positive health and safety culture throughout DFS, and have continued to invest in training and in improving our processes and practices to ensure that we operate safe and secure workplaces no matter where they are.

All our store managers attend a comprehensive three-day external training course, while production and supply chain managers and supervisors complete four-day IOSH certification. Other areas of the business receive focused training according to need. All employees complete online training modules to ensure awareness of DFS 'house rules' for health and safety and these are reinforced with monthly safety messages to refresh and remind on particular subjects.

Our dedicated health and safety team has also been working to improve reporting and oversight of health and safety matters. Reporting procedures have been improved to facilitate more comprehensive and timely capture of incidents. Although this is expected to increase the number of reported incidents in the short term, we believe the enhanced data obtained is essential in continuing to improve our performance. In addition, we have refined our internal audit procedures to increase the focus on key areas of health and safety.

Monthly health and safety governance meetings with operational directors are chaired by the Chief People Officer to review incidents and activities in detail and share experience and best practice. Full reports are provided to each Operating Board and Reputational Risk Committee meeting.

In last year's report we highlighted an active investigation by the Health & Safety Executive into an incident in one of our factories in 2015. Formal proceedings were concluded in March 2017 which resulted in a fine for the Group in line with the amount provided for in last year's accounts. While the nature of this incident was disappointing we are confident that the significant improvements we have made in the management, control and monitoring of health and safety have greatly reduced the risk of a similar event in the future.

The health and well-being of our employees, customers and partners is extremely important to DFS and in the year ahead we plan further enhancements to our training and audit programmes to consolidate our progress to date.

### Apprentices

Two years ago we launched our modern apprenticeship programme with the recruitment of eleven young people to train as service upholsterers. The programme rapidly expanded and we have since taken on two further groups of service managers as well as two groups in both our Retail and Manufacturing operations. During the two year programme, participants achieve formal qualifications in their chosen field, complete the Duke of Edinburgh Gold Award and gain crucial work experience. Throughout the programme our apprentices are supported by business mentors and appointed pastoral carers to give them the best chance of success. The high quality of our programme has earned it the Youth Employment Talent Management & Recruitment Award at the UK Employee Experience Awards for the third year in succession.

We have been delighted with the excellent progress they have made and many from the earlier groups now hold permanent positions in the business. The success of the programme has therefore been two-fold: firstly providing young people with an opportunity to genuinely develop their talents and become productive employees and secondly to build resource for the business in areas where there may otherwise be a skills shortage.

# Our dedication to bringing comfort into people's lives doesn't stop at sofas

## Going for gold

DFS is a longstanding partner of the Duke of Edinburgh Award and our apprentices complete the demanding Gold Award as part of their training programme. This involves a twelve month volunteering commitment, a sport/physical section, a residential challenge and a three-night expedition in addition to a skills section centred on their work area. These challenges help to build valuable life skills of resilience, teamwork and leadership in addition to the technical expertise learned in their chosen field.

Dylan Cropper was one of our first Service Manager Apprentices, joining the scheme in October 2014. After successfully completing his training in our Lincoln store, Dylan relocated to Leeds to take up a permanent position in our Birstall store in November 2015. Dylan was also invited to give a speech to Prince Philip at an event at St James' Palace to talk about his experience of the Gold Award and his apprenticeship. He did such a good job of this that he then spoke to a much larger audience at our company conference!

**Dylan Cropper:**
Front row, second from right.

## Building leadership

As part of our continuing investment in the development of the DFS team, we have this year launched a significant programme to build the skills of our operational leaders.

FED (Future, Engage, Deliver) is a leadership approach designed to drive highly engaged and motivated teams and to facilitate a collaborative way of working. We have brought together cross-functional groups of leaders by region to experience two-day workshops in each of the key components of the programme:

**Future** is all about co-creating shared priorities and pulling together a plan. **Engage** sessions focus on building big relationships to enable effective delivery of the plan, while **Deliver** ensures we are on track and translates the actions into business benefit.

In partnership with Steve Radcliffe Associates (the founders of the programme), some 200 retail operations managers have completed six days of development this year, with positive impacts already being experienced. In the year ahead we will embed the approach in our retail operations and commence implementation across the wider business.

## Customers

Our customers are at the very heart of our business, so in pursuit of our vision of DFS being a world-class British business we need to deliver an outstanding experience for our customers, at all times. Our 'Customer Promise' details what our customers can expect from us and is central to our customer-focused approach.

To ensure we deliver the highest levels of customer service we make significant investment in employee training and incentivisation. Staff 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. Established Customer NPS forms a component of remuneration for employees throughout the business, including salespeople, management and head office teams and Executive Directors.

**Esquire**
**Corner recliner**
DFS

## Products & suppliers

### DFS goes to great lengths to ensure the quality and safety of all the products it sells.

All our upholstery ranges are tested to British Standards (Contract Level 1) for strength and durability, including frames, arms, sofa-bed mechanisms and recliner actions. These tests replicate the effect of repeated actions such as a 100kg person sitting down 100,000 times (the equivalent of once a day for 274 years). Our own detailed quality checks are supported by the use of independent safety specialists, and all upholstered furniture items are offered with a 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 also recognise the importance of sustainability in our products and work closely with our suppliers to ensure all the wood we use comes from sustainable sources.

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.

**Modern slavery**

DFS is not willing to tolerate or condone modern slavery in any part of our operations or supply chain and will take all the appropriate actions to assist the abolition of modern slavery. We have developed a series of steps to mitigate the risks of slavery or human trafficking within the business, including: formal communication with new and established suppliers, regular visits to suppliers (both announced and unannounced), establishing a supplier Code of Conduct and delivery of awareness programmes and appropriate training to all employees. Further details can be found in our full Modern Slavery Statement which is published on our website.

We recognise that the commitment to a no-tolerance policy to human rights abuse is a continual journey and we will continue to assess the effectiveness of our programme through our already established Reputational Risk Committee.

## Sofa testing

**The bottom test**

Sofas have to put up with a lot of bottoms bouncing on them, so the 'bottom test' as we politely like to call it, simulates the wear and tear of a 100kg weight sitting down over 100,000 times. That's the equivalent of a baby elephant kicking back on your couch once a day for 274 years.

**The arm test**

Sofa arms have to be durable too. After all, you lean on them, lever yourself up on them and move the sofa around with them, not to mention balancing your cuppa on them. That's why our 'arm test' replicates a 40kg weight resting on them over 30,000 times.

**The hammer test**

We all love those fun moments on the sofa, whether it's the kids doing jumping jacks or Dad kicking back after work, we've got it covered. Our impact test reproduces these movements in every direction to make sure every sofa is up to the task.

Find out more at dfs.co.uk

## A healthy partnership


Back in 2012, DFS decided to help in the fight against coronary heart disease – the UK's biggest killer – by offering our customers the chance to have their unwanted sofas taken away for free and resold by the British Heart Foundation. We are very proud that this scheme has to date raised more than £13 million to help fund life-saving heart research.

In addition, our association with the British Heart Foundation has supported the training of more than 1,000 new and existing employees in CPR skills and defibrillator awareness that will help more people survive an out of hospital cardiac arrest. Defibrillators are installed in all our new stores and CDCs. This year we also ran a week of health and well-being activities across our business as part of the British Heart Foundation's "Wear it, Beat it" campaign.

For more information on the British Heart Foundation, visit **bhf.co.uk**

Raised for the British Heart Foundation

**£13m**

Employees trained in CPR skills and defibrillator awareness

**1,000+**

## Environment

DFS aims to improve the environmental performance of our operations year on year, with particular focus on energy efficiency, reducing waste and reducing the impacts of our distribution.

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.

### Greenhouse gas data

| | Tonnes $CO_2e$ | | Intensity measure (Tonnes $CO_2e$ per employee) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Scope 1 | 13,766 | 10,969 | 3.2 | 2.8 |
| Scope 2 | 15,733 | 17,122 | 3.7 | 4.3 |
| **Total** | **29,499** | 28,091 | **6.9** | 7.1 |

Electricity use is a key component of the Group's $CO_2$ emissions. Significant reductions in electricity useage have been achieved with the further roll out of low energy lighting schemes, which now cover 75% of our store estate. In addition, the use of automated meters to monitor and investigate unusual movements has enabled better control on usage of both gas and electricity.

Our customer distribution centres are now all equipped with balers to facilitate the recycling of both cardboard and polythene used in packaging materials and this has resulted in a more than 10% increase in the volume recycled. We were also pleased to achieve zero waste to landfill from our head office operations and 93% landfill diversion from our other operational sites.

As our business grows, we have continued to refresh our delivery fleet with more efficient models and are investing in telemetry systems to support efficient driving patterns. The $CO_2$ performance of our company car fleet continues to improve and at an average of 103g/km is 15% below the UK national average for new registrations.

## Community

DFS is proud to support a number of local and national charities to help us give something back to the people who live and work where we do.

The partnership between DFS and the British Heart Foundation goes from strength to strength as it reaches its fifth successful year (see opposite).

We have also continued our support for BBC Children in Need for a fourth year, raising £750,000 through a variety of activities including offering customers a chance to win their entire order for free by entering a monthly draw. Next year we have pledged to raise a full £1 million for this incredible charity, which funds life changing projects for disadvantaged children across the UK.

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. We also support Gaisce – The President's Award, in the Republic of Ireland.

In addition to the major national charities above, DFS supports a number of charities and initiatives based locally to our operations across the UK and in Europe, particularly those promoting opportunities for young people. We also offer a matched funding plan for DFS team members raising money for a charity of their choice. Charitable donations made by the Group during the year amounted to £181,050 (2016: £263,099).

This Strategic Report was approved by the Board on 4 October 2017.

On behalf of the Board

**Ian Filby**
Chief Executive Officer

**Nicola Bancroft**
Chief Finance Officer

# Board of Directors

## Meet the team

### Ian Durant (59)
Non-Executive Chair

**Date of joining DFS**
May 2017

**Experience**
Ian has a background in international finance and commercial management and previously held non-executive roles with Home Retail Group plc, Greene King plc and Westbury plc.

Prior to this, he held several Finance Director/CFO roles at Liberty International plc, Sea Containers and Thistle Hotels plc as well as various associate companies of the Jardine Matheson group.

**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 Capital and Counties Properties plc[1]
- Chair of Greggs plc[1]
- Trustee and Chair of Finance and Investment Committee of Richmond Parish Lands Charity

N

### Ian Filby (58)
Chief Executive Officer

**Date of joining DFS**
September 2010

**Experience**
Ian has 36 years of retail experience, primarily at Alliance Boots, where his most recent roles were Retail Brand Development Director and Trading Director.

He was also previously Interim Chief Executive Officer of Nectar and Non-executive Chair of Shoe Zone plc.

**Qualifications**
MA (Hons) in Chemistry from Cambridge University

**External appointments**
- Member of the British Retail Consortium Board
- Chair of the British Retail Consortium Policy Board
- Trustee of Pennies charity
- Director of IFF Life and Business Solutions Ltd

### Nicola Bancroft (53)
Chief Financial Officer

**Date of joining DFS**
January 2013

**Experience**
Nicola has 29 years of experience in the retail sector and previously worked for Alliance Boots where she held a series of senior finance roles, including Commercial Finance Director and Retail & Transformation Finance Director. On joining DFS, as Commercial Finance Director, she established the commercial finance function and was responsible for strategic planning, financial planning, business intelligence and finance partnering providing support to all business areas.

**Qualifications**
BA (Hons) in Accounting and Finance and fellow of the Chartered Institute of Management Accountants

**External appointments**
None

**Committee membership key**

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

In preparation for the IPO in March 2015, all of the directors were appointed to the board of DFS Furniture plc in February 2015 with the exception of Nicola Bancroft who was appointed in August 2016 (following the retirement of Bill Barnes in July 2016) and Ian Durant who was appointed in May 2017 (following the stepping-down of Richard Baker).

1 Chair of the Nomination Committee
2 Chair of the Remuneration Committee
3 Chair of the Audit Committee



## Luke Mayhew (64)
Senior Independent Non-Executive Director

**Date of joining DFS**
October 2014

**Experience**
Luke previously served for 13 years on the Board of John Lewis Partnership, including as Managing Director of the Department Store division. He also spent five years at British Airways plc and seven years at Thomas Cook Group plc in senior positions. He was also previously Chair of the British Retail Consortium, a Non-Executive Director of WH Smith plc and Brambles Ltd, and Chair of Pets at Home Group Limited.

**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[2]
- Trustee of BBC Children in Need
- Director of the National Youth Orchestra of Great Britain
- Director of Platinum Sports Management Ltd
- Governor of the Southbank Centre

N R A

## Gwyn Burr (54)
Independent Non-Executive Director

**Date of joining DFS**
December 2014

**Experience**
Gwyn previously served on the operating board of J Sainsbury plc with responsibility for marketing, customer service, human resources, corporate responsibility and corporate communications, as well as key sponsorship schemes including the Paralympic Games programme. Before that, she held various management positions within the supermarket group Asda.

**Qualifications**
BA (Hons) in Economics and History from Bradford University

**External appointments**
- Independent Non-Executive Director of Metro AG
- Independent Non-Executive Director of Hammerson plc[2]
- Independent Non-Executive Director of Just Eat plc[2]
- Non-Executive Director of Sainsbury's Bank plc

N R A

## Julie Southern (57)
Independent Non-Executive Director

**Date of joining DFS**
February 2015

**Experience**
Julie was previously with Virgin Atlantic for 13 years, firstly as CFO for ten years before taking on the role of Chief Commercial Officer. Prior to joining Virgin Atlantic, she was Group Finance Director of Porsche Cars GB and Finance and Operations Director of WH Smith's subsidiary HJ Chapman & Co. Up to December 2016 she was an Independent Non-Executive Director of Gate Group Holdings AG.

**Qualifications**
MA (Hons) in Economics from Cambridge University and member of the Institute of Chartered Accountants in England and Wales

**External appointments**
- Independent Non-Executive Director of NXP Semiconductors N.V.
- Independent Non-Executive Director of Cineworld Group plc[3]
- Independent Non-Executive Director of Rentokil Initial plc[3]
- Independent Non-Executive Director of Stagecoach Group plc[2]

N R A

# Directors' report

## Introduction

The Directors present their Annual Report and audited financial statements for the 52 weeks ended 29 July 2017, 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 35;
- employees, which can be found on page 29;
- the Corporate Governance statement, set out on pages 40 to 46; and
- our strategy and objectives, set out on pages 10 to 15.

Information regarding the Company's charitable donations can be found in the corporate responsibility report on pages 28 to 35. No political donations were made in FY17 (FY16: £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 52 weeks ended 29 July 2017. 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 71 to 94. The Company only results of DFS Furniture plc are set out on pages 95 to 98. The Directors have declared an interim ordinary dividend of 3.7 pence per share, and a special dividend of 9.5 pence per share, both of which were paid on 21 June 2017, and also proposed a final dividend of 7.5 pence per share to be paid in respect of the 52 weeks ended 29 July 2017. It is intended that the final dividend will be paid on 27 December 2017 to all shareholders on the register on 8 December 2017. The Company's shares will trade ex-dividend from 7 December 2017.

## Directors

The Directors of the Company who held office at the date of this Annual Report and their biographical details can be found on pages 36 to 37. 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.

All of the Directors were appointed to the Company on 2 February 2015 with the exception of Nicola Bancroft who was appointed on 1 August 2016 and Ian Durant who was appointed on 2 May 2017. In accordance with the Company's Articles of Association, all of the Directors will retire from office and seek re-election, with exception of Ian Durant who will seek election, at the Company's Annual General Meeting on 1 December 2017.

## Directors' interests

Information about the Directors' interests in the Ordinary Shares of the Company on 29 July 2017, or date of appointment if later, and any subsequent changes as at 4 October 2017 is set out in the Directors' remuneration report on pages 54 to 64.

## Directors' indemnities and insurance

In accordance with the Companies Act 2006 and the Company's Articles, the Company has purchased and maintains directors' and officers' liability insurance cover which remains in place as at the date of this report. 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.

## Employees

As at the year end the Company employed 4,354 employees (as set out in the gender analysis table on page 29).

## 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 2017 AGM.

## Annual General Meeting ('AGM')

The Company's next AGM will take place on 1 December 2017 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 4 October 2017, 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 2 December 2016, 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 1 December 2017 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 858 treasury shares have been utilised to satisfy the exercise of SAYE options. As at the date of this Annual Report, 1,499,142 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 obligations.

A resolution will be proposed at the 2017 AGM to renew this authority.

### Authority to allot shares

At the last AGM of the Company on 2 December 2016, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £105,765,301 (or up to £211,530,601 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 2017 AGM unless revoked, varied or renewed prior to that meeting.

A resolution will be proposed at the 2017 AGM to renew this authority.

### Major interests in shares

As at 2 October 2017, being the last practicable date prior to the publication of this report, the Company had been advised of, and subsequently disclosed, the following significant notifiable interests in the Company's voting rights:

| | Number of voting rights | % voting rights | Date of last notification |
|---|---|---|---|
| **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 |
| **Franklin Templeton Fund Management Ltd** | 11,950,000 | 5.6% | 11 Apr 2016 |
| **UBS Investment Bank** | 11,105,669 | 5.3% | 27 Sept 2017 |
| **SK Family Investment LLC** | 10,611,623 | 5.0% | 28 Sept 2017 |
| **Royal London Asset Management Ltd** | 8,589,347 | 4.1% | 16 Jun 2017 |
| **Canaccord Genuity Group inc.** | 8,000,000 | 3.8% | 20 Sept 2017 |
| **Aviva plc & subsidiaries** | 6,376,176 | 3.0% | 14 Feb 2017 |

These interests may have changed since the Company received notification. However, notification is not required until the next applicable threshold is crossed.

### 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 £230.0 million revolving credit facility in place until August 2022, of which £200.0 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 19. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Auditor and disclosure of information to auditor

Each of the Directors at the date of this report confirms that:

- so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he/she has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/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

On 2 August 2017, DFS Furniture Company Ltd, a wholly-owned subsidiary of the Company, exchanged contracts to acquire all the outstanding share capital of Sofology Limited, subject to regulatory approval, for an initial enterprise value of £25.0 million, on a debt-free cash-free basis, subject to a potential further earn-out payment.

On 2 August 2017, DFS Furniture Holdings plc, a wholly-owned subsidiary of the Company, converted its existing borrowings (comprising a £200.0 million term loan and £30.0 million revolving credit facilities) to a new five-year £230.0 million revolving credit facility structure, maturing in August 2022, with an additional £100.0 million uncommitted accordion feature.

This report has been approved by the Board of Directors and has been signed on its behalf by:

**Paul Walker**
Group Company Secretary
4 October 2017

# Corporate governance statement

**Ian Durant** | Chair of the Board

"I am confident that our Board and governance structures provide a sound base for the Group to respond to the challenges and opportunities ahead.

## Key governance activities

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

- assessing the financial performance and future strategy of the Group, in the context of the recent challenging trading environment and market expectations
- considering potential strategic acquisitions, including the approval of the conditional acquisition of Sofology Ltd
- monitoring health and safety performance throughout the Group, to promote both compliance and best practice
- planning and managing the selection process of the new Non-Executive Chair of the Board, to succeed Richard Baker in May 2017
- implementing the EU Audit reforms resulting in an updated policy regarding non-audit services and the appointment of Deloitte LLP as tax advisor to the Group
- considering the effects and implementation of future changes to lease accounting, developments in FCA regulatory compliance and the requirements of the General Data Protection Regulation
- reviewing Executive and senior management pay, and management succession planning, to ensure stakeholder engagement while rewarding excellent performance and aiding retention and recruitment

### Introduction

Dear Shareholder

I am pleased to introduce DFS Furniture plc's Corporate governance report for the year, being my first as the new Non-Executive Chair, having succeeded Richard Baker on 2 May 2017.

For the period up to my appointment on 2 May 2017, this report is based on information and advice received from my Board colleagues, Company management and advisors. The introductory briefings I have received, along with my observations and experiences since my appointment, are consistent with a Group which is committed to continually developing high standards of corporate governance.

In this report, we include a description of how the Company has applied the principles and provisions of the Governance Code and provide details of the Governance structure and framework.

### Board composition

Following the change in the Chair of the Board noted above, the Board is currently comprised of an independent Non-Executive Chair and two Executive Directors along with three independent Non-Executive Directors. The Governance Code recommends that at least half the board of directors of a UK listed company, excluding the Chair, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. As a result, we continue to be compliant with the Governance Code in this regard.

In last year's annual report, we noted an area of ongoing non-compliance with the Governance Code due to fact that Richard Baker, the Company's former Non-Executive Chair, was, for the purposes of the Governance Code, not considered to have been independent on his appointment as Chair in 2010 due to his role as an Operating Partner at Advent. As a consequence of my appointment on 2 May 2017 and, in particular, my independence on that date, this area of non-compliance no longer exists.

As we move into 2018, potentially the economic and political conditions remain uncertain, however I am confident that DFS's Board and governance structures provide a sound base for the Group to be best placed to respond to the challenges and opportunities ahead.

I look forward to welcoming shareholders to my first DFS Annual General Meeting, to be held in Doncaster on 1 December 2017, and to receiving and answering your questions.

**Ian Durant**
Chair of the Board
4 October 2017

## Governance framework

### DFS Furniture plc Board

**Members:**
Independent Non-Executive Chair
3 Independent Non-Executive Directors
2 Executive Directors

### Audit Committee

**Members:**
3 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 → 47

### Remuneration Committee

**Members:**
3 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 → 54

### Nomination Committee

**Members:**
Independent Non-Executive Chair
3 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 → 52

### Executive Board

### 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 was published by the Financial Reporting Council in April 2016, applies to financial years beginning on or after 17 June 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 47 to 53 together with the Strategic Report on pages 1 to 35, the Directors' Remuneration Report on pages 54 to 64 and the Directors' Report on pages 38 and 39, 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

The Company has adopted the "Governance Code" since admission of the Company's shares to the main market of the London Stock Exchange on 11 March 2015. Up to 1 May 2017, the Company has applied all of the main principles of the Code with the exception of "A.3.1 The Chairman was not independent on appointment", the explanation for which is noted in the Chair's introduction to Corporate Governance. However, from 2 May 2017, following the appointment of Ian Durant as Chair of the Board, the Company has been fully compliant with the Governance Code.

### The role of the Board

The Board currently consists of three Independent Non-Executive Directors, an Independent Non-Executive Chair and two Executive Directors. Biographies of all members of the Board appear on pages 36 to 37.

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 (CEO) and Chief Financial Officer (CFO) are members of the Board and two levels of management sit below the Board: the Executive Board and the Operating Board, each of which are led by the CEO. The CEO and CFO therefore act as a bridge between Management and the Board. The Board delegates to management 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 and has delegated other specific responsibilities to its Committees. This schedule sets out key aspects of the affairs of the Company which the Board does not delegate, including:

- approval of the annual Group budget and strategic four year business plan and review of performance against them, including approval of growth activities into new markets or countries;
- approval of the interim/annual report and accounts and any preliminary announcement, including approval of dividend policy/payments;
- approval of treasury policies, material guarantees, granting of security and entry into/material amendment of loan facilities;
- approval and review of the management of balance sheet foreign exchange exposure;
- approval of material finance and operating leases and approval of major investments including corporate/capital acquisitions/disposals;
- approval of changes to the Group's capital structure including reductions of capital and share issues/buybacks;
- approval of recommendations from the Audit, Remuneration or Nomination committees;
- ensuring satisfactory dialogue with shareholders based on a mutual understanding of objectives;
- approval of changes to the structure, size and composition of the Board and any other control structure;
- maintenance of a sound system of internal controls and risk management, including approval of the Group's risk register;
- any decision likely to have a material impact on the Group from any financial, operational, strategic or reputational perspective.

All Directors have access to the advice and services of the Company Secretary, who has responsibility for ensuring compliance with the Board's procedures. 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 Board has adopted guidelines by which Directors may take independent professional advice at the Company's expense in the performance of their duties.

The Chair, both previous and current, and the Non-Executive Directors met several times, in aggregate, throughout the year without the Executives present.

### 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, all of which have been reviewed and amended, where appropriate, during the year. The reviewed terms of reference were adopted by the Board on 26 June 2017 and 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 47 to 64.

## Role of the Chair and Chief Executive Officer

Up to 1 May 2017, the Board was chaired by Richard Baker, who was appointed in 2010 whilst the Group was under Advent's private ownership. From 2 May 2017, the Board has been chaired by Ian Durant. The Chair of the Company is responsible for leading the Board and ensuring its effectiveness in all aspects of its role. Ian Filby is the Chief Executive Officer and is responsible for managing the profitable operation of the Company to create shareholder value by promoting the long term success of the Company. The role is distinct and separate to that of the Chair and clear divisions of accountability and responsibility have been agreed by the Board and are set out in writing, as summarised below:

### Role of the Chair

- managing the business of the Board including organising and chairing regular meetings;
- ensuring the submission to the Board by the Chief Executive of objectives, policies and strategies for the Group, including the Group business plan and annual budget;
- keeping under review with the Board the general progress and long term development of the Group and ensuring that effective strategic planning for the Group is undertaken;
- facilitating the contributions of Non-Executive Directors to the leadership of the Group;
- holding meetings with the Non-Executive Directors without the Executive Directors present, as appropriate;
- ensuring effective communication between the Board and the Company's shareholders;
- acting on the results of the Board's annual review of its and its Committees' and individual Directors' performances; and
- appraising the performance of the Chief Executive Officer and making appropriate recommendations as to his or her remuneration to the Remuneration Committee.

### Role of the Chief Executive Officer

- managing the Group's physical, financial and human resources;
- planning the Group's strategies effectively;
- ensuring that the Group complies with all relevant legislation and regulatory requirements;
- allocating duties and responsibilities to Directors;
- reviewing the performance of the other Executive Directors and making appropriate recommendations as to their remuneration to the Remuneration Committee;
- managing the Group's relations with shareholders, customers, suppliers, regulators, other public organisations, other companies and the media; and
- keeping the Chair and other Non-Executive Directors informed in respect of all relevant matters.

## Role of the Senior Independent Director (SID)

The Governance Code recommends that the Board of Directors of a company with a premium listing on the official list of the London Stock Exchange ("Official List") should appoint one of the Independent Non-Executive Directors to be the Senior Independent Director to provide a sounding board for the Chair and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns which the normal channels through the Chair, Chief Executive Officer or other Executive Directors have failed to resolve, or for which such channels would be inappropriate. Luke Mayhew was appointed as the Senior Independent Director and has served in this capacity throughout the year.

# Corporate governance statement
continued

### Board balance and independence
As mentioned in the Chair's introduction, DFS has been fully compliant with the recommendations of the Governance Code in this area since 2 May 2017. During the period preceding this, although non-compliant, any perceived risks were mitigated with appropriate safeguards.

In particular, these safeguards included a relationship agreement ("the Relationship Agreement") in place with its previous principal shareholder, Advent, and with the previous Chair, Richard Baker.

The principal purposes of the Relationship Agreement were to ensure that:
- the Group and its subsidiaries are capable of carrying on their business independently of Advent and/or Richard Baker;
- all transactions and arrangements between the parties are conducted at arm's length and on normal commercial terms; and
- neither party take any action or propose a shareholder resolution that would have the effect of preventing the Group from complying with its obligations under the Listing Rules.

The Company confirms that the terms of the Relationship Agreement were fully complied with up to its termination on 8 November 2016, being the date upon which the ownership/control of the ordinary share capital/voting rights of the Company by Advent and Richard Baker, in aggregate, fell below 15%.

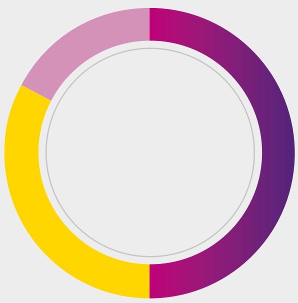
Under the terms of the Relationship Agreement, Advent was entitled to nominate for appointment to the Board one Nominee Director, to be approved as being suitable by the Nomination Committee, subject to the same ownership/control terms noted above. During the period from the date of the last annual report to the termination of the Relationship Agreement on 8 November 2016, this entitlement remained in force but was not exercised.

### Board skills matrix

| Principal skills and experience | Retail | Customer Service/ Marketing | People | Operations | International | Regulatory | Finance |
|---|---|---|---|---|---|---|---|
| **Ian Durant**<br>Chair | ✓ | | | ✓ | ✓ | ✓ | ✓ |
| **Ian Filby**<br>Chief Executive Officer | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| **Nicola Bancroft**<br>Chief Financial Officer | ✓ | | | ✓ | ✓ | ✓ | ✓ |
| **Luke Mayhew**<br>Senior Independent Non-Executive Director | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| **Julie Southern**<br>Independent Non-Executive Director | ✓ | ✓ | | | ✓ | ✓ | ✓ |
| **Gwyn Burr**<br>Independent Non-Executive Director | ✓ | ✓ | ✓ | | ✓ | ✓ | |

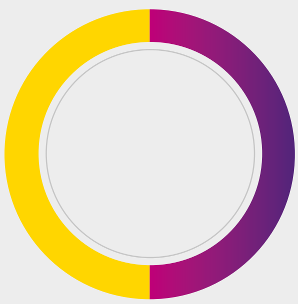
### Length of appointments
Non-Executive appointments to the Board are for an initial period of three years, are subject to annual re-election by shareholders at the Company's annual general meeting and to any requirements of the Listing Rules, and are contingent on continued satisfactory performance.

### Board length of service



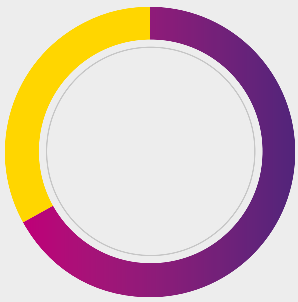
| | |
|---|---|
| 0-3 years | 3 (50%) |
| 3-6 years | 2 (33%) |
| 6+ years | 1 (17%) |

### Gender analysis



| | |
|---|---|
| Female | 3 (50%) |
| Male | 3 (50%) |

### Executive/Non-Executive analysis



| | |
|---|---|
| Executive | 2 (33%) |
| Non-Executive | 4 (67%) |

### Information, meetings and attendance

During the year, the Board met on seven occasions to review operational, trading and strategic performance, including the approval of the updated strategic four year plan and budget for the next financial year. In addition, two scheduled telephone meetings were held to review important trading periods, and a further four ad-hoc telephone meetings were held to review corporate acquisition activity, and market announcements regarding trading performance.

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** | | **13** | **3** | **4** | **6** |
| **Richard Baker** | 3 Feb 2015 | 9/9[1] | – | – | 3/4[2] |
| **Ian Durant** | 2 May 2017 | 4/4[3] | – | – | 0/0[3] |
| **Ian Filby** | 3 Feb 2015 | 13/13 | – | – | – |
| **Nicola Bancroft** | 1 Aug 2016 | 13/13 | – | – | – |
| **Luke Mayhew** | 3 Feb 2015 | 13/13 | 3/3 | 4/4 | 6/6 |
| **Gwyn Burr** | 3 Feb 2015 | 11/13[4] | 3/3 | 4/4 | 5/6[4] |
| **Julie Southern** | 3 Feb 2015 | 13/13 | 3/3 | 4/4 | 6/6 |

Notes:

1. Richard Baker stepped down from the Board on 1 May 2017 and therefore was only eligible to attend nine Board meetings in the year.
2. Richard Baker was only eligible to attend four Nomination Committee meetings in the year, due to the subject matter of the other two meetings deeming his attendance inappropriate. He was unable to attend one meeting (due to illness) but received the papers, provided advance input and received a full detailed briefing shortly after.
3. Ian Durant was appointed to the Board/Nomination Committee on 2 May 2017 and therefore was only eligible to attend four Board meetings and no Nomination Committee meetings in the year.
4. Gwyn Burr was unable to attend two telephone Board meetings and one Nomination Committee telephone meeting (due to prior commitments) but received the papers, provided advance input for all meetings and received a full detailed briefing shortly after.

All Directors are invited to attend the Audit Committee, the Chair of the Board is invited to attend the Remuneration Committee, and the Chief Executive Officer is invited to attend both the Remuneration and Nomination Committees (where appropriate). Members of the Executive Board are also invited to attend committee meetings as 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 management 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 seven 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 and review specific business areas, including Health and Safety and regulatory matters, in order to maintain and enhance a broad and thorough understanding of the business model.

The Chair, in conjunction with the Group Company Secretary, is responsible for ensuring that the Directors receive accurate, timely and clear information. Prior to each scheduled Board meeting, a pack is circulated in respect of the most recent financial period which includes an update on key performance targets, trading performance against budget and includes detailed financial and non-financial data and analysis. 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.

### 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 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

All Directors have received induction training on joining the Board and, as part of the annual Board evaluation, the development needs of each Director are appraised. All Non-Executive Directors have met key members of senior management and advisors to the Company, many of whom have given presentations to the Board and Committee members during various Board and Committee meetings, in order to continue the development of their understanding of the Group and the issues it faces.

In particular, with regard to the appointment of Ian Durant as Chair, a bespoke induction programme was developed and delivered in order to provide a comprehensive and detailed introduction to the business model, its people and operations, as well as the current/future strategic issues.

# Corporate governance statement
continued

## Board evaluation
The Board carried out its second review of its own effectiveness, and that of its various Committees, during the year. This review was undertaken following the second anniversary of the IPO, and therefore coincided with the period during which the change of Chair occurred. As a consequence, the review was facilitated by the Senior Non-Executive Director and the Company Secretary and involved each Director (including the previous Chair) completing a formal questionnaire on the performance of the Board and each of the Board committees, considering 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.

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. Nevertheless, the Board recognised areas for on-going development which should form the focus for the Board, and its new Chair, in the following year.

The Governance Code provides that evaluation of the Board of FTSE 350 companies should be externally facilitated at least every three years. Therefore, in-line with this best practice, it is intended that such a review will take place during 2018.

The Senior Independent Director, Luke Mayhew, together with the Independent Non-Executive Directors, evaluated the performance of the previous Chair and discussed the results with him.

## 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 following AGM and shall then be eligible for election by shareholders. In accordance with the Articles, Ian Durant will be offering himself for election, along with all the other Directors for re-election, at the AGM to be held at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA, on 1 December 2017, 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. Ian Filby continues to be a director of IFF Life and Business Solutions Limited, a trustee of the Pennies charity and a member of the British Retail Consortium Board. The Board considers that these appointments do not adversely impact his ability to carry out his role. Nicola Bancroft does 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.

## Relations with shareholders
In accordance with the Code, the Board recognises that it has responsibility for ensuring that a satisfactory dialogue with shareholders takes place and any major shareholders' issues and concerns are communicated to the Board through the Chair.

As part of its investor relations programme, the Executive Directors have maintained an active dialogue with its key stakeholders, including institutional investors, during the year in order to discuss issues relating to the performance of the Group including strategy and new developments.

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, Chief Financial Officer and Director of Corporate Finance hold meetings with institutional investors following the full-year and interim results.
- The Chair 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 an understanding of market perceptions.

The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise. The Chair and Non-Executive Directors are also available to attend investor relations meetings or to request meetings with investors or analysts independently of the Group's management, 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 38 and 39.

# Audit Committee report

**Julie Southern** | Chair of the Audit Committee

"As Chair of the Audit Committee, I am committed to keeping its activities proactively under review in the light of regulatory and reporting developments.

**Chair's introduction**

I am pleased to present this year's Audit Committee report.

The Committee plays an important role in the governance of the Company and this report sets out details of the work undertaken by the Committee during the year. The Committee's main activities focused on the integrity of financial reporting, the quality and effectiveness of both the internal audit function and the external audit, ensuring appropriate systems of internal control and reviewing all aspects of risk facing the Group.

As noted last year, the internal audit function has continued to expand its scope and focus and I am pleased that all subsidiary trading companies have been fully integrated within the Group internal audit programme. This has helped to ensure consistent and appropriate internal controls are being applied across the whole of the DFS Group, while also sharing and developing best practice to enhance business processes and support the Group Health and Safety function.

In addition, during the year, the Committee has overseen the implementation of the EU Audit reforms resulting in the approval of an updated policy regarding the provision of non-audit services by the auditor and the appointment of Deloitte LLP as tax advisors to the Group. Furthermore, in common with other newly-listed companies, the Company was subject to an enquiry from the Financial Reporting Council and I am delighted to confirm all issues were addressed to their satisfaction.

As Chair of the Audit Committee, I am committed to keeping its activities proactively under review in the light of regulatory and reporting developments. It is therefore satisfying to note that we have considered both the effects of, and implementation plan for, the future changes to lease accounting and the introduction of the General Data Protection Regulation, both of which are likely to have a significant impact on the Group.

Lastly, I am pleased to report the composition of the Committee has remained unchanged since the last annual report and I would like to thank the Company and my fellow Committee members for their contributions during the year and look forward to continued progress in the future.

**Julie Southern**
Chair of the Audit Committee
4 October 2017

### Composition

The Audit Committee is chaired by Julie Southern and its other members are Luke Mayhew and Gwyn Burr.

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 and former executive and non-executive roles, details of which are set out on page 37, Julie Southern 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 36 and 37 and a summary of their main skills and experience is shown on page 44.

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;
- internal controls and risk management systems;
- compliance, whistleblowing and fraud; and
- internal and external audit.

In particular, this includes:

- monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance including a review of any significant financial reporting judgements contained therein;
- reviewing the Group's processes and procedures for ensuring that material business risks are properly identified and managed;
- reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems;
- receiving regular reports on significant litigation and compliance issues;
- reviewing the Group's arrangements with regard to employee/contractor whistleblowing, fraud detection, prevention of bribery and money-laundering;
- 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 45. 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 in the table below:

| September 2016 | March 2017 | June 2017 |
|---|---|---|
| • approval of the full year results for FY16<br>• review of the FY16 full year external audit, including KPMG LLP's performance and subsequent re-appointment<br>• review of the risk register/profile<br>• review of cyber security arrangements<br>• approval of an updated dilapidations policy<br>• approval of the search for alternative tax advisors for the Group following the recent introduction of EU Audit reforms* | • approval of an updated policy regarding the provision of non-audit services by the auditor<br>• review of the risk register/profile<br>• received, along with the rest of the Board, an external presentation on developments in FCA Regulatory Compliance<br>• considered a limited-scope enquiry from the Financial Reporting Council ("FRC") regarding disclosures made in the 2016 Annual Report** | • review and approval of KPMG LLP's continuing appointment, audit strategy and fees for the audit of the FY17 full year results<br>• review of the Group's IT security arrangements<br>• review of fraud management policies<br>• initial review of the effects of forthcoming changes to lease accounting<br>• approval of the plan to implement the requirements of the General Data Protection Regulation<br>• review of the results of the second evaluation of the Committee's effectiveness***<br>• approval of updates to the Committee's terms of reference following their annual review**** |

* As a direct result, Deloitte LLP was subsequently appointed in place of the auditor, KPMG LLP, who was no longer able to provide such services.

** Following positive interaction with the FRC, the enquiry was subsequently concluded to their satisfaction and the Committee welcomed the feedback received.

*** Performed by internal questionnaire and follow-up discussion.

**** Updated terms of reference were adopted by the Board on 26 June 2017 and are available on the Company's corporate website at www.dfscorporate.co.uk.

Following the FY17 year end, at the September 2017 meeting, the Committee reviewed and approved, for consideration by the Board, the financial results for the 52 weeks ended 29 July 2017 including a review of the full year external audit. As part of that review process, the members of the Committee reviewed the Annual Report, 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 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***

The Group holds significant goodwill in the business following the acquisition of the DFS Group in 2010 by Advent and the DFS Group's subsequent acquisition of The Sofa Workshop Limited. In addition, the Group has recognised the value of the respective brands of Sofa Workshop, Dwell and DFS Spain as intangible assets. As required by accounting standards, management have completed an annual impairment review of the carrying value of these assets for each cash-generating unit, and in total, details of which are set out in note 9 to the financial statements. This review concluded that no impairment charge was required.

***Provisions***

Several of the Group's provisions, which primarily relate to the estimated cost of the retail customer guarantees provided, claims relating to historical sales of Payment Protection Insurance, and the valuation of finished goods stock, continue to require significant judgement in assessing their appropriateness and quantum. Management have considered the rationale and basis for these provisions to assess their reasonableness and adequacy which has been reviewed and agreed by the Group's external auditor in conjunction with their substantive testing.

***Viability reporting***

The Committee, along with the Group's external auditor, has reviewed management's assessment of the prospects of the Group for the four years from 29 July 2017, being the period over which the various growth initiatives are anticipated to have a key impact and which corresponds to the normal planning cycle. 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 19 of the Strategic Report.

**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 52 weeks ended 29 July 2017 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**

The Audit Committee does not currently consider it necessary to have a bespoke policy for the rotation of the external audit firm other than continuing to comply with the audit tender rules applying to the Company.

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 year and, as a direct result, Deloitte were appointed as the Group's tax advisers therefore reallocating the vast majority of recurring non-audit engagements which, historically, the auditor had undertaken.

***Independence safeguards***

The current audit firm was appointed while the Group was under private ownership and has served the DFS business for over 20 years. In accordance with best ethical standards, external auditors are required to adhere to a rotation policy whereby the audit engagement partner is rotated after five years but can only serve for up to two years following the initial listing of the Group in March 2015. Therefore, our current external auditor, KPMG LLP, has introduced a new engagement partner, Chris Hearld, who has taken responsibility for the audit for the first time this year.

The Company is fully committed to continually developing the highest standards of corporate governance and therefore the Audit Committee will continue to apply the practice that the audit should be put out to tender at least every ten years.

As a consequence, KPMG LLP may remain as external auditor until the completion of the 2025 annual audit, however, the Committee will continue to consider annually the need to tender the audit for audit quality or independence reasons. There are no contractual obligations in place that restrict the choice of statutory auditor.

The external auditor is also 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.

***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 2018.

### Internal audit

Following last year's recommendation to the Board, the scope and focus of the internal audit function has continued to be developed during the year and all subsidiary trading companies are integrated within the Group internal audit programme.

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 (e.g. compliance monitoring, Fire & Furniture Regulation compliance, ethical production & margin management), focusing on owner verified controls to ensure that the company strategy is being achieved;
- the store environment, particularly in relation to conduct risk; and
- production and supply chain, to ensure consistent implementation of operational/compliance procedures, including Health and Safety.

Return site visits are also scheduled to ensure that agreed remedial actions are taking place to address unsatisfactory performance.

Internal audit reports continue to be issued to key management highlighting significant issues and making relevant recommendations. High level reporting is made to the Operating Board 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 Reputational risk committee, comprising management from all relevant areas of the business, meets on a monthly basis to review key regulatory areas including:

- complaints management relating to legacy Payment Protection Insurance issues;
- FCA regulated credit broking activities relating to the provision of interest-free credit to customers;
- data protection in all areas of the business, including detailed plans regarding the forthcoming implementation of the General Data Protection Regulation;
- health and safety across all business activities and premises; and
- compliance with the Modern Slavery Act, within both internal manufacturing and supply chain operations as well as our external supplier base.

This committee places emphasis on key metrics and management information designed to provide oversight of performance and highlight any potential detriment or risk to the Company 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 Committee will continue to:
- review the risk register compiled and maintained by senior managers within the Group 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 enable the Company to identify, evaluate and manage key risks and which accord 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 16 to 19.

**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, dishonesty, corruption and breaches of data protection or health and safety. This facility was reviewed during the year and it was agreed that appropriate arrangements are in place for proportionate and independent investigation of such matters.

During the year, there were seven instances of whistleblowing 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;
- equal opportunities; and
- gifts and entertainment.

**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 65 and 70. As set out in the Directors' report, the Directors consider the Company's business to be a going concern.

**Julie Southern**
Chair of the Audit Committee
4 October 2017

# Nomination Committee report

**Luke Mayhew** | Senior Independent Non-Executive Director

"I am pleased to welcome Ian Durant as the new Chair of the Board. His experience and skills fit the needs of the business and the long term interests of shareholders well.

**Chairman's introduction**

My role as Interim Chair of the Nomination Committee commenced in December 2016, following the announcement of Richard Baker's intention to step down as Chair of the Board and this Committee, and continued up to the appointment of Ian Durant as his successor in May 2017. Given this interim role, and my membership of the Committee throughout the year, I am pleased to present this year's Nomination Committee report.

The main activity of the Committee during the year was the performance of a rigorous selection process to replace Richard, who had been the Chair of the Board for the past 7 years, and who had guided DFS through its recent changes in ownership, resulting in the successful IPO in 2015. On behalf of the Board and the Company, I would like to express our gratitude for his service and leadership over those years.

The role of the Nomination Committee is to ensure we have the appropriate skills, knowledge, experience and diversity on the Board and in senior management positions, both now and in the future, in order that DFS continues to compete successfully.

I am pleased to welcome Ian Durant as the new Chair of the Board. His experience and skills fit the needs of the business and the long term interests of shareholders well. We are now fully compliant with the provisions of the Governance Code given Ian's independence from DFS on his appointment on 2 May 2017.

The year has also seen the strengthening of the senior management team and further investment in their development.

As the incoming Chair of the Nomination Committee, I am sure Ian will be encouraged by the 50:50 gender balance on the Board and will support the development of the Board and the senior executive.

**Luke Mayhew**
Senior Independent Non-Executive Director
(Former Interim Chair of the Nomination Committee)
4 October 2017

### Composition

During the year, the Nomination Committee was chaired by Richard Baker up to his announcement to step down as Chair of the Board in December 2016. From this time, he also stepped down as Chair/member of the Nomination Committee and, as a result, Luke Mayhew, Senior Independent Non-Executive Director and member of the Committee throughout the year, assumed the role of Interim Chair during the search for a replacement. This Interim Chair position concluded following the appointment of Ian Durant in May 2017. The other members are Gwyn Burr and Julie Southern who have served on the Committee throughout the year.

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. As such, 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 any event 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 were reviewed, and amended where appropriate, during the year and the revised terms of reference adopted by the Board on 26 June 2017, details of which are available on the Company's corporate website at www.dfscorporate.co.uk.

### Activities of the Nomination Committee

The Nomination Committee formally met six times during the year and the main activities included:

- management of the market-wide selection process, engaging the services of Spencer Stuart (who are independent of the Company), for the replacement of Richard Baker as Chair of the Board resulting in the appointment of Ian Durant on 2 May 2017;
- ongoing review of the talent and succession planning for the Board and senior management, including assessment of their training and development needs (resulting in the permanent appointment of a Chief Marketing Officer and Chief People Officer during the year, as part of the restructured Executive Board);
- internal review of the Committee's effectiveness;
- review of Directors' time commitments and independence; and
- consideration of the re-election of Directors at the AGM.

### Diversity

Whilst the Company pursues diversity, including gender diversity, throughout the business, the Board has not committed to any specific targets. However, we are pleased our Board has three female Directors and therefore a 50:50 gender split. We will continue to give due consideration to talent, balance and diversity when making new appointments to the Board and look to this approach being applied across the business.

**Luke Mayhew**
Senior Independent Non-Executive Director
(Former Interim Chair of the Nomination Committee)
4 October 2017

# Directors' remuneration report

**Gwyn Burr** | Chair of the Remuneration Committee

"Despite a challenging end to the year, there have been many notable successes which highlight the continued progress that we are making against our long-term growth strategy.

## PART A: ANNUAL STATEMENT

**Dear Shareholder,**

The key purpose of the Remuneration Committee is to develop and implement a remuneration policy that allows the Company to attract, incentivise, motivate and retain the key talent that the business needs in order to successfully deliver its strategy. This report sets out a summary of the Director's Remuneration Policy ("Policy") that the Company has in place and how we sought to implement it during the year.

We had a strong start to Financial Year 2017 and there have been many notable successes for the Company over the year including the recent acquisition of Sofology (subject to regulatory approval), our partnership with UK lifestyle brand Joules, the recent completion of refinancing on favourable terms to enable approximately £1 million of cost savings, payment of our first special dividend as well as our continued store roll-out. All of these successes highlight continued progress against DFS' long-term growth strategy.

Notwithstanding the progress we have made against our strategy, the Committee recognises that the past year has been a challenging one for shareholders with the softening of the UK retail market contributing to turbulent financial performance which has in turn had a negative impact on share price and earnings. This has naturally fed into disappointing remuneration outcomes for the year with the annual bonus pay-out of 37.5% of the maximum for the CEO and 38.0% for the CFO whilst the IPO award under the Long-Term Incentive Plan ("LTIP") vested at nil.

The Committee is aware that trading conditions remain somewhat volatile in the retail sector but we are confident in our long term strategy and our executives are focused on the delivery of sustainable performance against our agreed targets.

As a Committee, we remain focused on ensuring that DFS' Policy aligns with the interests of its shareholders. The Policy that we have in place was approved at the 2015 AGM (99.91% voted for) and we are not proposing to make any changes as we believe the current Policy is fit-for-purpose. However, we are required to review our Policy every three years. This means that over the next 12 months the Committee will undertake a review of the current Policy and following consultation with our major shareholders, will seek approval for a new Policy at the 2018 AGM.

I would like to take the opportunity to thank my fellow Committee members for their invaluable help over the past twelve months.

Along with other members of the Committee, I am committed to hearing, and take an active interest in, your opinions as shareholders and look forward to consulting with our shareholders during our 2018 Policy review process. If you would like to discuss any further aspect of our remuneration strategy I would welcome your views.

**Gwyn Burr**
Chair of the Remuneration Committee
4 October 2017

**This report has been prepared in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations") as well as the Companies Act 2006. This report is set out in the following key sections:**

**Contents**



## What remuneration decisions did we make as a result of performance over 2017?

As you will have read earlier in this Annual Report, whilst we had a positive start to the year, our results this year largely reflect the impact of a very challenging environment for the UK furniture sector. Against this backdrop we delivered:

- Gross sales up by 1.1% to £990.8 million;
- Underlying EBITDA down 12.7% to £82.4 million;
- A special capital return to shareholders of 9.5 pence per share;
- Positive cash flow with net debt closing at 1.75x EBITDA; and
- Continued progress against customer satisfaction scores with average Established Customer Net Promotor Score increasing from 31.2% to 34.2%.

The Group's remuneration arrangements for Executive Directors seeks to closely align remuneration outcomes with the execution of the business strategy through incentive arrangements which reward for delivering short and long-term strategic objectives which create value for our shareholders.

We rigorously assessed the 2017 Annual Bonus against gross sales, PBT, cash flow, NPS and personal performance targets (each measure is equally weighted at 20%). The Committee determined that Ian Filby and Nicola Bancroft would receive a cash bonus equal to 37.5% and 38.0% of the maximum opportunity, respectively. This is a result of the Group's strong NPS performance towards the maximum of the target range and Ian and Nicola's achievement of stretching personal performance objectives relating to customers, employees and shareholders. Full details of the performance measures and targets can be found on pages 58 and 59.

The Committee also assessed performance for LTIP awards granted upon IPO. Disappointingly, both the relative TSR and EPS growth targets were not met and as a result, vesting was nil.

## Matters to be approved at the 2017 AGM

We have not presented our Policy in this report since, as noted earlier, it is not subject to a shareholder vote at the 2017 AGM on 1 December 2017. The Policy is available to view in full on the Company's website at dfscorporate.co.uk.

## Looking forward to 2018

We reviewed base salaries for Ian Filby and Nicola Bancroft and determined that salaries will be increased by 2% to £438,702 and £244,800, respectively. This is in line with the average increase for the wider employee population.

Both Ian Filby and Nicola Bancroft will continue to be eligible to receive an Annual Bonus of up to 100% of salary in cash subject to the achievement of stretching targets relating to gross sales, PBT cash flow, NPS and personal performance. These targets and the actual performance levels achieved will be disclosed retrospectively in next year's report.

In October 2017, we plan to grant annual awards under the LTIP equal to 130% of salary to Ian Filby and 100% of salary to Nicola Bancroft. The Committee considered the performance conditions for these awards taking into account continued market slowdown and uncertainty impacting the UK retail sector. To ensure the LTIP awards continued to remain fit-for-purpose as a retention and motivational tool to execute our strategy, we have:

- Set EPS growth targets so that threshold vesting occurs at 4% p.a. and now with maximum vesting occurring at 10% p.a.; and
- Set maximum vesting for TSR for both comparator groups (FTSE 250 Index and FTSE 350 Retailers Index) at 10% p.a. above the Index Return.

The Committee made these decisions following careful consideration of the Group's business plan and the wider market context and firmly believes that the targets remain appropriately challenging but realistic.

When assessing actual performance against these targets, the Committee will consider the Group's overall performance on both an absolute and relative basis and reserves the right to exercise discretion to make downward adjustments to vesting outcomes to ensure payments under the LTIP are fully justified by overall corporate experience. Any discretion exercise by the Committee will be fully explained to shareholder in the relevant year's Remuneration Report.

The Board also reviewed fees for Non-Executive Directors and an additional fee of £7,000 has been introduced in 2018 for the Chairs of the Audit and Remuneration Committees to reflect the additional time commitment required for these roles.

## PART B: OUR REMUNERATION AT A GLANCE

**Ahead of the detailed 2017 Annual Report on Remuneration, we have summarised below the key elements of our Policy, the key remuneration outcomes for 2017 and how we intend to implement it in 2018.**

### (i) Summary of our Directors' Remuneration Policy

| Element | Key features of Policy |
|---|---|
| **Executive Directors** | |
| Base salary | • Set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre and experience. |
| Benefits and pension | • Market competitive benefits package provided.<br>• Maximum contribution to personal pension scheme or cash in lieu is equal to £50,000. |
| Annual bonus | • Maximum award equal to 100% of salary p.a.<br>• Performance period is one Financial Year with pay-out, in cash, based on achievement against a range of financial and non-financial targets. |
| LTIP | • Maximum award equal to 150% of salary p.a. (300% of salary in exceptional circumstances).<br>• Awards vest after three years subject to the achievement of certain performance measures. |
| Shareholding requirement | • 200% of salary for Executive Directors. |
| **Non-Executive Directors** | |
| Fees | • Non-Executive Directors may receive a base fee and additional fees for the role of Senior Independent Director and Chairmanship of certain committees. |

- Our full Policy can be found online at dfscorporate.co.uk.
- Both incentive plans incorporate malus and clawback provisions.

### (ii) How did we perform in 2017?

***Key 2017 business highlights***

- Gross sales up 1.1% to £990.8 million.
- Underlying EBITDA down 12.7% to £82.4 million.
- A special capital return to shareholders of 9.5 pence per share
- Strong cash flow with net debt closing at 1.75x EBITDA.
- Positive progress on customer satisfaction scores with average established customer Net Promoter Score increasing from 31.2% to 34.2%.

**2017 annual bonus assessment:** At the start of the 2017 Financial Year, we set stretching performance targets for the Annual Bonus plan. Below we summarise the targets and the outcomes for both Ian Filby and Nicola Bancroft.

| Measure (weighting) | Target | Actual | % of maximum achieved |
|---|---|---|---|
| Gross sales (20%) | £1,044.7m | £990.8m | 0.6% |
| PBT (20%) | £65.0m | £50.1m | – |
| Cash flow (20%) | £43.6m | £38.1m | – |
| Net Promoter Score (20%) | 33.0% | 34.2% | 19.4% |
| Personal (20%) - IF/NB | – | – | 17.5%/18.0% |

Based on an assessment against the 2017 bonus scorecard the Committee determined that Ian Filby would receive a bonus of £161,288 (37.5% of maximum) and £91,200 for Nicola Bancroft (38.0% of maximum).

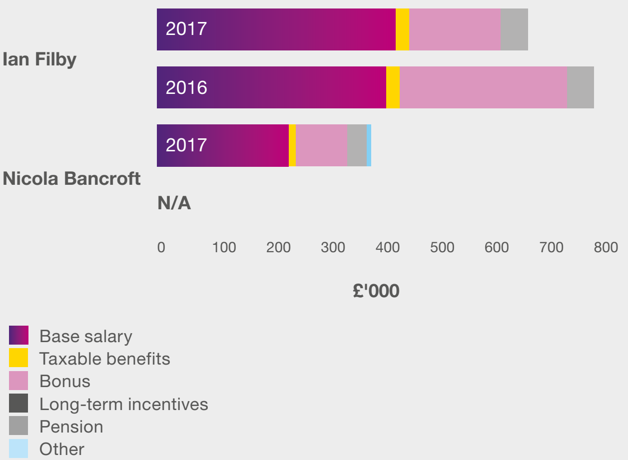
The 2017 bonuses for Ian Filby and Nicola Bancroft will be paid in cash.

**LTIP vesting:** The IPO award was granted in March 2015 and was assessed against relative TSR and EPS growth performance targets at the end of FY17. Based on the assessment of actual performance against targets, the final level of vesting of these awards was determined to be nil.

## (iii) Levels of remuneration for 2017 and executive shareholdings

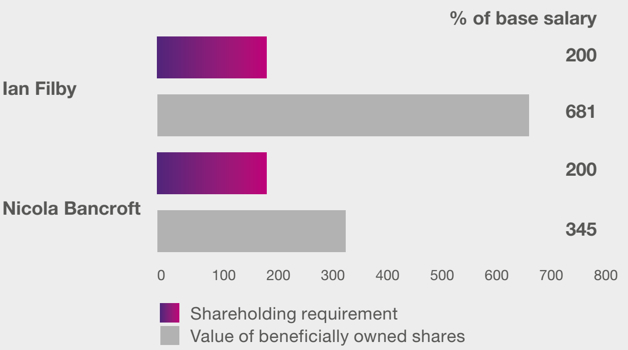
***Single figure remuneration***

Below we summarise the remuneration paid to the Executive Directors over the past two financial years:




***Level of shareholdings***

Below we present a summary of the level of shareholdings for both the Executive Directors at 29 July 2017.




At the year-end the value of both Executive Directors' shares exceeded the shareholding requirement of 200% of salary.

## (iv) Implementation of Policy for 2018

**Executive Directors**

| Element | Ian Filby | Nicola Bancroft |
|---|---|---|
| Base salary | £438,702 | £244,800 |
| Pension and benefits | £50,000 | £40,000 |
| | Benefits will be provided in line with Policy for 2018 | |
| Annual Bonus | 100% of salary | 100% of salary |
| | **2018 measures** | |
| | Measures | Weighting |
| | Gross Sales | 20% |
| | PBT | 20% |
| | Cash Flow | 20% |
| | Net Promoter Score | 20% |
| | Personal Objectives | 20% |
| LTIP – to be granted in October 2017 | 130% of salary | 100% of salary |
| | **2018 measures** | |
| | Measures | Weighting |
| | EPS growth | 50% |
| | Relative TSR growth vs FTSE 250 exc Inv Trusts | 25% |
| | Relative TSR growth vs FTSE 350 General Retailers | 25% |
| Shareholding requirement | 200% of salary | 200% of salary |

**Non-Executive Directors**

| | | |
|---|---|---|
| Fees | • Chair – £180,000<br>• Senior Independent Director – £60,000<br>• Audit/Remuneration Committee Chair – £57,000<br>• Independent Non-Executive Director – £50,000 | |

Full details on how we plan to implement Policy in 2018 are set out on pages 59 to 60.

## PART C: 2017 ANNUAL REPORT ON REMUNERATION

This 2017 Annual Report on Remuneration contains details of how the Company's Policy for Directors was implemented during the Financial Year ended 29 July 2017. The policy was approved by shareholders at the 2015 AGM on 4 December 2015. A copy can be found within the 2015 Directors' Remuneration Report available on the Company's website www.dfscorporate.co.uk.

This report has been prepared in accordance with the provisions of the Companies Act 2006 and the Regulations. An advisory resolution to approve this report and the Annual Statement will be put to shareholders at the AGM on 1 December 2017.

### 1. Executive Director Remuneration

***Single figure remuneration table – 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.

| | | Base salary £'000 | Taxable benefits[1] £'000 | Bonus £'000 | Long-term incentives £'000 | Pension £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Ian Filby** | **2017** | **430** | **25** | **161** | **–** | **50[2]** | **–** | **666** |
| | 2016 | 425 | 23 | 306 | – | 50 | – | 804 |
| **Nicola Bancroft** | **2017** | **240** | **13** | **91** | **–** | **35** | **9[4]** | **388** |
| | 2016[3] | – | – | – | – | – | – | – |

Notes
1. Taxable benefits comprise car and fuel allowance, private medical insurance (including cover for spouses and dependants), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses - the values 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 (2016: £50,000) has been made as an alternative.
3. Nicola Bancroft was appointed as Chief Financial Officer and an Executive Director on 1 August 2016. As Nicola did not serve as an Executive Director in FY2016, no figures are included.
4. Nicola Bancroft opted for a company car of lower value and received an allowance for the difference.

***Annual bonus outcomes for the Financial Year ending 29 July 2017 – audited***

For 2017 the Chief Executive Officer and the Chief Financial Officer had a maximum annual bonus opportunity of 100% of salary. For each Executive Director, the 2017 annual bonus determination was based on performance against five performance measures namely: Group gross sales, Group underlying profit before tax ("PBT"), Group underlying cash flow, Net Promoter Score and personal objectives.

The table below provides information on the targets for each measure, actual performance and resulting bonus payment for each Executive Director:

| Performance measure | Weighting (% of maximum bonus opportunity) | Threshold performance target (0% of performance measure maximum opportunity earned) | Target level of performance | Maximum performance target (100% of performance measure maximum opportunity earned) | Actual performance outcome | % of performance measure maximum opportunity earned |
|---|---|---|---|---|---|---|
| Group gross sales (£m) | 20% | 988.5 | 1,044.7 | 1,063.5 | 990.8 | 0.6% |
| Group underlying PBT (£m) | 20% | 60.2 | 65.0 | 68.2 | 50.1 | – |
| Group underlying cash flow (£m) | 20% | 39.1 | 43.6 | 45.1 | 38.1 | – |
| Net Promotor Score | 20% | 31.2% | 33.0% | 34.3% | 34.2% | 19.4% |
| Personal objectives - IF/NB | 20% | See summary of assessment below | | | | 17.5%/18.0% |
| **Overall extent to which the bonus targets were achieved** | | **37.5% of maximum for the Chief Executive Officer<br>38.0% of maximum for the Chief Financial Officer** | | | | |

Notes
1. Between threshold, target and maximum, pay-out for the measures was calculated on a straight-line basis.
2. Gross sales and underlying PBT are presented on the income statement on page 71. Underlying cash flow means the net movement in cash and cash equivalents during the Financial Year as adjusted for cash flows associated with non-underlying items.

Performance against the personal objectives and the Committee's assessment of performance for both Executive Directors is set out in the table below:

| Director | Personal objectives set at the start of the year | Assessment against the targets |
|---|---|---|
| Ian Filby | • Ensure a safe environment for all employees and customers. | • Timely reporting of health and safety and risk mitigation activities undertaken throughout the year with no major instances. |
| | • Successfully implement the CDC network on-time and on budget and exceed Dwell's budgeted profit. | • On time development of CDC rollout within budget delivering good customer outcomes. |
| | • Develop the next generation multichannel business plan. | • Approval of the next 4 year multichannel business plan. |
| | • Develop the senior team, both individually and collectively. | • Personal development plans for the Executive Board in place and approved by the Nomination Committee. |
| Nicola Bancroft | • Ensure a safe environment for all employees and customers. | • Timely reporting of health and safety and risk mitigation activities undertaken throughout the year with no major instances. |
| | • Develop the new finance leadership team structure and an effective internal audit capability. | • Transition of the leadership of the finance function with all reporting requirements achieved. |
| | • Facilitate a high quality strategy dialogue with the Group Board. | • Ongoing system for Group Board dialogue regarding strategy. |
| | • Successfully manage external reporting and market expectations. | • Satisfactory investor reaction and feedback. |
| | • Create robust plans for the use of capital. | • Delivery of capital expenditure budgets. |

As a result of the performance results shown above, the bonuses awarded to the Executive Directors are £161,288 for Ian Filby (37.5% of maximum) and £91,200 for Nicola Bancroft (38.0% of maximum). The 2017 bonuses for Ian Filby and Nicola Bancroft will be paid in cash. No part of the bonus will be subject to deferral and no discretion was exercised by the Committee when determining the bonus outcomes.

### *LTIP vesting for the year ended 29 July 2017 – audited*

The IPO award was granted in March 2015 and was assessed against the performance targets at the end of FY17. The final level of vesting of these awards was nil as set out in the table below.

| Performance measure | Weighting (% of maximum bonus opportunity) | Threshold performance target (20% of performance measure maximum opportunity earned) | Maximum performance target (100% of performance measure maximum opportunity earned) | Actual performance outcome | % of performance measure maximum opportunity earned |
|---|---|---|---|---|---|
| Earnings-per-Share | 50% | 23p | 29p | 18.7p | 0% |
| TSR vs FTSE 250 (exc Investment Trusts) | 50% | Equal to Index performance | Index performance + 12% p.a. | 13.1% p.a. below Index performance | 0% |
| Total | 100% | | n/a | | 0% |

### *Defined benefit pension*

The Executive Directors do not have a prospective right to a defined benefit pension by reference to qualifying service.

### *Payments to past Directors or for loss of office – audited*

Bill Barnes stepped down from the Board effective 30 July 2016 and continued to serve as an employee until 31 August 2016. He did not receive any loss of office payment. In his capacity as an employee until 31 August 2016 he received total of £46,781 in the year, which comprises base salary (£25,014), payments for accrued lieu days (£8,659), payments in lieu of accrued holiday (£9,813) and payments in lieu of pension contributions (£3,295). Bill Barnes also received an annual bonus of £223,326 for FY16, which was disclosed in the 2016 Remuneration Report but paid in October 2016.

## 2. Implementation of remuneration policy for the Executive Directors for 2018

### *Base salary*

In setting salary levels for the 2018 Financial Year for the Executive Directors, the Committee considered a number of factors, including individual performance and experience, pay and conditions for employees across the Group, the general performance of the Company, pay levels in other comparable companies and the economic environment. The salaries for 2018 and the relative increases are set out below.

| | Base salary 2018 | Base salary 2017 | % change |
|---|---|---|---|
| Ian Filby | £438,702 | £430,100 | +2.0% |
| Nicola Bancroft | £244,800 | £240,000 | +2.0% |

### *Pension and benefits*

The maximum contribution to a personal pension scheme or cash in lieu is equal to £50,000 for Ian Filby and £40,000 (less employers NI cost) for Nicola Bancroft. Ian Filby has waived his entitlement to a pension contribution from the Group and a monthly charitable donation will be made instead.

Benefits will be provided to the Executive Directors in line with the Policy.

### *Annual bonus*

Consistent with the Policy the maximum and threshold bonus potentials for 2018 are:

| | Threshold bonus | Maximum bonus |
|---|---|---|
| Ian Filby | 0% of salary | 100% of salary |
| Nicola Bancroft | 0% of salary | 100% of salary |

For FY18, performance measures comprise: Group gross sales, Group underlying profit before tax, Group underlying cash flow, growth in Established Customer Net Promoter Score and personal objectives. Each performance measure shall have a 20% weighting.

The Committee is of the opinion that the precise performance targets for the Annual Bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the financial year. Actual targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs.

### *LTIP Awards*

Details of the LTIP Awards to be made in October 2017 are provided below.

| | Type of award | Maximum value of award at grant date | Vesting period | Exercise price |
|---|---|---|---|---|
| Ian Filby | Conditional Share Award | 130% of salary | Three years | Nil |
| Nicola Bancroft | Conditional Share Award | 100% of salary | Three years | Nil |

The awards will vest subject to achieving two challenging measures, namely Adjusted EPS (50% weighting) and Relative Total Shareholder Return (50% weighting). The targets are contained in the table below:

| Measure | Weighting | Performance period | Performance target | Vesting (% of Award) |
|---|---|---|---|---|
| Adjusted earnings per share | 50% | 3 financial years ending FY20 | Less than 4% per annum | 0% |
| | | | 4% per annum | 20% |
| | | | 10% per annum | 100% |
| Total Shareholder Return versus FTSE 250 Index (excluding Investment Trusts) | 25% | 3 financial years ending FY20 | Below Index return | 0% |
| | | | Equal to Index return | 20% |
| | | | 10% p.a. above the Index return | 100% |
| Total Shareholder Return versus FTSE 350 General Retailers Index | 25% | 3 financial years ending FY20 | Below Index return | 0% |
| | | | Equal to Index return | 20% |
| | | | 10% p.a. above the Index return | 100% |

Notes
1. Growth in Total Shareholder Return will be calculated on a simple average annual growth rate and split evenly between the two peer group indices.
2. Adjusted earnings per share will be calculated on a compound annual growth basis.

**3. Consideration by the Committee of matters relating to Directors' remuneration for 2017**

The Committee complies with the UK Corporate Governance Code. The Committee makes recommendations to the Board, within agreed terms of reference, on remuneration for the Executive Directors and Chair of the Board and has oversight of remuneration arrangements for senior management. The Committee's full terms of reference are available on the Company's website at www.dfscorporate.co.uk.

Members of the Committee during 2017 were:
- Gwyn Burr (Chair)
- Luke Mayhew
- Julie Southern

Further details regarding members of the Committee and their attendance at meetings during the course of the year are available on page 45 of this Annual Report.

None of the Committee members has any personal financial interest (other than as shareholders) in the decisions made by the Committee, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Chair, the Chief Executive Officer and the Chief Financial Officer attend meetings at the invitation of the Committee, but are not present when their own remuneration is being discussed. The Committee is supported by the Chief People Officer, Finance and Company Secretariat functions.

During the year, there were four Committee meetings. The matters covered at each meeting are covered in the table below:

| September 2016 (2 meetings) | January 2017 | June 2017 |
|---|---|---|
| • Salary review for Executive Board members<br>• 2016 bonus scorecard assessment<br>• Approving the 2017 bonus scorecard<br>• Approving the 2017 LTIP Awards<br>• Approving the 2016 Directors' Remuneration Report<br>• Reviewed levels of shareholding | • Market practice and corporate governance update<br>• Review of Non-Executive Director's fee<br>• Remuneration benchmarking<br>• Preliminary review of gender pay gap analysis | • Review of Remuneration Committee Terms of Reference<br>• Initial discussions on the 2017 Director's Remuneration Report<br>• Annual bonus and in-flight LTIP performance updates<br>• Update on corporate governance, 2017 AGM season and market trends<br>• Treatment of special dividend equivalents for LTIP participants |

The Committee received external advice in 2017 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.

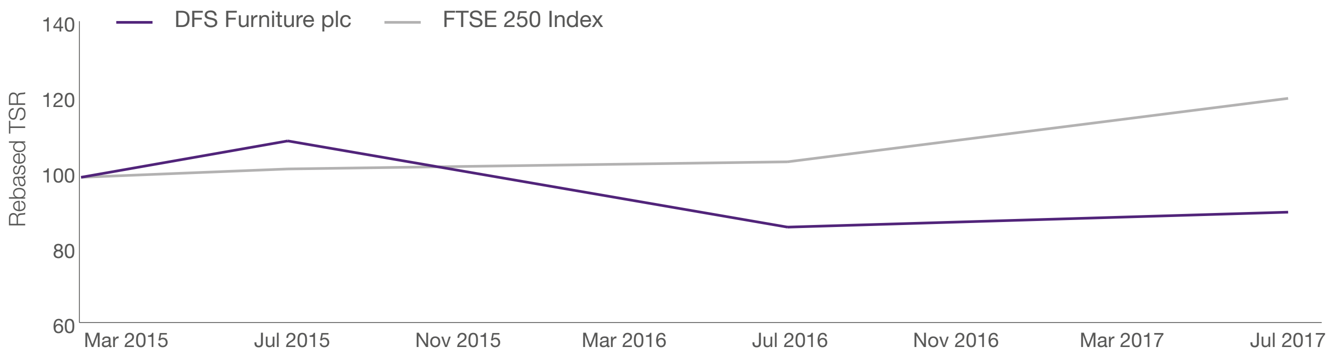
The Committee reviewed the nature of all the services provided during the year by PwC and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to PwC in respect of services to the Committee during the year were £104,000. Fees were determined based on the scope and nature of the projects undertaken for the Committee.

**4. Chief Executive Officer and employee pay**

***Total Shareholder Returns and Chief Executive Officer pay since IPO***

The Committee believes that the current Executive Director Policy and the supporting reward structure provide clear alignment with the Company's performance. The Committee believes it is appropriate to monitor the Company's performance against the FTSE 250 Index as it represents a broad equity market against which the Company compares itself.

The chart below illustrates our Total Shareholder Return performance against the FTSE 250 Index since 5 March 2015, the date of IPO, to the end of FY17, being 29 July 2017.



| Chief Executive Officer | 2017 | 2016 | 2015 |
|---|---|---|---|
| Single figure of total remuneration (£'000) | **666** | 804 | 790 |
| Bonus pay-out (% maximum) | **37.5%** | 71.9% | 85.2% |
| Long-term incentive vesting rates (% maximum) | **0%** | n/a | n/a |

### *Percentage change in the Chief Executive Officer's remuneration*

The table below compares the percentage increase in the Chief Executive Officer'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.

| % change from FY16 to FY17 | Base salary | Benefits | Annual bonus |
|---|---|---|---|
| Chief Executive Officer | +1.2% | +8.7% | -47.4% |
| Employee pay | +1.2% | – | -39.9% |

### *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 | 2017 | 2016 | % change |
|---|---|---|---|
| Employee spend | **£141.6m** | £132.9m | +6.5% |
| Distributions to shareholders (ordinary dividends and purchase of own shares) | **£23.7m** | £31.0m[2] | -23.5% |
| Distributions to shareholders (special dividends) | **£20.1m** | – | n/a |

Notes
1. The above figures are taken from notes 4, 20 and 21 to the financial statements.
2. Figure includes £6.6m relating to the FY15 interim dividend paid in FY16.

## 5. Non-Executive Director remuneration

### *Single figure remuneration table – 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[1] | **2017** | **45** | **–** | **45** |
| | 2016 | – | – | – |
| Richard Baker[2] | **2017** | **158** | **–** | **158** |
| | 2016 | 210 | – | 210 |
| Luke Mayhew | **2017** | **60** | – | **60** |
| | 2016 | 60 | – | 60 |
| Gwyn Burr | **2017** | **50** | – | **50** |
| | 2016 | 50 | – | 50 |
| Julie Southern | **2017** | **50** | – | **50** |
| | 2016 | 50 | – | 50 |
| Andy Dawson[3] | **2017** | **–** | **–** | **–** |
| | 2016 | – | – | – |

Notes
1. Ian Durant was appointed to the Board on 2 May 2017.
2. Richard Baker resigned from the Board on 1 May 2017.
3. Andy Dawson resigned from the Board on 25 April 2016.

### *Fees to be provided in FY18 to the Non-Executive Directors*

The following table sets out the annual fee rates for the Non-Executive Directors:

| | 2018 £ | 2017 £ | % change |
|---|---|---|---|
| Chair fee | 180,000 | 210,000 | -14.3% |
| Senior Independent Director fee | 60,000 | 60,000 | nil |
| Chair of Audit/Remuneration Committee fee | 57,000 | 50,000 | +14.0% |
| Independent Non-Executive Director fee | 50,000 | 50,000 | nil |

Fees for the Chair of the Board were set at £180,000 on his appointment in May 2017. For Non-Executive Directors, base fees have not changed for FY18 but an additional fee of £7,000 has been introduced in FY18 for the Chairs of the Audit and Remuneration Committees to reflect the additional time commitment required in these roles. Non-Executive fees will be kept under review for future periods.

### 6. Directors' shareholdings and share interests

***Shareholding and other interests at 29 July 2017 – 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 200% of their base salary in the Company.

| | Shareholding at 29 July 2017 | | | Interests in shares under the LTIP (Conditional shares) | | | |
|---|---|---|---|---|---|---|---|
| Director | Number of beneficially owned shares[1] | % of salary held | Shareholding requirement met | Subject to conditions | Vested but unexercised | Unvested SAYE awards | Total at 29 July 2017 |
| Ian Filby | 1,313,208 | 681% | Yes | 435,139 | – | 9,782 | 1,758,129 |
| Nicola Bancroft | 371,352 | 345% | Yes | 135,143 | – | – | 506,495 |
| Ian Durant | – | n/a | n/a | n/a | n/a | n/a | – |
| Richard Baker | 1,324,402 | n/a | n/a | n/a | n/a | n/a | 1,324,402 |
| Luke Mayhew | 31,621 | n/a | n/a | n/a | n/a | n/a | 31,621 |
| Gwyn Burr | – | n/a | n/a | n/a | n/a | n/a | – |
| Julie Southern | 3,921 | n/a | n/a | n/a | n/a | n/a | 3,921 |
| **Total** | **3,044,504** | | | **570,282** | **–** | **9,782** | **3,624,568** |

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 (£2.23 at 29 July 2017).

At 2 October 2017 there had been no movement in Directors' shareholdings and share interests from 29 July 2017.

***LTIP awards granted in 2017 – audited***

The table below sets out the details of the LTIP Awards granted on 15 November 2016 where vesting will be determined according to the achievement of certain performance measures. Non-Executive Directors do not receive LTIP awards.

| Director | Type of award | Face value/maximum value of award at grant date (£/% of salary) | Number of shares | Percentage of award receivable for threshold performance | Performance period end date | Exercise price |
|---|---|---|---|---|---|---|
| Ian Filby | Conditional Share Award | 559,130<br>130% | 249,612 | 20% | 27 July 2019 | Nil |
| Nicola Bancroft | Conditional Share Award | 240,000<br>100% | 107,143 | 20% | 27 July 2019 | Nil |

Notes
1. In line with the Rules of the plan, awards were determined using an average share price prior to grant of £2.24.
2. Awards will only vest subject to the achievement of the performance conditions which will be measured at the time the Group publishes its full year financial results.

The awards will vest subject to achieving two challenging performance measures, namely Adjusted EPS (50% weighting) and Relative Total Shareholder Return (50% weighting). The targets are contained in table below:

| Measure | Weighting | Performance period | Performance target | Vesting (% of Award) |
|---|---|---|---|---|
| Adjusted earnings per share | 50% | 3 financial years ending FY19 | Less than 4% per annum | 0% |
| | | | 4% per annum | 20% |
| | | | 13% per annum | 100% |
| Total Shareholder Return versus FTSE 250 Index (excluding Investment Trusts) | 25% | 3 financial years ending FY19 | Below Index return | 0% |
| | | | Equal to Index return | 20% |
| | | | 12% p.a. above the Index return | 100% |
| FTSE 350 General Retailers Index | 25% | 3 financial years ending FY19 | Below Index return | 0% |
| | | | Equal to Index return | 20% |
| | | | 12% p.a. above the Index return | 100% |

Notes
1. Growth in Total Shareholder Return will be calculated on a simple average annual growth rate.
2. Adjusted earnings per share will be calculated on a compound annual growth basis.

# Directors' remuneration report

continued

### *SAYE awards – audited*

The following table details SAYE awards granted to Executive Directors during the year:

| Director | Number of awards | Date of grant | Vesting date | Exercise Price |
|---|---|---|---|---|
| Ian Filby | 9,782 | 7 December 2016 | 31 January 2020 | £1.840 |

### *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.

### 7. Service contracts and letters of appointment

When setting notice periods, the Committee has regard to market practice and corporate governance best practice. Executive Directors' service agreements can be terminated by not less than six months' prior written notice given by the Executive or by not less than 12 months' prior written notice given by the employer. The table below summarises the service contracts and letters of appointments for our Executive Directors.

| Director | Date of contract | Notice period |
|---|---|---|
| Ian Filby | 13 July 2010 | 6 months (Executive) or 12 months (Company) |
| Nicola Bancroft | 1 August 2016 | |

Details of external appointments of Executive Directors are provided in the Corporate Governance Statement on page 46. Executive Directors are allowed to retain fees for any external appointments.

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 one 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 (all Directors were subsequently appointed to the current parent company, DFS Furniture plc on 2 February 2015 as part of the IPO process).

| Director | Date of appointment |
|---|---|
| Ian Durant | 2 May 2017 |
| Luke Mayhew | 1 October 2014 |
| Gwyn Burr | 1 December 2014 |
| Julie Southern | 2 February 2015 |

All service contracts and letters of appointment are available for viewing at the Company's registered office and at the AGM.

### 8. Shareholder voting

The table below shows the binding vote approving the Policy in 2015 and the advisory vote to approve the 2016 Annual Report on Remuneration at the AGM on 2 December 2016.

| | Votes for | % | Votes against | % | Votes withheld |
|---|---|---|---|---|---|
| 2015 Directors' Remuneration Policy | 174,166,632 | 99.91 | 153,151 | 0.09 | 0 |
| 2016 Annual Report on Remuneration | 146,335,436 | 99.90 | 151,099 | 0.10 | 0 |

By order of the Board

**Gwyn Burr**
Chair of the Remuneration Committee
4 October 2017

# Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Company financial statements on the same basis.

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 Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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 Statement 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.

**Responsibility statement of the Directors in respect of the annual financial report**

We confirm that to the best of our 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.

We 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

**Ian Filby**
Chief Executive Officer
4 October 2017

**Nicola Bancroft**
Chief Financial Officer

# Independent auditor's report

## Independent auditor's report to the members of DFS Furniture plc only

### 1. Our opinion is unmodified

We have audited the financial statements of DFS Furniture plc ("the Company") for the year ended 29th July 2017 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 29th July 2017 and of the Group's profit for the year 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 appointed as auditor by the Directors on 6th July 2015. The period of total uninterrupted engagement is in respect of the three financial years ended 29th July 2017. 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 | £2.4m (2016:£3.25m)<br>4.8% (2016: 5%) of Group profit before tax | |
| **Coverage** | 100% (2016: 100%) of Group profit before tax | |
| **Risks of material misstatement** | **vs 2016** | |
| **Recurring risks** | **New:** Valuation of DFS Trading Limited goodwill | ▲ |
| | Guarantee Provision | ◀▶ |
| | **New:** Recoverability of parent company's investment in DFS Trading Limited | ▲ |

### 2. Key audit matters: 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 decreasing order of audit significance, 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 |
|---|---|---|
| **Valuation of DFS Trading Limited goodwill**<br>(£479.6 million; 2016: £479.6 million)<br><br>Refer to page 49 (Audit Committee Report), page 79 (accounting policy) and page 85 (financial disclosures). | **Forecast-based valuation**<br>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.<br><br>This risk has become more significant in light of recent trading performance for DFS falling behind internal and market expectations for the year ended 29 July 2017.<br><br>The Group support the goodwill balance through a value in use calculation that has underlying assumptions of varying sensitivities. The assumptions with the most material impact if found to be incorrect are those related to revenue, margins, terminal growth rate, and the discount factor. | **Our procedures included:**<br>• **Historical comparisons:** Analysing the Group's previous projections against actual outcomes to assess historical reliability of the forecasting.<br>• **Benchmarking assumptions:** Comparing 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.<br>• **Sensitivity analysis:** Performing sensitivity testing over revenue, margins, terminal growth rate, and discount factor in order to determine their impact on the value in use calculations. The sensitivity analysis of revenue was informed by the market benchmarks we reviewed.<br>• **Our sector experience:** Engaging 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.<br>• **Assessing transparency:** Considering the adequacy of the Group's disclosures around the carrying value of goodwill and the impairment analysis.<br><br>**Our results**<br>• We found the resulting estimate of the recoverable amount of goodwill to be acceptable. |
| **Guarantee Provision**<br>(£7.0 million; 2016: £7.9 million)<br><br>Refer to page 49 (Audit Committee Report), page 79 (accounting policy) and page 89 (financial disclosures). | **Subjective valuation**<br>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 directors apply judgement in determining the provision model and make assumptions in respect of key variables: average cost per claim, volume of claims, and the average period over which calls are received.<br><br>Historical data around service calls and cost per call, which have been used to inform the above-noted assumptions, may not represent developments which could occur post year end. | **Our procedures included:**<br>• **Historical comparisons:** Comparing the amount provided in the prior year which was expected to reverse in the following year to actual utilised amounts in the current year to assess historical accuracy of the provision.<br>• **Historical comparisons:** Comparing expected volumes of calls and average cost per claim against historical data.<br>• **Expectation vs. outcome:** Forming an expectation of the year-end provision balance by reference to the costs of the service team over a period of time commensurate with the average period over with calls are received, and investigating any significant variances.<br>• **Sensitivity analysis:** Performing sensitivity testing on certain inputs to the calculation of the provision including average cost per claim, average period over which calls are received and the percentage of orders on which calls are received, in order to determine their impact on the calculations and to assess the sensitivities disclosed by the group.<br>• **Assessing transparency:** Determining whether the Group's disclosures in relation to the provision, the assumptions on which it is based and sensitivities around those assumptions are adequate.<br><br>**Our results**<br>• We found the resulting estimate of the guarantee provision to be acceptable. |

### 2. Key audit matters: our assessment of risks of material misstatement continued

| | The risk | Our response |
|---|---|---|
| **Recoverability of parent company's investment in DFS Trading Limited**<br>(£238.7 million; 2016: £238.7 million)<br><br>Refer to page 97 (accounting policy and financial disclosures). | **Low risk, high value**<br>Of the carrying amount of the parent company's investments in subsidiaries of £238.7 million, which represents 61% of the company's total assets, the majority is attributable to the investment in DFS Trading Limited. Recoverability of this investment is not considered a significant risk of misstatement or subject to significant judgment. However, due to its materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit. | **Our procedures included:**<br>• **Tests of detail:** Comparing the carrying amount of the investment in DFS Trading Limited with the subsidiary's accounting records to identify whether its net assets, being an approximation of its minimum recoverable amount, was in excess of the carrying amount.<br>• **Tests of detail:** Comparing the carrying amount of the investment in DFS Trading Limited with the value in use amount for that cash-generating unit over which we performed the procedures described in the valuation of goodwill key audit matter.<br><br>**Our results**<br>• We found the recoverable amount of the investment in DFS Trading Limited to be acceptable. |

### 3. 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 £2.4m, determined with reference to a benchmark of Group profit before tax.

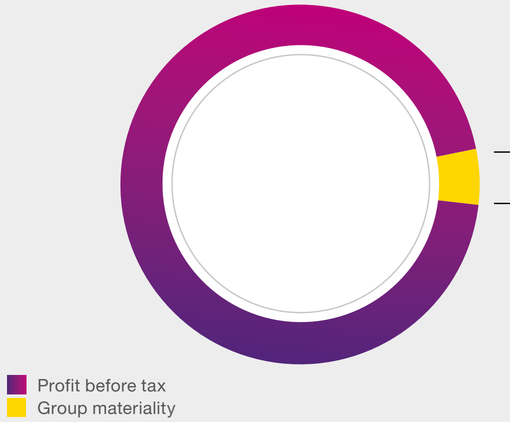
Materiality for the parent Company financial statements as a whole was set at £2.4m (2016: £3.2m), determined with reference to a benchmark of Company total assets, of which it represents 0.6% (2016: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.12m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the full-scope audits for Group purposes of all 8 (2016: all 8) of the Group's components, including the audit of the parent Company. The components were audited to component materialities, which ranged from £0.04m to £2.4m, having regard to the mix of size and risk profile of the Group across the components.

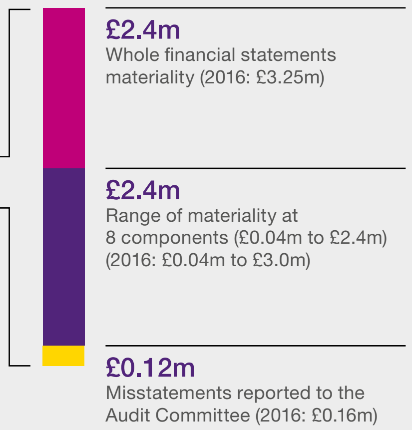
**Group profit before tax**

**£50.1m** (2016: £64.5m)

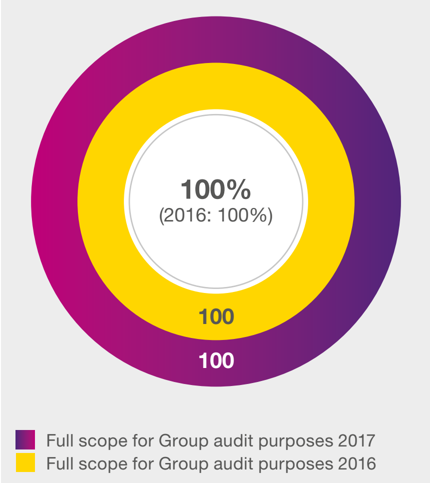



**Group materiality**

**£2.4m** (2016: £3.25m)

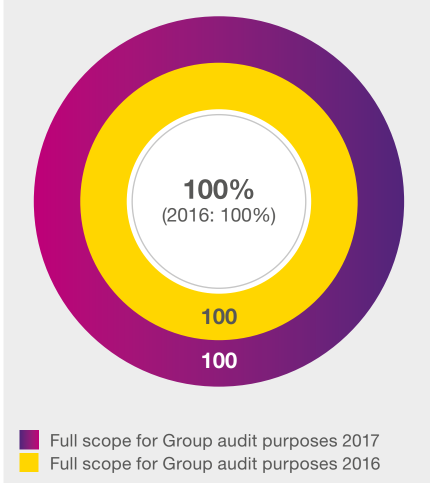


**Group revenue**




**Group profit before tax**


**Group total assets**




### 4. We have nothing to report on going concern

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 19 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

### 5 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 the Strategic Report on page 16 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 reporting 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 reporting. We have nothing to report in this respect.

# Independent auditor's report
continued

***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.

**6. 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.

**7. Respective responsibilities**
***Directors' responsibilities***
As explained more fully in their statement set out on page 65, 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, other irregularities, 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. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**8. 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

4 October 2017

# Consolidated income statement
for 52 weeks ended 29 July 2017 (52 weeks ended 30 July 2016)

| | Note | 2017 Total £m | 2016 Underlying £m | 2016 Non-underlying £m | 2016 Total £m |
|---|---|---|---|---|---|
| ***Gross sales*** | *1,2* | ***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** | 2,3 | **60.5** | 75.8 | – | 75.8 |
| Finance income | 5 | **0.2** | 0.3 | – | 0.3 |
| Finance expenses | 5 | **(10.6)** | (11.6) | – | (11.6) |
| **Profit before tax** | | **50.1** | 64.5 | – | 64.5 |
| Taxation | 6 | **(10.6)** | (14.1) | 9.9 | (4.2) |
| **Profit for the year** | | **39.5** | 50.4 | 9.9 | 60.3 |
| **Statutory earnings per share** | | | | | |
| Basic | 7 | **18.7p** | 23.7p | 4.6p | 28.3p |
| Diluted | 7 | **18.6p** | 23.5p | 4.6p | 28.1p |

# Consolidated statement of comprehensive income

for 52 weeks ended 29 July 2017 (52 weeks ended 30 July 2016)

| | 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 or may be reclassified subsequently to profit or loss | **0.8** | 0.9 |
| **Other comprehensive expense for the year, net of income tax** | **(3.2)** | (3.8) |
| **Total comprehensive income for the year** | **36.3** | 56.5 |

# Consolidated balance sheet
at 29 July 2017 (30 July 2016)

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **74.2** | 65.1 |
| Intangible assets | 9 | **491.8** | 491.2 |
| Deferred tax assets | 12 | **9.8** | 9.1 |
| | | **575.8** | 565.4 |
| **Current assets** | | | |
| Inventories | 13 | **36.6** | 34.9 |
| Other financial assets | 11 | **–** | 3.1 |
| Trade and other receivables | 14 | **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 | 15 | **(165.6)** | (159.3) |
| Provisions | 19 | **(5.1)** | (6.6) |
| Other financial liabilities | 16 | **(3.5)** | (0.1) |
| Current tax liabilities | | **(3.8)** | (3.0) |
| | | **(178.0)** | (169.0) |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 17 | **(198.8)** | (198.3) |
| Provisions | 19 | **(5.2)** | (5.1) |
| Other financial liabilities | 16 | **(3.5)** | (6.1) |
| Other liabilities | 15 | **(67.3)** | (67.4) |
| | | **(274.8)** | (276.9) |
| **Total liabilities** | | **(452.8)** | (445.9) |
| **Net assets** | | **245.1** | 250.6 |
| **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 | **(3.7)** | (3.7) |
| Cash flow hedging reserve | 21 | **(7.0)** | (3.0) |
| Retained earnings | | **(122.7)** | (121.2) |
| **Total equity** | | **245.1** | 250.6 |

These financial statements were approved by the Board of Directors on 4 October 2017 and were signed on its behalf by:

**Ian Filby**
Chief Executive Officer

**Nicola Bancroft**
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 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 year | – | – | – | – | (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 year | – | – | – | – | (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

for 52 weeks ended 29 July 2017 (52 weeks ended 30 July 2016)

| | Note | 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 subsidiaries | | **–** | (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 year | | **66.7** | 40.7 |
| **Cash and cash equivalents at end of year** | 26 | **61.0** | 66.7 |

# Notes to the consolidated financial statements
at 29 July 2017

### 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 52 weeks to 29 July 2017 (last year 52 weeks to 30 July 2016).

The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP; these are presented on pages 95 to 98.

#### 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. 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 reporting on page 19. Thus they 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 year 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.

**1 Accounting policies** continued

### *1.4 Expenses*

#### Non-underlying and exceptional 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
- impairment charges
- significant non-recurring tax charges or credits
- costs associated with significant corporate, financial or operating restructuring, including acquisitions or the establishment of operations in new geographical territories

Material finance income or expenses associated with significant changes in the Group's borrowings are disclosed separately as exceptional items below operating profit.

#### Royalty payments

Royalties payable to brand partners are charged to cost of sales when the related branded 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.

#### 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 measured 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 year 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 year, 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.

**1 Accounting policies** continued

***1.10 Intangible assets and goodwill*** continued

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 20 years

***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.

# Notes to the consolidated financial statements
at 29 July 2017
continued

**1 Accounting policies** continued

***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.

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. Significant areas of estimation for the Group include the costs of meeting customer guarantees and the period over which guarantee claims arise (note 19), the selling prices applied in determining net realisable values of inventories (note 13) and the assumptions underlying the value in use calculation for the impairment of goodwill (note 9).

***1.17 New accounting standards***

A number of new or revised standards and interpretations have been issued which are not yet effective or endorsed by the EU, including IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and IFRS 16 Leases, and which have not therefore been applied by the Group in these financial statements. The Directors have determined that of these, only IFRS 16 is expected to have a material impact on the future financial statements of the Group since it would require the substantial majority of the Group's operating lease commitments (c£646m on an undiscounted basis as shown in note 25 of the financial statements) to be brought on to the balance sheet, resulting in the recognition of significant lease assets and liabilities which would be depreciated and amortised separately. IFRS 16 would first apply to the Group for the financial year ending July 2020.

## 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 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £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 £m | 2016 £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 |

| | 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 |

| | 2017 £m | 2016 £m |
|---|---|---|
| *Auditor's remuneration:* | | |
| Audit of these financial statements | 0.1 | 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:* | | |
| Taxation compliance services | – | 0.1 |
| | 0.2 | 0.3 |

# Notes to the consolidated financial statements
at 29 July 2017
continued

## 4 Staff numbers and costs
The average number of persons employed by the Group during the year, analysed by category, was as follows:

| | Number of employees 2017 | 2016 |
|---|---|---|
| Production | **1,136** | 1,100 |
| Warehouse and transport | **837** | 796 |
| Sales and administration | **2,319** | 2,027 |
| | **4,292** | 3,923 |

The aggregate payroll costs of these persons were as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Wages and salaries | **124.7** | 117.7 |
| Social security costs | **12.4** | 11.6 |
| Other pension costs | **2.5** | 2.4 |
| | **139.6** | 131.7 |
| Share based payment expense (equity settled) | **2.0** | 1.2 |
| | **141.6** | 132.9 |

## 5 Finance income and expense

| | 2017 £m | 2016 £m |
|---|---|---|
| *Finance income* | | |
| Interest income on bank deposits | **0.2** | 0.3 |
| Total finance income | **0.2** | 0.3 |
| *Finance expense* | | |
| Interest payable on senior loan facility | **(7.1)** | (7.9) |
| Bank fees | **(0.2)** | (0.3) |
| Fair value lease adjustment unwind (note 15) | **(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) |

## 6 Taxation
***Recognised in the income statement***

| | 2017 £m | 2016 £m |
|---|---|---|
| *Current tax* | | |
| Current year | **11.3** | 10.6 |
| Non-underlying prior year tax credits | **–** | (9.9) |
| Adjustments for prior years | **(0.8)** | (0.4) |
| Current tax expense | **10.5** | 0.3 |
| *Deferred tax* | | |
| Origination and reversal of temporary differences | **(0.7)** | 2.8 |
| Deferred tax rate change | **0.6** | 1.0 |
| Adjustments for prior years | **0.2** | 0.1 |
| Deferred tax expense | **0.1** | 3.9 |
| Total tax expense in income statement | **10.6** | 4.2 |

## 6 Taxation continued

***Reconciliation of effective tax rate***

| | 2017 £m | 2016 £m |
|---|---|---|
| Profit before tax for the year | **50.1** | 64.5 |
| Tax using the UK corporation tax rate of 19.67% (2016: 20%) | **9.8** | 12.9 |
| Non-deductible expenses | **0.8** | 0.5 |
| Deferred tax rate change | **0.6** | 1.0 |
| Non-underlying prior year tax credits | **–** | (9.9) |
| Adjustments in respect of prior years | **(0.6)** | (0.3) |
| Total tax expense | **10.6** | 4.2 |

During the prior year a tax credit of £9.9m resulted from a settlement in the Group's favour of certain outstanding items relating to prior years with HM Revenue and Customs for which no benefit had previously been recognised.

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 29 July 2017.

***Income tax recognised in other comprehensive income***

| | 2017 £m | 2016 £m |
|---|---|---|
| Effective portion of changes in fair value of cash flow hedges | **0.3** | (0.1) |
| Net change in fair value of cash flow hedges reclassified to profit or loss | **(0.9)** | (0.8) |
| Deferred tax asset in respect of share based payments | **(0.2)** | – |
| | **(0.8)** | (0.9) |

## 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.

| | 2017 pence | 2016 pence |
|---|---|---|
| Basic total earnings per share | **18.7** | 28.3 |
| Diluted total earnings per share | **18.6** | 28.1 |

| | 2017 £m | 2016 £m |
|---|---|---|
| Profit for the year attributable to equity holders of the parent Company | **39.5** | 60.3 |

| | 2017 No. | 2016 No. |
|---|---|---|
| Weighted average number of shares in issue 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 in issue for diluted earnings per share | **212,284,239** | 214,119,321 |

## 7 Earnings per share continued

***Underlying earnings per share***

Underlying basic earnings per share and underlying diluted earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent Company, as adjusted to exclude the effect of non-underlying items, by the same weighted average numbers of ordinary shares above used for basic and diluted earnings per share respectively.

| | 2017 £m | 2016 £m |
|---|---|---|
| Profit for the year attributable to equity holders of the parent Company | 39.5 | 60.3 |
| Exceptional tax credit | – | (9.9) |
| Underlying profit for the year attributable to equity holders of the parent Company | 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 |

## 8 Property, plant and equipment

| | Land and buildings £m | Plant and equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 August 2015 | 5.5 | 77.5 | 16.9 | 99.9 |
| Additions | 1.0 | 17.7 | 5.4 | 24.1 |
| Disposals | – | – | (2.5) | (2.5) |
| Balance at 30 July 2016 | 6.5 | 95.2 | 19.8 | 121.5 |
| Additions | 1.2 | 19.6 | 7.9 | 28.7 |
| Disposals | – | – | (3.1) | (3.1) |
| **Balance at 29 July 2017** | 7.7 | 114.8 | 24.6 | 147.1 |
| **Depreciation and impairment** | | | | |
| Balance at 1 August 2015 | 0.8 | 35.4 | 6.1 | 42.3 |
| Depreciation charge for the year | 0.1 | 11.3 | 5.0 | 16.4 |
| Disposals | – | – | (2.3) | (2.3) |
| Balance at 30 July 2016 | 0.9 | 46.7 | 8.8 | 56.4 |
| Depreciation charge for the year | 0.2 | 13.7 | 5.5 | 19.4 |
| Disposals | – | – | (2.9) | (2.9) |
| **Balance at 29 July 2017** | 1.1 | 60.4 | 11.4 | 72.9 |
| **Net book value** | | | | |
| At 1 August 2015 | 4.7 | 42.1 | 10.8 | 57.6 |
| At 30 July 2016 | 5.6 | 48.5 | 11.0 | 65.1 |
| **At 29 July 2017** | **6.6** | **54.4** | **13.2** | **74.2** |

***Leased plant and machinery***

Included in the total net book value of motor vehicles is £5.3m (2016: £4.3m) in respect of assets held under finance leases. Depreciation for the year on these assets was £2.3m (2016: £1.9m).

***Capital commitments***

At 29 July 2017 the Group had contracted capital commitments of £3.4m (2016: £3.4m) 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 1 August 2015 | 9.4 | 2.5 | 484.0 | 495.9 |
| Additions | 2.6 | – | – | 2.6 |
| Acquisition | – | 0.5 | 1.0 | 1.5 |
| Balance at 30 July 2016 | 12.0 | 3.0 | 485.0 | 500.0 |
| Additions | 3.1 | – | – | 3.1 |
| **Balance at 29 July 2017** | 15.1 | 3.0 | 485.0 | 503.1 |
| **Amortisation and impairment** | | | | |
| Balance at 1 August 2015 | 6.4 | 0.2 | – | 6.6 |
| Amortisation charge for the year | 2.1 | 0.1 | – | 2.2 |
| Balance at 30 July 2016 | 8.5 | 0.3 | – | 8.8 |
| Amortisation charge for the year | 2.4 | 0.1 | – | 2.5 |
| **Balance at 29 July 2017** | 10.9 | 0.4 | – | 11.3 |
| **Net book value** | | | | |
| At 1 August 2015 | 3.0 | 2.3 | 484.0 | 489.3 |
| At 30 July 2016 | 3.5 | 2.7 | 485.0 | 491.2 |
| **At 29 July 2017** | **4.2** | **2.6** | **485.0** | **491.8** |

***Acquisition***

On 1 October 2015, the Group acquired the trade and assets of DFS Spain for cash consideration of £1.5m. This acquisition was made to facilitate the expansion of the Group's operations in Europe and to secure the rights to the use of the DFS brand name in Spain. The goodwill of £1.0m arising from the acquisition is attributable to the workforce and operations of the acquired business.

The identifiable assets acquired and liabilities assumed comprised the intangible asset of the DFS Spain brand name which had a fair value of £0.5m at acquisition.

The carrying amount of goodwill is allocated to the following cash-generating units:

| | Goodwill | |
|---|---|---|
| | 2017 £m | 2016 £m |
| DFS Trading Limited | **479.6** | 479.6 |
| The Sofa Workshop Limited | **4.4** | 4.4 |
| DFS Spain | **1.0** | 1.0 |
| | **485.0** | 485.0 |

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. 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 living room furniture sector of 2.9%. These cash flow forecasts were then discounted at a pre-tax discount rate of 9.7% (2016: 10.2%). The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. A discount rate in excess of 12% would need to be applied in order for there to be any indication of an impairment. Even with an assumption of no further growth beyond FY17, the calculated value in use remained above the carrying value. A potential indicator of impairment could arise if there was no growth in future cash flows over the four year budgeted period and the terminal growth rate was also reduced to 2%.

# Notes to the consolidated financial statements

at 29 July 2017
continued

## 10 Investments in subsidiaries

The following companies are incorporated in England & 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 |

Registered offices:
1 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.

## 11 Other financial assets

| | 2017 £m | 2016 £m |
|---|---|---|
| **Current** | | |
| Foreign exchange contracts | – | 3.1 |

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:

| | 2017 £m | 2016 £m |
|---|---|---|
| Accelerated capital allowances | 2.7 | 2.7 |
| Fair value lease creditor | 4.0 | 4.3 |
| Revaluation of derivatives to fair value | 1.2 | 0.6 |
| Tax losses carried forward | 1.0 | 0.7 |
| Share based payments | 0.5 | – |
| Other temporary differences | 0.4 | 0.8 |
| Net tax assets | 9.8 | 9.1 |

The deferred tax movement in the year is as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| At start of period | 9.1 | 12.1 |
| Charged to the income statement: | | |
| Accelerated capital allowances | – | 0.8 |
| Fair value lease creditor | (0.3) | (0.6) |
| Tax losses carried forward | 0.3 | 0.4 |
| Share based payments | 0.3 | – |
| Other temporary differences | (0.4) | (4.5) |
| Recognised in the statement of comprehensive income | 0.8 | 0.9 |
| At end of period | 9.8 | 9.1 |

### 13 Inventories

| | 2017 £m | 2016 £m |
|---|---|---|
| Raw materials and consumables | 4.8 | 4.2 |
| Finished goods and goods for resale | 37.9 | 36.3 |
| | 42.7 | 40.5 |
| Provision for net realisable value | (6.1) | (5.6) |
| | 36.6 | 34.9 |

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 or 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 and their carrying value reduced by an appropriate provision.

### 14 Trade and other receivables

| | 2017 £m | 2016 £m |
|---|---|---|
| Trade receivables | 10.4 | 12.5 |
| Prepayments and accrued income | 13.7 | 13.1 |
| Other receivables | 0.4 | 0.8 |
| | 24.5 | 26.4 |

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. Prepayments and accrued income do not include impaired assets.

### 15 Trade payables and other liabilities

| | 2017 £m | 2016 £m |
|---|---|---|
| **Current** | | |
| Payments received on account | 24.9 | 24.9 |
| Trade payables | 81.9 | 76.3 |
| Other creditors including other tax and social security | 29.5 | 25.1 |
| Accruals and deferred income | 27.2 | 31.2 |
| Finance lease liabilities | 2.1 | 1.8 |
| | 165.6 | 159.3 |

| | 2017 £m | 2016 £m |
|---|---|---|
| **Non-current** | | |
| Fair value lease creditor | 20.0 | 20.6 |
| Accruals and deferred income | 42.7 | 43.1 |
| Finance lease liabilities | 4.6 | 3.7 |
| | 67.3 | 67.4 |

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 the acquisition of the DFS business by the current parent Company in 2010 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

| | 2017 £m | 2016 £m |
|---|---|---|
| **Non-current** | | |
| Interest rate derivatives | **3.5** | 6.1 |
| **Current** | | |
| Foreign exchange contracts | **3.5** | 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.

| | 2017 £m | 2016 £m |
|---|---|---|
| Senior loan facility | **200.0** | 200.0 |
| Unamortised issue costs | **(1.2)** | (1.7) |
| | **198.8** | 198.3 |

The senior loan facility bore interest at a rate of 3 month LIBOR plus 2.0% and was repayable in full on 12 March 2020. After the balance sheet date the Group refinanced the senior loan facility with a new senior revolving credit facility of £230.0m of which £200.0m was initially drawn down on 7 August 2017. The revolving credit facility bears interest at a rate of 3 month LIBOR plus 2.1% 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.

### *Finance lease liabilities*

Finance lease liabilities are payable as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Minimum lease payments £m | Interest £m | Principal £m | Minimum lease payments £m | Interest £m | Principal £m |
| Less than one year | **2.3** | **(0.2)** | **2.1** | 2.0 | (0.2) | 1.8 |
| Between one and five years | **4.8** | **(0.2)** | **4.6** | 3.9 | (0.2) | 3.7 |
| More than five years | **–** | **–** | **–** | – | – | – |
| | **7.1** | **(0.4)** | **6.7** | 5.9 | (0.4) | 5.5 |

## 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 year was £2.5m (2016: £2.4m).

## 19 Provisions

| | Guarantee provision £m | Property provisions £m | Other provisions £m | Total £m |
|---|---|---|---|---|
| Balance at 30 July 2016 | 7.9 | 2.0 | 1.8 | 11.7 |
| Provisions made during the year | 5.5 | 0.1 | – | 5.6 |
| Reclassification from accruals | – | 0.3 | – | 0.3 |
| Provisions used during the year | (5.8) | (0.2) | (0.8) | (6.8) |
| Provisions released during the year | (0.6) | – | – | (0.6) |
| Unwind of discount | – | 0.1 | – | 0.1 |
| **Balance at 29 July 2017** | **7.0** | **2.3** | **1.0** | **10.3** |
| Current | 4.7 | 0.2 | 0.2 | 5.1 |
| Non-current | 2.3 | 2.1 | 0.8 | 5.2 |
| | **7.0** | **2.3** | **1.0** | **10.3** |

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. 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 £0.7m. 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 year:

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

The Directors recommend a final dividend of 7.5p in respect of the financial period ended 29 July 2017 ("FY17"), 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 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.

## 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.

## 21 Capital and reserves continued

### *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 year 858 of these shares 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.

## 22 Financial instruments: categories and fair value

| | 2017 £m | 2016 £m |
|---|---|---|
| *Financial assets* | | |
| Derivatives in designated hedging relationships | – | 3.1 |
| Loans and receivables | 10.8 | 13.3 |
| Cash | 61.0 | 66.7 |
| *Financial liabilities* | | |
| Derivatives in designated hedging relationships | (7.0) | (6.2) |
| Senior loan facility | (198.8) | (198.3) |
| Amortised cost | (162.1) | (162.3) |
| Finance lease obligations | (6.7) | (5.5) |

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:

| 2017 | 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 | 151.8 | – | – | – | 151.8 |
| Finance lease liabilities | 2.3 | 1.9 | 2.9 | – | 7.1 |
| Senior loan facility | 4.6 | 4.6 | 203.4 | – | 212.6 |
| Other liabilities | 5.0 | 3.3 | 0.6 | 2.3 | 11.2 |
| | 163.7 | 9.8 | 206.9 | 2.3 | 382.7 |
| Derivatives: net settled | 1.8 | 1.7 | 1.2 | – | 4.7 |
| *Derivatives: gross settled* | | | | | |
| Cash in flows | (95.4) | – | – | – | (95.4) |
| Cash out flows | 98.2 | – | – | – | 98.2 |
| Total cash flows | 168.3 | 11.5 | 208.1 | 2.3 | 390.2 |

## 23 Financial instruments: risk management continued

| 2016 | 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 | 152.4 | – | – | – | 152.4 |
| Finance lease liabilities | 2.0 | 1.7 | 2.2 | – | 5.9 |
| Senior loan facility | 5.6 | 5.6 | 209.9 | – | 221.1 |
| Other liabilities | 5.4 | 2.8 | 0.6 | 2.1 | 10.9 |
| | 165.4 | 10.1 | 212.7 | 2.1 | 390.3 |
| Derivatives: net settled | 1.4 | 1.3 | 2.2 | – | 4.9 |
| *Derivatives: gross settled* | | | | | |
| Cash inflows | (37.4) | – | – | – | (37.4) |
| Cash out flows | 34.0 | – | – | – | 34.0 |
| Total cash flows | 163.4 | 11.4 | 214.9 | 2.1 | 391.8 |

### *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 was exposed to interest rate risk on its senior loan facility, which bore interest at a floating rate of 3 month GBP LIBOR plus 2.00%. In order to provide some certainty over the future cash flows associated with this debt, the Group entered into four participating interest rate swaps. The effect of these instruments was to fix the interest rate payable on the senior loan facility to a maximum level while allowing the Group to retain some benefit on a proportion of the facility where 3 month LIBOR remained below 1.39%. The swaps covered the full £200.0m of the senior loan facility for its duration until March 2020. These instruments continue to be suitable in providing certainty over the future cash flows of the new senior revolving credit facility following the refinancing that took place after the end of the financial period and will therefore be redesignated as hedges for the new facility. The fair values of the Group's interest rate derivatives are as follows:

| | **2017 £m** | 2016 £m |
|---|---|---|
| *Interest rate swaps* | | |
| Derivatives in designated hedging relationships | **(3.5)** | (6.1) |

### *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 between 9 and 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:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Notional amount £m** | **Fair value £m** | Notional amount £m | Fair value £m |
| *Derivatives in designated hedging relationships* | | | | |
| US Dollar | **98.2** | **(3.5)** | 34.0 | 3.0 |

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| US Dollar | **7.3** | – | **(5.9)** | (1.7) |
| Euro | **3.5** | 2.7 | **(1.0)** | (0.3) |

### 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 | |
|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| US Dollar | **(0.1)** | 0.2 | **(9.5)** | (3.9) |
| Euro | **(0.3)** | (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 which will vest 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 54 to 64.

#### *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 which will vest in July 2017) and are not subject to other performance conditions.

## 24 Share based payments continued

### *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.

The movements in outstanding awards under each of the schemes are summarised below; no awards vested or were exercised during the year and at 29 July 2017 no outstanding awards were exercisable.

| | LTIP No. | RSP No. | SAYE No. |
|---|---|---|---|
| Outstanding at the beginning of the year | 971,057 | 706,769 | 1,641,058 |
| Granted | 677,755 | 913,201 | 2,431,159 |
| Forfeited | (179,942) | (83,173) | (111,731) |
| Exercised | – | – | (858) |
| Cancelled | – | – | (1,185,772) |
| Outstanding at the end of the year | **1,468,870** | **1,536,797** | **2,773,856** |
| Weighted average remaining contractual life (months) | **16.5** | **20.9** | **28.0** |

### *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 | 15 November 2016 | 15 November 2016 | 7 December 2016 |
| Share price at date of grant | £2.19 | £2.19 | £2.33 |
| Exercise price | Nil | Nil | £1.84 |
| Volatility | 26.0% | –[2] | 26.0% |
| Expected life | 3 years | 3 years | 3.1 years |
| Risk-free rate | 0.3% | –[2] | 0.3% |
| Dividend yield | –[1] | 5.0% | 5.0% |
| *Fair value per share* | | | |
| Market based performance condition | £1.56 | – | – |
| Non-market based performance condition / no performance condition | £2.19 | £1.88 | £0.44 |

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

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 FSTE 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 £2.0m (2016: £1.2m).

# Notes to the consolidated financial statements
at 29 July 2017
continued

## 25 Operating leases
Non-cancellable operating lease rentals are payable as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Less than one year | **64.6** | 62.6 |
| Between one and five years | **247.5** | 237.9 |
| More than five years | **333.9** | 366.4 |
| | **646.0** | 666.9 |

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 20 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 year £61.6m was recognised as an expense in the income statement in respect of operating leases (2016: £58.9m). At 29 July 2017, future rentals receivable under non-cancellable leases where the Group is the lessor were £11.8m (2016: £12.7m).

## 26 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)** |

## 27 Related parties
***Key management personnel***
At 29 July 2017, Directors of the Company held 0.8% of its issued ordinary share capital (2016: 3.2%), and a further 0.2% (2016: 0.4%) was held by other key management personnel.

The compensation of key management personnel (including the Directors) is as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Emoluments | **2.6** | 2.7 |
| Company contributions to money purchase schemes | **0.1** | 0.2 |
| | **2.7** | 2.9 |

## 28 Post balance sheet event
On 7 August 2017 the Group's £200m senior loan facility maturing in March 2020, together with an unutilised £30m revolving credit facility was replaced with a new £230m revolving credit facility maturing on 2 August 2022, with an additional £100m uncommitted accordion feature. The new facility bears interest at a rate of 3 month LIBOR plus 2.1%.

# Company balance sheet

at 29 July 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 29 | **238.7** | 236.7 |
| **Current assets** | | | |
| Amounts due from group companies | 30 | **198.0** | 198.0 |
| **Current liabilities** | | | |
| Amounts due to group companies | 31 | **(47.5)** | (3.7) |
| **Net assets** | | **389.2** | 431.0 |
| **Capital and reserves** | | | |
| Called up share capital | 32 | **319.5** | 319.5 |
| Share premium | | **40.4** | 40.4 |
| Merger reserve | | **18.6** | 18.6 |
| Treasury shares | | **(3.7)** | (3.7) |
| Retained earnings | | **14.4** | 56.2 |
| **Equity shareholders' funds** | 33 | **389.2** | 431.0 |

These financial statements were approved by the Board of Directors on 4 October 2017 and were signed on its behalf by:

**Ian Filby**
Chief Executive Officer

**Nicola Bancroft**
Chief Financial Officer

# Company statement of changes in equity

at 29 July 2017

| | Share capital £m | Share premium £m | Merger reserve £m | Treasury shares £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| **Balance at 1 August 2015** | **319.5** | **40.4** | **18.6** | **–** | **(45.0)** | **333.5** |
| Profit for the year | – | – | – | – | 127.3 | 127.3 |
| Other comprehensive income/(expense) | – | – | – | – | – | – |
| Total comprehensive expense for the year | – | – | – | – | 127.3 | 127.3 |
| 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)** | **56.2** | **431.0** |
| Profit for the year | – | – | – | – | – | – |
| Other comprehensive income/(expense) | – | – | – | – | – | – |
| Total comprehensive income/(expense) for the year | – | – | – | – | – | – |
| 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)** | **14.4** | **389.2** |

# Notes to the Company financial statements
at 29 July 2017

## 29 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 (2016: profit of £127.3m).

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 19 and have therefore continued to prepare the Company's financial statements on the going concern basis.

### *Investments*

Investments are stated at cost, less provision for any impairment.

### *Amounts due from and to group companies*

Amounts receivable from or payable to other companies within the Company's group are recognised initially at fair value and subsequently measured at amortised cost less any provision for impairment.

### *Taxation*

Tax on the profit or loss for the year 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 of 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.

## 30 Investments

| | Shares in subsidiary undertakings | |
|---|---|---|
| | **2017 £m** | 2016 £m |
| Cost and net book value | | |
| At the start of the financial period | **236.7** | 235.5 |
| Additions | **2.0** | 1.2 |
| At the end of the financial period | **238.7** | 236.7 |

Details of the Company's investments are given in note 10. Additions in the current and prior year relate to capital contributions made in respect of share based payments schemes for the Group's employees.

# Notes to the Company financial statements
at 29 July 2017
continued

## 31 Debtors

| | 2017 £m | 2016 £m |
|---|---|---|
| Amounts due from subsidiary undertakings | **198.0** | 198.0 |

## 32 Creditors: amounts due in less than one year

| | 2017 £m | 2016 £m |
|---|---|---|
| Amounts due to subsidiary undertakings | **47.5** | 3.7 |

## 33 Treasury shares
During the period ended 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.

# Shareholder information

## Contacts

***Chief Executive Officer***
Ian Filby

***Chief Financial Officer***
Nicola Bancroft

***Group Company Secretary***
Paul Walker

***Investor Relations***
Mike Schmidt

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***Corporate advisers:***

**Auditor**
KPMG LLP

**Remuneration adviser**
PricewaterhouseCoopers LLP

**Brokers**
UBS Limited & Jefferies International Limited

**Registrar**
Equiniti

## 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:

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Equiniti is a trading name of Equiniti Limited.

Equiniti helpline: 0371 384 2030. Overseas holders should contact +44 (0)121 415 7047.

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.

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## Financial Calendar

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|---|---|
| FY17 full year results | 5 October 2017 |
| Annual General Meeting | 1 December 2017 |
| Record date for FY17 final dividend | 8 December 2017 |
| Payment date for FY17 final dividend | 27 December 2017 |
| FY18 half year results | March 2018 |
| Payment date for FY18 interim dividend | June 2018 |

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