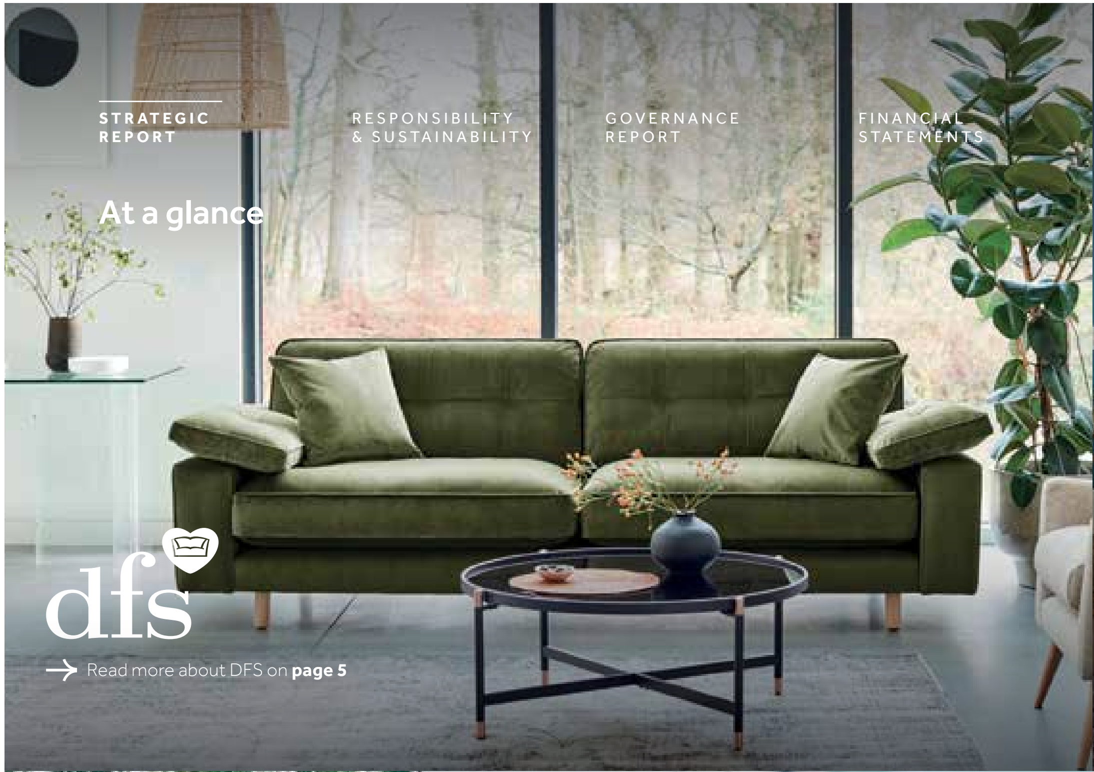
Strategic report

We aim to lead sofa retailing in the digital age. Our strategy will transform the Group in the medium-term by focusing on three interrelated pillars – drive the DFS core, build the platforms for growth and unlock new growth.

CONTENTS

At a glance



dfs

Read more about DFS on **page 5**

sofology®

Read more about Sofology on **page 6**

THE SOFA DELIVERY Cº

Read more about The Sofa Delivery Co on **page 7**

dwell

Read more about Dwell on **page 7**

At a glance continued

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

dfs

- DFS is the leading retailer of sofas in the UK with over 50 years' heritage.
- Headquartered in Doncaster, it operates 118 showrooms in the UK and Republic of Ireland, eight across the Netherlands and Spain and a leading web platform.
- The brand is promotionally-led with broad reaching advertising campaigns that drive brand recall and focus on comfort and value for money.
- Its customers tend to have average national income and a high proportion are young families.
- As one of the UK's most visible retail brands, DFS is often an anchor tenant driving significant footfall to destination retail parks.
- DFS is the most commonly searched term online in the sector, ahead of even "sofa", and its website received an average of 2.7m unique visitors each month in the 12 months to June 2021.
- Sofa orders are fulfilled on a made to order basis.

FY21 NUMBER OF SHOWROOMS

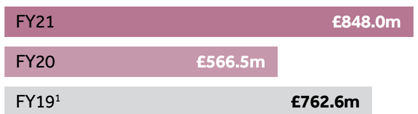
126

COUNTRY LIVING sofas exclusively at dfs
FRENCH CONNECTION sofas exclusively at dfs
HALOLUXE EXCLUSIVELY AT DFS
HouseBeautiful sofas exclusively at dfs
ICONICA sofas exclusively at dfs
Joules sofas exclusively at dfs

In addition to DFS's own brand products, it also offers a wide range of exclusive brands created in collaboration with the UK's top home and lifestyle brands.

Brand revenue (including Dwell)

£848.0m



1. 52 weeks pro forma.

At a glance continued

sofology®

- Sofology is the third largest retailer of sofas in the UK.
- Headquartered near Warrington, it trades through its growing national footprint of 50 showrooms and its website.
- We see an opportunity to expand the showroom portfolio with a medium-term target of 65-70 showrooms.
- Its marketing approach focuses on emphasising product design and quality.
- The use of well known celebrities in its TV and digital adverts has helped build its brand awareness and distinctiveness.
- The brand appeals to a slightly more affluent than average customer.
- Its products are made to order.

Brand revenue

£214.6m

FY21	£214.6m
FY20	£181.7m
FY19[1]	£205.9m

1. 52 weeks pro forma.

FY21 NUMBER OF SHOWROOMS
50

FY20 NUMBER OF SHOWROOMS
45

At a glance continued

THE SOFA DELIVERY Co

- Our group-wide logistics platform is one of several key infrastructure components supporting our retail brands.
- The Sofa Delivery Company also plays an important role in achieving the Group's environmental targets in relation to emissions, waste and recycling.
- Our unique branding and vehicle livery is currently being rolled out across our 30 customer delivery centres.
- Offering extended hours delivery to our customers seven days a week, virtually all year round.

UK CUSTOMER DELIVERY CENTRES
30

dwell

- Dwell sells stylish, modern furniture, lighting and home accessories.
- Dwell's products are on display in a selection of DFS showrooms as well as on its own standalone website.
- Its customers tend to be affluent families in the 35-55 age range.
- In contrast to the rest of the Group, Dwell operates a stocked model from its Milton Keynes national distribution centre allowing for short customer lead times.

Our fundamentals

Delivering sustainable growth

Our Group benefits from four fundamental advantages that provide our business model with resilience and position us well for the future.

Clear market leader

With over a third of the sofa retailing market, the DFS Group is over three times the size of our nearest competitor. This market leadership enables significant economies of scale and industry-leading profit margins.

→ See more in our market overview on **page 16**

Integrated retail business

We believe that our combination of digital and physical channels is the right long-term approach for the sofa market. With our integrated platform, we're increasingly 'channel agnostic' and flexible to support customers however they want to shop. This is supported by our own dedicated manufacturing and supply chain operations.

→ See more in our business model on **page 19**

Sustainable business model

We are committed to building a sustainable business model, both in terms of our impact on the environment and our long-term success and resilience as a Group. Our scale and profitability has allowed us to invest for the long-term throughout the economic cycle, leaving us with well-invested platforms relative to our competition.

→ See more in our responsibility and sustainability report on **page 51**

Homeware market growth

The UK homeware market is currently benefiting from a shift of consumer spending to the home and away from travel, leisure & fashion. We believe the resilient homeware market should fuel the fundamentals of our business model.

→ See more in our market growth on **page 16**

Sustainable growth

We believe these fundamental attractions of our business model above, as well as the homeware market tailwind, leave the Group well positioned for medium-term growth in shareholder returns. High levels of free cash flow generation are a long-term feature of our business model.

→ Read more about our strategy on **page 20**

Chair's statement

Focused on the future

"We remain committed to developing the Group to deliver on the expectations of our customers"

IAN DURANT
NON-EXECUTIVE CHAIR

IN BRIEF

- A resilient and agile response to the Covid-19 pandemic, allowing the Group to benefit from strong demand in our market.
- Record financial results, with Group revenue exceeding £1 billion for FY21.
- Creation of The Sofa Delivery Company to improve customer experience and deliver on our strategic plans.
- Further new store openings for Sofology.
- High levels of customer demand provide opportunities and challenges for the year ahead.
- Restart of dividends with 7.5 pence per share recommended.

OVERVIEW

The year to 27 June 2021 is the second year affected by the far-reaching consequences of the Covid-19 pandemic. In facing the multi-faceted challenges this has thrown up, our 5,000 colleagues have demonstrated high levels of resilience, tenacity, and loyalty in maintaining the momentum of recovery. Learning from the experience of the first UK lockdown and taking an agile approach in the face of ever changing lockdown restrictions and international supply chain disruption, the Group kept its manufacturing and supply chain operational and safe throughout the year. Online sales increased year on year by 184% benefiting from the investments in technology to improve the online experience for our customers, and our showroom colleagues provided additional support to customers wishing to purchase over the telephone.

From the outset of the pandemic a priority has been to look after our people. During the year I am pleased to say that despite many of our showrooms being closed for up to 21 weeks of the year the Group did not furlough any colleagues, and instead introduced a 'Coronavirus Absence Pay Scheme'. The aim of the scheme, which paid colleagues 80% of their pay, was to ensure that our colleagues had the peace of mind that they would be supported if they were absent from work because they were ill with the virus or could not work for other Covid-related reasons.

STRATEGIC PROGRESS

We have continued to progress the implementation of the Group's strategy and refine its priorities in response to changing market conditions and opportunities. This has included aspiring to ESG leadership in our sector and planning improvements to the effectiveness and scalability of our UK manufacturing.

Chair's statement continued

A number of initiatives have been launched to develop the product ranges and the integrated retailer proposition of our two larger brands, which have led to an increase of c.2%pts in the Group's market share.

Sofology, which targets a different customer demographic to DFS, is continuing to perform well. The brand is now gaining national coverage after opening five showrooms in the year and with a strong pipeline in place is in a good position to take advantage of the growth in the home furnishings market.

Progress has also been made with the creation of our new Group final mile logistics operation; The Sofa Delivery Company which will significantly improve the UK logistics capability for both our brands. Over a thousand of our colleagues within DFS and Sofology joined the new business, with the aim of improving the customer experience and reducing both our operating costs and our carbon footprint.

FINANCIAL RESULTS

Showrooms were closed for a significant portion of the year, but the periods when they were open saw exceptional levels of demand and similarly our online channels had a busy year. This has enabled suppliers and internal manufacturing operations to operate at high production levels and for the business to deliver an elevated volume of orders to our customers. Consequently, the Group has achieved a record level of revenue and profits. Total group revenue exceeded £1bn for the first time, generating underlying profit before tax and brand amortisation[1] of £105.8m. Reported profit before tax was £99.2m, giving rise to earnings per share of 34.5 pence.

Looking forward the Group has started the year with strong trading momentum, supported by a higher than normal order bank entering the current financial year and a continued enthusiasm amongst customers for enhancing the comfort of their homes. This means the Group now holds relatively higher levels of visibility on customer demand for FY22 and alters the principal driver of our overall financial performance in the new financial year to maximising our supply chain throughput, and mitigating any operating and raw material cost inflation or other Covid-19 disruption experienced.

The operating conditions in the new financial year are currently demanding and whilst the high levels of demand are welcome, they do present substantial operational challenges for our supply chain and manufacturing teams to overcome. Further, despite the roll out of the UK vaccination programme we may still have to change our ways of working to adapt to the continued impact of Covid-19. I am however confident that, given the way in which the Group has addressed all of the challenges of the last year, we are positioned to respond, with well-established leadership and appropriate structures in place to manage these risks.

OUR PURPOSE, OUR VALUES, AND OUR PEOPLE

The Group, the outright market leader in its sector in the UK, has a distinctive culture. There is a great sense of pride, loyalty, and commitment from our colleagues across the Group. Our purpose, built on our values of "Think Customer, Be Real and Aim High", is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner. That our people live our values has been evident from their continued dedication and enthusiasm over the past year as they have worked hard to support our customers and each other through the challenges brought by the pandemic.

We are aware that the pandemic has had a serious impact on people's health and wellbeing. Over the year the Group has invested in resources to support our colleagues through the pandemic. This includes a new sick-pay scheme, increasing the number of mental health first aiders and working with partners to launch digital tools to help us understand how our colleagues are feeling and to help them try to deal with any health issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

Over the last year the Group has made good progress against our initial ESG targets. Our strategy is to leverage our influence and scale as market leader to offer sustainable and ethical products, to drive a more circular product lifecycle and to act in a responsible manner with our customers, suppliers, and wider stakeholders.

Significant effort has been made in improving the traceability of the raw materials used in our products and obtaining third party certification and verification that our suppliers meet our sustainable sourcing requirements. This has initially focused on timber and leather, and we have now published new targets covering the fabrics we use. Both Sofology and DFS have introduced sustainable sofas during the year. For example, the DFS 'Grand Designs' range uses fabric made from recycled polyester yarns, with sustainably sourced timber and sustainable sofa cushions made using 50% recycled plastic from Plastic Bank, globally recognised as one of the leading solutions to reduce ocean plastic.

The Group has also committed to the BRC Climate Action Roadmap to be net zero by 2040 and we are in the process of securing a specialist advisor to help us understand our Scope 3 emissions and establish science-based targets to allow us to achieve our net zero ambitions.

During the year the Group's Leadership Team has developed our Inclusivity and Diversity strategy. The mission is to make DFS a place where "Everyone is Welcome" and whose ethnic make-up reflects the society in which we operate our business.

We believe this approach to sustainability and to responsible business is expected by our colleagues, our customers and our wider stakeholders and indeed embedding sustainability into everything we do is a key priority for the future. To support our progress and ensure that continuing appropriate focus is given, the Board has now decided to establish a Responsible and Sustainable Business Committee to directly address these topics, with the committee's terms of reference available on our corporate website.

THE BOARD

In late June 2021 we welcomed Loraine Martins to the Board as a Non-Executive Director. Loraine is already fully engaged within the business and brings a wealth of experience in inclusivity, diversity and health and safety to the Group. Further information about our Board and our engagement with stakeholders is set out on pages 72 and 46 respectively.

DIVIDEND

Last year the Board took the decision not to recommend the payment of a dividend in order to support the Group's financial resilience. We do however recognise that dividends are an important element of the investment case for our shareholders, as stated in our Capital and Distribution policy, and we have the intention of steadily growing our dividends over time in line with our cash generation and prospects, while prioritising the Group's long-term financial health. As set out in greater detail in the CFO's report, this year, as a result of our strong financial performance I am pleased to confirm we will be recommending a final FY21 dividend of 7.5p per share.

LOOKING AHEAD

As the UK's leading upholstery retailer and manufacturer, the Board is confident that our expertise in designing new and innovative products, our brand heritage, vertical integration, and financial strength, places the Group in a relatively strong position over the long term. We remain committed to developing the Group to deliver on the expectation of our customers, drive shareholder returns, have a positive impact on society and to provide an inclusive and rewarding place for our colleagues to work.

Ian Durant

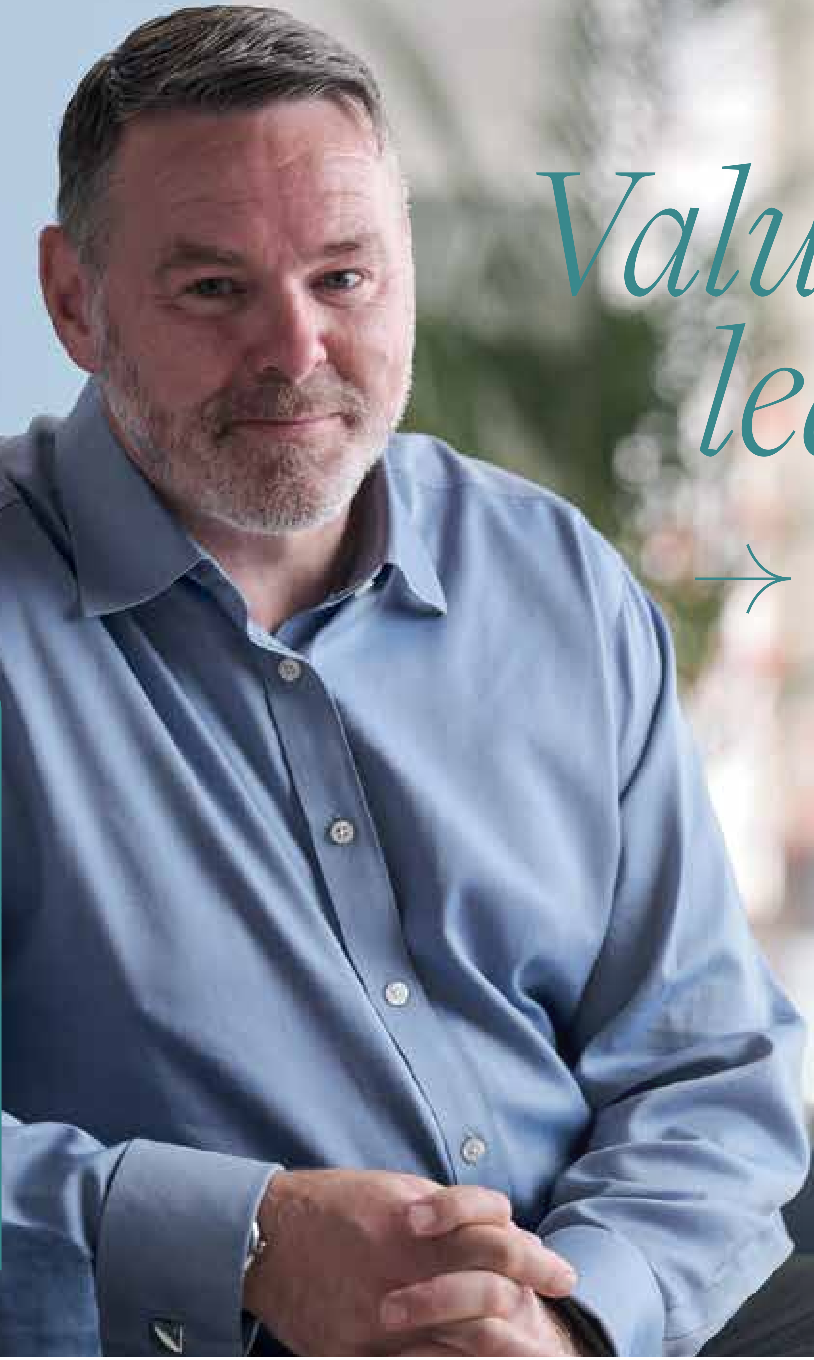
Chair of the Board
23 September 2021

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report

"Delivering this growth would not have been possible without our loyal colleagues – they all deserve a huge thank you for their commitment and resilience during the year, as well as their unwavering application of our Group core values, 'Think Customer', 'Be Real' and 'Aim High', as we have sought to meet unprecedented customer demand."

TIM STACEY
CHIEF EXECUTIVE OFFICER



Values-led leadership

Our 'Be Real' core value is about accepting each other for who we are and respecting each other as part of one big family. Embracing diversity and inclusion is therefore a key focus for the Group. We've been listening, learning and educating ourselves about different races, genders, abilities, sexual orientations, religions and nationalities, with the aim of being a Group where "everyone is welcome".

IN BRIEF

- Progressed our strategic agenda, responding rapidly to the fast-changing operating and trading environment.
- Gained market share through our integrated retail model, demonstrating the strength of our business model and our ability to attract customers through digital and physical retail channels at scale.
- Significant ESG progress since launch of new strategy in September 2020, with progress across all target areas and a good consumer response to our newly launched sustainable ranges including our partnership with Grand Designs. Formation of Responsible and Sustainable Business Committee to ensure Board oversight of ESG strategy.
- As we enter a new financial year, the Group is very well positioned to build on its market leadership position in sofa retailing and to target further growth as we invest to strengthen our business platforms and extend our retail proposition into adjacent product categories.

Chief Executive's report continued

OVERVIEW

I am pleased to report a strong recovery in FY21 following a challenging FY20 which was impacted by the early stages of the Covid-19 pandemic. The Group delivered record sales and profit and further extended our market leadership. This performance reflects the benefit of our own historical investments in our online capability, showroom estate and business platforms, a favourable environment for consumer spending on homeware products as well as pent-up demand at the start of the financial year.

Delivering this growth would not have been possible without our loyal colleagues and they all deserve a huge thank you for their commitment and resilience during the year, as well as their unwavering application of our Group core values 'Think Customer', 'Be Real' and 'Aim High', as we have sought to meet unprecedented customer demand.

I would also like to thank all our customers for their continued loyalty and patience in relation to extended lead times as we dealt with exceptional levels of demand and faced disruption to our supply chains. Reflecting shareholders' support during the peak of the pandemic in the spring of 2020, I am also pleased that we are able to repay their commitment to the Group with a year of strong profits, a positive outlook, a strengthened balance sheet and a return to dividend payments.

While furniture and homewares markets have grown strongly, our market share also continues to grow, at least in line with the 2%+ rate that we experienced in the first half of FY21, based on our own proprietary data developed with Barclaycard. I believe that these gains are due to the fundamental attractions of our Group, which I set out in our interim results: the Group's market leadership position, which drives multiple economies of scale; our 'channel agnostic' integrated retail model, which allows us to meet fast changing customer shopping habits; and our sustainable business approach, both in terms of our impact on the environment and preserving our long-term success as a Group. With these strong foundations in place, we believe our strong operating performance will continue and we are set to grow further into the medium term.

FINANCIAL RESULTS

Revenue rose 47.4% on the previous year, or 49.6% on a comparable basis (excluding Sofa Workshop, which was sold in September 2020), however our FY20 revenues and profits were severely impacted by the pause in deliveries for the majority of the final quarter to comply with Covid-19 restrictions. A more representative, pre-pandemic comparator period is therefore the pro-forma 52 week period ended 30 June 2019[1] ("Pro-forma FY19"). Against this period, FY21 revenue increased by 7.2% (+9.7% excluding Sofa Workshop). This performance reflects market share gains as well as the ongoing benefit of a shift in consumer spending to home-related categories.

Underlying profit before tax and brand amortisation[1] rose to £105.8m compared to a loss of £63.1m in FY20 and an IAS17 profit of £50.2m in the pre-pandemic Pro-forma FY19. Reported profit before tax was £99.2m compared to a loss of £81.2m in FY20. Driven by strong trading alongside a favourable movement in working capital, net bank debt[1] reduced by £138.7m in the period to £19.0m. Adjusting for the working capital position, which we expect to unwind, our year end leverage ended the year within our targeted 0.5-1.0x range. Reflecting our robust underlying cash generation, significantly reduced financial leverage and our positive start to FY22, we recommend a final dividend of 7.5p per share.

As detailed in our June pre-close statement, the Group recognises revenue at the point of delivery to customers and therefore the strong order intake seen in the final quarter of FY21 will benefit revenues and profits in FY22. We address current year prospects in more detail in the Financial Review.

OPERATIONAL UPDATE

One of our fundamental advantages is our increasingly integrated sales model. Our integrated retail ambition puts the customer at the centre of our business and aims to deliver a customer journey that is consistent across all our sales channels. The strength of our digital infrastructure and the Group's integrated approach proved invaluable as we have adapted to the rapidly-changing retail environment. Our digital platforms allowed us to rapidly redeploy showroom colleagues into online sales and customer service roles during those periods when our showrooms were closed.

Due to restrictions around showroom openings in the year, the strength of our online sales was a clear highlight of our integrated approach, and a key point of differentiation versus our specialist competitors. Gross sales[1] via our online channel increased by 184% compared with a year earlier and in lockdown periods our market share gains were particularly elevated.

Our strong profit delivery was achieved despite a number of operational challenges in the year, principally disruption due to the Covid-19 pandemic and external supply chain factors. Our management of Covid-19 benefited from our learnings in the previous financial year, as we were once again required to close and reopen showrooms at different times according to national restrictions, often at short notice. The safety and wellbeing of our customers and colleagues remained our priority throughout. Colleagues have been regularly reminded to adhere to our health and safety "Golden Rules", which remained in place throughout the financial year.

Performance throughout the year was particularly affected by shipping disruption from the Far East and raw materials supply issues relating primarily to foam availability in Europe. We have also faced internal and external manufacturing capacity and delivery constraints and cost inflation due to high levels of demand for our products.

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report continued

As we stated in our interim results, in relation to Brexit, limited disruption has been experienced to date and we continue to believe that the Group is well placed in its key markets following the UK's departure from the EU.

REVIEW OF STRATEGIC PROGRESS

The aim of our strategy is to lead sofa retailing in the digital age. The strategy is centred on three interrelated pillars (Drive DFS Core, Build The Platforms and Unlock New Growth) across which we identified initiatives to drive £40m of incremental pre-tax profit as originally set out in 2018.

We are pleased with our strategic progress, particularly in relation to the strength of our digital infrastructure during the pandemic and the growth and integration of the Sofology acquisition. While our FY21 PBT and current FY22 PBT guidance indicates that we are well down the road in relation to our original profit targets, we still see significant growth potential across the Group. We provide a progress update on the individual pillars below.

DRIVE THE CORE

The DFS brand is the largest and most profitable in the Group, accounting for c.80% of Group revenue and brand contribution[1] in the last financial year. The key priority of this strategic pillar is to drive the growth of the DFS brand across all our channels. Key initiatives in the year centred on delivering further enhancements to our seamless customer journey, developing new innovative products and making improvements to our showroom estate and customer service provision.

Our integrated retail investment programme encompasses a range of initiatives including: continuous enhancements to our website with a focus on imagery, page load speeds and checkout; further investment in text chat to deliver an improved customer experience; shared baskets in place to support the customer journey across website and showrooms; improvements to our resourcing and reward models, driving greater efficiency and conversion; and the development of a consistent approach to refreshing our showroom format. Reflecting the strength of our websites, we have begun to focus our efforts on pursuing a range of opportunities to grow our total addressable market by targeting incremental product sales from items, such as beds and homewares, that we are not able to range extensively in our showrooms.

Attractive, exclusive products are a key point of differentiation versus our competitors and we continually refine our use of data and insights to improve our customer targeting, range management and new product development. This allows us to maximise the customer appeal of our product portfolio, ensure there are no gaps in the key style groups, promptly replace any underperformers and increasingly embed sustainability in our ranges.

A product launch highlight in the first half of the financial year was our aspirational 'Halo Luxe' luxury leather range with its own product-led TV advertising campaign. In the second half we introduced our new partnership with 'Grand Designs' for a new range of sofas combining design integrity and a sustainability ethos. We've also expanded our bed offer, featuring exclusive ranges from our brand partners Joules and French Connection, as we target incremental growth from this sizeable market opportunity. Finally, reflecting DFS's status as Team GB's official Olympics homeware partner, we launched the new limited edition Yuttari range to both honour and help provide relaxation for our elite Team GB athletes on their journey to Tokyo.

We're constantly seeking to improve our customer proposition and develop new innovative services to engage customers. Consistent surges in demand as we reopened our showrooms following various national government lockdowns highlight just how much customers appreciate our well-invested showrooms. We believe the combination of digital and physical is the right long-term approach to address consumers within the sofa market.

We continued to invest in showrooms in the year, scheduling works during lockdowns where possible to minimise disruption on trading. We are undertaking a programme to update our showrooms, which includes space optimisation of Dwell and former Sofa Workshop space, relocation of the administrative area, and an improved layout for customers. These changes typically result in a significant increase in upholstery bays boosting productivity. In FY21 we completed 16 refurbishments and plan an additional 16 in the current year. Our online appointment booking service remains popular with customers and we continue to evaluate our live 'video in store' proposition.

Customer service helps drive our brand reputation and therefore remains a key area of focus, particularly given the twin challenges of the pandemic and supply chain disruption. I highly value our customer service, delivery and repair teams who continue to work incredibly hard on behalf of our customers. We track customer satisfaction by monitoring Net Promoter Scores ("NPS") at various stages of the customer journey. Our post purchase NPS score for the DFS brand remains around its all-time high at 86.4% (FY20 85.7%). In contrast, our established customer satisfaction score declined year-on-year to 30.7% (FY20 42.1%), reflecting the volatile supply chain environment. Based on a survey sent to customers four months after delivery, this June figure captures those customers most impacted by delivery delays caused by disruption to shipping as a result of Covid-19 and raw material supply. We are working very hard to mitigate these factors outside our control and are in the process of centralising our customer service activities to deliver improved service levels from a more efficient and flexible Group-wide platform.

While we've achieved significant progress in the year, we are only two years into our strategy and seeing no shortage of opportunities to extend the market leadership of our core DFS brand.

BUILD THE PLATFORMS

This strategic pillar focuses on Group-wide benefits from utilising existing infrastructure and scaling systems, processes and data. As a market-leading, vertically-integrated business, we are targeting significant efficiency gains from our property, logistics, marketing and manufacturing activities.

In recent results presentations we've highlighted the attractive characteristics of platform-led retailers, which include greater commercial, operational and technical resilience, delivery of valuable customer data and insights and increased scale and reach.

In FY21 our focus was on achieving ongoing cost savings and efficiency targets across our showroom property estate, driving a range of marketing efficiency improvements, and continuing our plans to develop the best two-man sofa delivery company in the UK.

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report continued

We continue to make good progress securing property savings, through a combination of rent reductions on leases approaching renewal and downsizing some showrooms. Last year we secured a further £1.3m of annualised savings, bringing the total annualised saving since the program began to £5.6m. We are confident of achieving the £6-8m targeted annual savings by FY23 as previously communicated. We expect to achieve further savings in the medium term as leases expire beyond FY23.

Turning to logistics, we have delivered another year of progress in our objective of building a leading Group-wide logistics platform, The Sofa Delivery Company. Our aim is to improve efficiency, including improved customer service and a more flexible working environment for colleagues whilst also reducing the Group's environmental impact.

Our development plans are on track as we target annualised savings of at least £3m from the end of the current financial year. We are currently integrating our logistics IT systems across the Group, a key enabler for multi-brand order fulfilment, and will complete roll-out of our delivery vehicle routing and inventory management systems across all vehicles in the re-branded fleet by the end of FY22.

Following the completion of our colleague consultation process and the creation of an independent logistics subsidiary, the Sofa Delivery Company is now able to offer Group-wide extended hours delivery to customers seven days a week, increasingly important given customers' busy lifestyles.

Our ongoing marketing transformation programme continues to move ahead at pace. Alongside our focus on data and insights to drive our omnichannel marketing investment, we have recently reviewed our DFS retail brand activities which has resulted in the appointment of a new communications agency, to help support and drive the next phase in our DFS retail brand marketing. Additionally, we are currently reviewing our marketing production and automation capabilities in an effort to secure further efficiencies across our key customer communications channels. Finally, we are leveraging our marketing capabilities across the group, enabling our Sofology marketing colleagues to adopt and adapt our Group econometric modelling platform to help inform their marketing and channel mix investment strategy.

UNLOCK NEW GROWTH

Our third strategic pillar is to 'Unlock New Growth' from commercial initiatives beyond our core DFS brand. Our main priority in the last financial year has been to accelerate the roll-out of the Sofology showroom estate to support its development into a leading nationwide sofa retail brand. This pillar also covers growth opportunities derived from our Dwell homewares brand and our overseas showrooms in Spain and the Netherlands.

SOFOLOGY

We are making good progress in our plans to develop our Sofology brand into a nationwide business. Despite headwinds of shipping delays and foam disruption, Sofology delivered sales and brand contribution[1] growth of c.4% and 20% respectively compared with the pro-forma FY19 pre-pandemic year.

Following a pause in planned openings in FY20 as we assessed the impact of the pandemic on the property market, we opened five showrooms in FY21, with new outlets in Hove, Stockport, Swindon, Cambridge and Maidstone, to give a total of 50 UK showrooms. In the current year we anticipate opening a further eight showrooms.

Sofology has a reputation for fun, style and sustainability, and we're committed to retaining the brand's aspirational appeal in a Group context. Following on from our successful Owen Wilson campaign, Sofology's latest advertising sees Helena Bonham Carter encouraging customers to 'bring imagination to life' in the way they make their homes.

New product launches in the year included the Pioneer 'eco' sofa in the first half, featuring zero foam, 100% recyclable springs, sustainably sourced timber, fabric made from recycled yarns plus a 20-year guarantee. Just before the year end, Sofology introduced 'Loop', a flexible, sustainable upholstery rental service, whereby customers can select a stylish, fully recyclable sofa on a 6-18 month rental plan with options to renew as required. At the end of the customer agreement, each part of the sofa can be repurposed or recycled, ensuring nothing goes to landfill. We have also recently introduced three exclusive sofa ranges from the Paloma Faith Home range, including the aptly named Rock N Roll model.

We continue to see the opportunity to grow the Sofology brand to 65-70 outlets in the medium-term, targeting revenue of c.£300m at a pre-tax profit margin of 5-7%.

DWELL AND INTERNATIONAL

As detailed in last year's results, we restructured Dwell's operations to enable its wide range of attractive products to be sold more seamlessly to DFS customers, as well as online.

Dwell's integration into the DFS brand operating structure resulted in the elimination of the operating losses incurred in the previous year and a more efficient real estate footprint as we integrated Dwell's offer into the DFS showrooms and progressed the closure of Dwell's remaining standalone retail outlets. Dwell's sourcing expertise and supplier relationships are also contributing to the development of DFS's extended homeware offer.

With a total addressable market of c.£5bn, we see the beds and non-upholstery living room market as a particularly attractive growth opportunity for the Group. We are able to leverage many of the Group's assets, including manufacturing capability for upholstered furniture, web and logistics platforms, marketing expertise and brand partnerships to develop a truly compelling bedroom offering. Sales of beds through our online channels were particularly strong in the year and we continue to develop our showroom proposition in selected key locations.

We continue to review our growth options for our international business, which includes six showrooms in the Netherlands and two in Spain.

INVESTOR EVENT

Reflecting upon the operational volumes currently in the business and our focus on looking after our customers and colleagues to drive long-term value creation, the Group has decided to defer the investor event planned for November 2021 until Spring 2022. This event will provide investors with a detailed update on the development of our various platforms alongside an opportunity to view the latest evolution of our DFS and Sofology growth strategies. We also look forward to providing more details on our manufacturing investment, as well as our plans to grow our sales of living room furniture and beds.

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report continued

ESG

We remain guided by our Group purpose, which is to bring great design and comfort into every living room, in an affordable, responsible and sustainable manner. FY21 has been a year of progress on a range of fronts for our key stakeholders, as detailed below.

Whilst the achievement of our record financial results is undoubtedly a highlight, this performance would not have been possible without the strength, resilience and spirit of our people. The Group has a unique culture underpinned by our core 'family' values of 'Think Customer', 'Aim High' and 'Be Real'. Rising to challenges at work and at home, our colleagues have enabled the Group to emerge from the pandemic much stronger than when we entered. On behalf of the management team and the Board, I would like to thank all our colleagues for their sterling efforts in the year.

We launched our ESG strategy in September 2020, with a strong focus on the Environment based on our "Sofa Cycle" approach and have made solid progress against our Phase 1 targets in the last 12 months. One of the highlights of the financial year was our first ESG Supplier Conference in March, which is available on our Group corporate website. As well as featuring contributions from 'thought leaders' such as CDP Co-Founder and environmental expert James Cameron, the Conference set out our intent to work with our suppliers to innovate and develop new ways of making our products and our business even more sustainable and transparent. In June 2021, the Group undertook a formal materiality assessment, supported by a third party expert, in order to identify and prioritise all of the Group's sustainability risks and opportunities.

Given ESG is a rapidly advancing subject, with increasing Board time dedicated to it, the Group has established a Responsible and Sustainable Business Board Sub-Committee, which will meet at least three times per year. Responsibility Champions have been appointed at all levels of the business, ESG Working Groups established for each brand and external expert partners are in place to support us. We have recently introduced our Phase 2 ESG targets, which include an increased focus on Social criteria and incorporate our work on diversity and inclusion.

ENVIRONMENTAL

Sustainability is a key element of our business model, and having launched our ESG Strategy in September 2020, we've come a long way in a short amount of time and are excited about the opportunities ahead. With the Group's 'Sofa Cycle' based on the circular economy concept, sustainability is increasingly embedded across the Group.

A key focus in FY21 was on our finished products and the resources used in manufacturing them. We have driven positive change, particularly in relation to the sustainable sourcing of some key materials in our sofas. Phase 2 targets expand our focus to cover textiles and material certifications.

SOCIAL

The wellbeing of our colleagues has remained a top priority during the last financial year. We continued to follow various government rules and regulations in our various markets during the period and regularly reminded our employees to observe our five Covid-19 'Golden Rules' to keep colleagues and customers safe. As we anticipate a hopeful return to more 'normal' lives, we've been surveying all our employees on their ideal working conditions as well as providing extensive wellbeing support. During the summer we've also been refurbishing our Group Support Centre and Sofology head office in preparation for a more flexible hybrid working approach.

Our 'Be Real' core value is about accepting each other for who we are and respecting each other as part of one big family. Embracing diversity and inclusion is therefore a key focus for the Group. We've been listening, learning and educating ourselves about different races, genders, abilities, sexual orientations, religions and nationalities, with the aim of being a Group where "everyone is welcome." For example, in the second half of FY21 we celebrated the range of international languages spoken across the Group, International Women's Day and Pride month. With our 'Everyone Welcome' ambition in focus, I'd like to issue a warm welcome to our newly appointed Non-Executive Director, Loraine Martins OBE, FRSA. Loraine brings tremendous experience of supporting employers to develop equality, diversity and inclusion in the workplace.

GOVERNANCE

The Group continues to be rated highly by external assessors for the strength of its governance, maintaining a robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company, including (but not limited to) Board composition, Audit Committee structure, executive compensation and whistleblowing.

CURRENT TRADING

As detailed in our year end trading statement, strong customer demand in the final quarter of FY21 was already expected to underpin revenues and profits in the first half of FY22. Order intake has also remained strong in the current financial year to date, well ahead of our previous scenario of +7% growth on FY19, resulting in an order bank that continues to grow and which in absolute terms is very significantly ahead of normal levels. This order intake provides significant resilience, and confidence in our outlook. However the constraining factor on our reported short-term financial performance will be our pace of conversion of the order bank which depends on both our supplier partner manufacturing capacity and also the capacity of our proprietary logistics operations. We believe the Group is well placed to achieve the medium scenario of our range of FY22 profit outcomes identified back in June.

We already have increased output capacity significantly in FY21. We continue to strengthen our operations, increasing warehouse capacity and resourcing levels, to meet customer demand. Notwithstanding this, it should be recognised that the short-term operational environment continues to be exceptionally uncertain and difficult, given well-reported logistics disruption, cost inflation pressures and unplanned Covid-19 absences.

We believe that we have the right plans in place to mitigate these impacts, underpinned by our scale, operating experience and long-standing relationships, and we are focused on delivering good customer service, protecting our colleagues and creating long-term value.

CONCLUSION AND OUTLOOK

Our record profits delivery in the last financial year is a fitting tribute to all the hard work of our colleagues and testament to the resilience and flexibility of our integrated business model. Despite numerous operational challenges during the pandemic I'm proud that we have remained focused on our strategic agenda to lead sofa retailing in the digital age and are on track to achieve the incremental £40m of profit benefits set out in 2018. We also see further growth opportunities into the medium-term derived from extending the reach of our retail brands and optimising our operating platforms.

As we enter a new financial year, the Group is very well positioned to build on its market leadership position in sofa retailing and to target further growth as we invest to strengthen our business platforms and extend our retail proposition into adjacent product categories.

We emerge from the pandemic stronger than ever. This strength is underpinned by our fantastic teams who have worked with dedication, care and enthusiasm despite the many and varied challenges we have faced. I want to personally thank every single colleague for their unwavering support and look forward with huge optimism, fuelled by the position the business is now in and most importantly the spirit, commitment and loyalty of our people.

Tim Stacey

Chief Executive Officer
23 September 2021

Market overview

We are the leading sofa retailer in the digital age

→ Our integrated retail business model enabled us to achieve further market share gains as the market recovered strongly year-on-year.

Large potential customer base
The DFS Group has a specialist focus on the retail upholstered furniture segment. According to GlobalData, the UK upholstery furniture market value is estimated to be c.£3.4bn (incl. VAT) in calendar 2021, a significant increase on the previous year's pandemic-distorted £2.8bn. Using proprietary market data developed with Barclaycard, we estimate that our sofa market share increased by at least two percentage points in our last financial year, due to the performance of our online channels and also the exit of several competitors. Reflecting the growing strength of our Group-wide integrated retail platform, we have identified a clear opportunity to extend our offering into the beds and non-upholstery living room furniture market increasing our Total Addressable Market ("TAM") by approximately £5bn.

Clear leader in the segment
The Group, through its DFS, Sofology and Dwell brands, is the clear leader in the upholstered furniture market, and accounts for over a third of the market by value – approximately three times the size of our nearest competitor. This market remains highly fragmented and we see further opportunities to grow our market share. We see four broad categories of companies actively competing in the upholstered furniture retail market: specialist chains such as DFS, Sofology, ScS and Furniture Village; independents that are typically single store operations; predominantly online furniture retailers such as Made.com and Wayfair; and larger general merchandise or homeware retailers such as Amazon, Argos, Dunelm, Ikea, John Lewis, and Next. Physical store closures, as part of government measures to contain the spread of Covid-19, boosted revenue of our online platforms in the period.

However, very strong demand in our showrooms upon reopening illustrates that the majority of customers still prefer to visit physical outlets or shop a combination of stores and online. We believe the integration of digital and physical is the right long-term approach to serve our customers. Our well-invested 'integrated retail' business model allows us to adapt to fast-changing consumer shopping habits, and positions us well for the future.

Steady growth over long-term periods
While the Covid-19 pandemic has led to unprecedented volatility in the last 18 months, the sofa market generally sees steady long-term growth. Since 2010, the UK upholstered furniture segment of the furniture market has achieved modest compound annual growth despite political uncertainty following the 2016 vote to leave the EU and subdued housing market activity. Demand is supported by a seven year replacement cycle and underpinned by demographic trends. We believe over shorter time frames the segment is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability, discussed below. In addition to these market drivers we do see from time to time some volatility in market demand levels caused by particularly hot or cold weather and significant public events.

UK UPHOLSTERED FURNITURE MARKET

£3.4bn*

* GlobalData calendar 2021 estimate.

Market overview continued

Conditions in our core market have improved significantly compared with the previous financial year. Government actions to support employment and the housing market have benefited consumer confidence, and reduced discretionary spending on travel and leisure has led to a shift towards home-related categories.

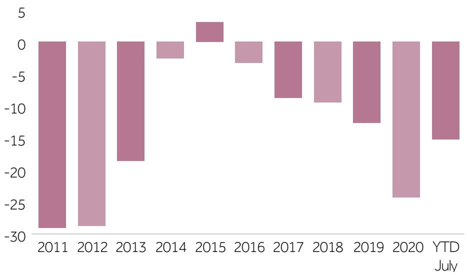
KEY MARKET DRIVERS

Consumer confidence
Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. UK consumer confidence, as measured by GfK, has weakened since 2016 amid uncertainty following the referendum vote to leave the European Union. In spring 2020, consumer confidence fell to near record lows due to economic and financial uncertainty around the pandemic. The measure has since recovered steadily to pre-pandemic levels, due to a combination of government economic stimulus, progress in the management of the pandemic and reduced Brexit uncertainty.

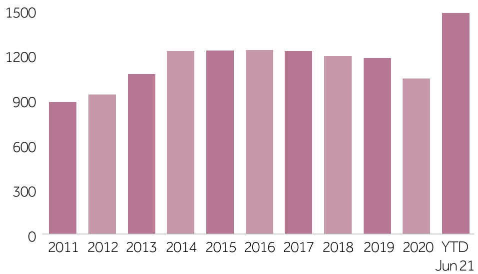
Housing market
Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. Housing market transactions have been subdued since 2015, reflecting a combination of macroeconomic and political factors as well as a weaker environment for buy-to-let transactions. As the pandemic spread in spring 2020, government social distancing measures led to a sharp contraction in housing market activity. Transactions have recovered strongly since July 2020 as a result of temporary government measures to reduce stamp duty payable on residential property purchases. As at June 2021 year-to-date UK housing transactions are almost double those of 2020.

Consumer credit
Upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling. Consumer credit growth has slowed since the EU referendum, reflecting increased economic and political uncertainty. Since the beginning of the pandemic, UK consumers have been reducing debt, as government restrictions have reduced options for discretionary spending e.g. foreign travel and leisure. Certain sectors of the economy have benefited, however, with consumers spending relatively more on home improvements, including furniture and DIY.

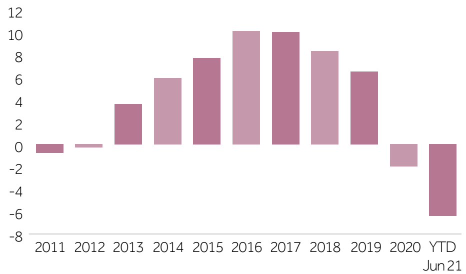
Consumer confidence[1]



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



Net unsecured lending growth[3] (%)



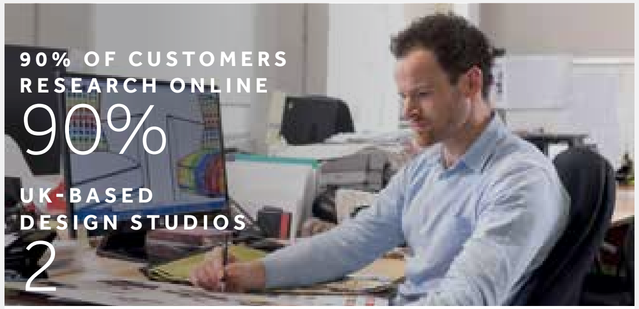
1. GfK UK Consumer Confidence average of individual scores for each year.

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

3. Monthly 12 month growth rate of total (excluding the Student Loans Company) sterling net consumer credit lending to individuals (in percent) seasonally adjusted.

Our customer journey

The customer is at the heart of our Group journey



1 Design & inspire

Through our innovative in-house design teams and with our buying expertise we remain at the forefront of home furnishing trends with each of our brands offering a distinct curated range. We inspire consumers to consider a purchase through memorable advertising, inspirational web content and the use of augmented reality technology. Sustainability is a growing feature of our products. Our new Grand Designs ranges feature all elements made from recycled or recyclable materials.

2 Integrated retail model

The combination of our well invested websites, national showroom networks and call centres which are staffed by well trained and highly motivated sales teams provide a market-leading integrated retail experience to our customers. Collectively across all our brands we have styles and price points that appeal to the majority of the market and we make our products more affordable through offering interest free credit.

3 Quality manufacturing

We are one of the largest manufacturers of upholstered furniture in the UK. Our three finished goods and two sub-component factories each benefit from a highly skilled workforce who collectively produce around 20% of all the furniture we sell.

4 Service

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

5 Innovative delivery options

The Sofa Delivery Company is our leading Group-wide supply chain platform. Through our own network of customer delivery centres and our own delivery fleet we carefully deliver our products to customers' homes and provide a comprehensive installation service.

6 Sofa collection & recycling

Getting rid of an old sofa responsibly and conveniently is a real issue for customers. Unless old sofas are passed on to family, friends or charity, many go into landfill. Our experienced specialist partner Clearabee will collect customers old sofas and take them to the nearest recycling centre where it will be broken down to its component parts to reuse, recycle or create new energy.

Our business model

How we create value...

OUR ENABLERS

Customer ethos
'Think Customer' is our first value. By treating customers as we would our own family, we aim to deliver great service.

Unparalleled scale
We have a UK Group market share over three times that of our nearest competitor. As a standalone business, we estimate our online channel would be the fourth largest sofa retailer in the UK.

Complementary brands
Our complementary brands appeal to different customer segments.

Well-invested platform
Modern, well-located showrooms and innovative apps and websites give customers the convenience to shop exactly how they want. Our own warehouses and delivery fleet use state-of-the-art software to help us operate efficiently.

Made-to-order products
The majority of the products we sell are made-to-order enabling us to operate with negative working capital.

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

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

WHAT WE DO

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

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

Manufacture
We manufacture around 20% of the Group's sofa orders in our own British factories, resulting in shorter lead times, superior quality control and greater oversight on sustainability.

Deliver and install
Our delivery network operates from customer distribution centres spread across the UK and Ireland using custom-built route-mapping technology to reduce lead times, lower emissions and optimise efficiency.

Service
Sometimes things go wrong and, if they do, we have our own teams of upholsterers that are on hand to visit customers in their homes and address any after-sales issues.

How we deliver value...

OUTCOMES

Sustain sector-leading operating margins
Scale advantages across the value chain, from sourcing and shipping rates to maximising delivery and service fleet utilisation.

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

Maintain strong cash generation
We aim to deliver consistent free cash flow generation enabling us to both invest for growth and return funds to shareholders.

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

VALUE FOR STAKEHOLDERS

CUSTOMERS
86.4%
DFS post purchase NPS

EMPLOYEES
40%
employees > five years' service

SUPPLIERS
36%
customer orders from British factories[1]

SHAREHOLDERS
£135m
cash distributed since flotation

COMMUNITY
£5.5m
raised since 2013 for BBC Children in Need through customer donations and fundraising initiatives

1. Includes third party manufacturing and internal manufacturing

Our strategy

Our strategy for growth

Our aim is to lead sofa retailing in the digital age. We intend to strengthen our market position, lead from the front and embrace the challenges and opportunities of the digital age.

Our strategy continued

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

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

We are committed to building a sustainable business model, both in terms of our impact on the environment and preserving our long-term success as a Group.

→ **See pages 22 to 24 for more detail.**

1 DRIVE DFS CORE

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

Omnichannel

Develop seamless customer journey across channels.

Focus for 2021/22

- Continue investment to create integrated customer journey
- Enhancements to our website to further optimise conversion

Product innovation

Enhance our unique and differentiated product offer.

Focus for 2021/22

- Further development of brand partnerships to attract new customers driving average order value and conversion
- Introduction of new supply partnerships to enhance breadth of offer

Customer proposition and service innovation

New services to engage customers.

Focus for 2021/22

- Continue investment in our showrooms' offer
- Embed the new centralised customer contact centre

2 BUILD THE PLATFORMS

Build platforms to enable profitable Group growth

Cost efficiency & property cost reduction

Reduce our relative cost base.

Focus for 2021/22

- Continue progress towards £6-8m annualised property cost savings by FY23

Supply chain

Best-in-market two person sofa delivery and installation.

Focus for 2021/22

- Complete Group-wide The Sofa Delivery Company integration project to deliver £3+ savings for FY23
- Integrate new consolidation centre into Group logistics network

Marketing investment

Data and insight driven efficiency and effectiveness across the Group.

Focus for 2021/22

- Continued focus on channel mix optimisation, with increasing emphasis and investment in digital
- Early exploration regarding adoption of marketing automation platform to help drive further efficiency & effectiveness

3 UNLOCK NEW GROWTH

Unlock and deliver new profitable growth

Sofology

Develop a nationwide business.

Focus for 2021/22

- Opening eight new showrooms in key locations to reach 58 showrooms, on way to 65-70 target

Dwell

Strengthen the brand through digital and right space.

Focus for 2021/22

- Optimise sales through targeted marketing and newly re-platformed website
- Leverage infrastructure to expand other Group brands' offer into adjacent markets

International: Netherlands

Break-even and beyond on current model.

Focus for 2021/22

- Continue to optimise the existing showroom estate

Strategy in action

01

Drive DFS core

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

Recent investments in our digital infrastructure have proved invaluable during the pandemic but consistent surges in demand as our outlets reopened after lockdown highlight how much customers appreciate our well-invested showrooms to consult with our experienced colleagues, view the products with their own eyes, and perform the all-important sit-test.

We believe the combination of physical and digital in our integrated retail model is the best long-term approach to serve the sofa market.

The first pillar of our strategy is to 'drive the core' DFS brand across all our retail channels, through continuous investment in our seamless customer journey, product innovation and service proposition. The DFS brand is the largest and most profitable in the Group so consistent incremental gains can have a big impact on overall Group profitability.

Our record-breaking profit performance in the last financial year was a testament to our omnichannel approach. Investment in our integrated retail business model over the last few years enabled the brand to perform strongly online during periods when our showrooms were closed due to government restrictions, but equally, our showrooms were able to capture significant levels of pent-up demand once they were allowed to open. This consistent pattern of remarkable demand surges after all three UK Covid-19 lockdown periods highlights beyond any doubt that most customers love to test their sofas 'for real' before committing to a purchase. This is a big reason why we believe our well-invested, integrated retail business model differentiates us from the competition, allowing us to meet fast-changing consumer shopping habits, positioning us well for the future.

We are continuing to invest in our DFS brand showroom estate which occupies 126 predominantly prime retail locations in the UK and Europe. Our latest format relocates the central administrative area to a smaller-footprint, lower traffic area and consolidates former sub-brand space into one large open unit, improving the customer experience and increasing the number of sofa display bays from around 55 to around 70. The extra space allows us to showcase more of our innovative new product ranges including Grand Designs and Halo Luxe.

Our integrated retail infrastructure has allowed us to operate with greater agility during the pandemic. In FY21, rather than placing showroom colleagues on furlough during lockdown we chose to engage them in online customer support roles to provide specific product advice and detail on deliveries.

So after an extraordinary year, supported by the relentless commitment of our DFS colleagues, we believe that the brand is in better shape than ever to deliver further profitable market share growth into the medium-term.

Strategy in action continued

02

Build the platforms

Build platforms to enable profitable Group growth

The Sofa Delivery Company aims to 'deliver moments that matter' for our customers. Our Group-wide logistics platform is one of several key components of our Group infrastructure which support our retail brands and target a range of efficiency improvements including customer service enhancements, flexible working conditions for colleagues, cost savings and environmental impact reductions.

Our second strategic pillar is to 'build the platforms' in order to enable profitable growth across our retail brands and support future growth initiatives. The term 'platforms' covers a wide range of assets that support our retail activities, including our property portfolio, supply chain capability, marketing expertise and manufacturing infrastructure. Platform benefits include greater commercial, operational & technical resilience, delivery of valuable customer data & insights and increased scale and reach. In the last financial year our focus was on achieving ongoing cost savings and efficiency targets across our showroom estate, driving a range of marketing efficiency improvements, and continuing our plans to develop the most efficient two-man sofa delivery company in the UK.

We focus here on our progress towards our objective of building a leading Group-wide supply chain platform, The Sofa Delivery Company. Our current year roll-out plans are on track as we work towards achieving annualised savings of at least £3m by the end of financial year FY22. Our aim is to offer improved customer service and a more flexible working environment for colleagues, whilst also reducing the Group's environmental impact. A priority in the year was the completion of a range of IT projects that allow The Sofa Delivery Company to track and deliver customer orders as efficiently as possible for all our different retail brands. We've also been busy rolling out our unique branding and vehicle livery across our 30 customer delivery centres.

At the heart of the project is a desire to do the best for our colleagues and customers. The Sofa Delivery Company operates a '4 days on, 4 days off' work scheduling model aimed at providing an attractive work-life balance for our drivers. In a competitive market for large vehicle drivers, the Group is committed to being an attractive employer in the logistics industry, offering competitive rewards and attractive working conditions. This arrangement enables the Group to offer extended hours delivery to our customers seven days a week, virtually all year round, increasingly important given customers' busy lifestyles.

The Sofa Delivery Company also plays an important role in achieving the Group's environmental targets. Using advanced systems to provide delivery across all the Group's brands allows us to optimise delivery routes, minimise miles driven and put fewer vehicles on the road. As the most frequent visitors to customers' homes, our delivery colleagues are also at the forefront of our waste and recycling efforts in relation to unwanted sofas and packaging materials.

While The Sofa Delivery Company is well on track to achieving its project goals in the next year to 18 months, our 'build the platforms' strategy has much further to run as we target a range of improvements, including medium-term plans to increase our manufacturing efficiency.

Strategy in action continued

03

Unlock new growth

Unlock and deliver new profitable growth

With revenue of £214.6m and a brand contribution[1] of £57.2m in the last financial year, Sofology is well on its way to justifying its acquisition. We still see plenty of potential growth however, as we develop the brand into a national chain, seize new product development opportunities and integrate the business into our group-wide platforms.

Our third strategic pillar is to 'unlock new growth' from commercial initiatives beyond our core DFS brand. Our main priority in the last financial year has been to accelerate the roll-out of the Sofology showroom estate to support its development into a successful nationwide sofa retail brand. Alongside this we're broadening the reach of our Dwell homeware brand through digital, wholesale and retail space optimisation initiatives.

Finally, we continue to evaluate medium-term options for the development of our small international DFS brand business.

Sofology was set up in north-west England and is well established in the north but we see an attractive opportunity to expand its presence on some of the more successful retail parks in the south of England. Following a pause in openings in FY20 as we assessed the impact of the pandemic on the property market, we opened five showrooms in FY21, including new outlets in Hove, Cambridge and Maidstone, to give a total of 50 UK showrooms. In the current year we anticipate opening a further eight showrooms, taking us well towards our medium-term target.

Sofology has a reputation for style and sustainability and we're committed to retaining the brand's unique and inspiring personality in a Group context. Following on from our successful Owen Wilson campaign, Sofology's latest campaign sees Helena Bonham Carter encouraging customers to 'bring imagination to life' in the way they make their homes. A wide range of new product initiatives, including our Loop flexible, sustainable sofa rental model and our recently launched Paloma Faith Home sofas continue to capture customers' attention.

Sofology's profitability will benefit from greater integration into our Group platforms. Key initiatives in the year included Sofology's integration into The Sofa Delivery Company logistics platform and targeted efficiencies in Group-wide shared services.

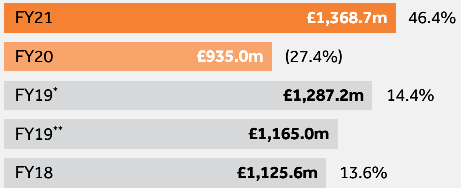
While FY21 was a stellar year for Sofology, we see further growth to come as we work through our record customer order bank and open more new showrooms. We continue to see the opportunity to grow the Sofology brand to 65-70 outlets in the medium-term, targeting revenue of c.£300m at a pre-tax profit margin of 5-7%.

1. Refer to pages 33 to 35 for APM definitions.

Key performance indicators – Financial

Gross Sales

£1,368.7m



Description

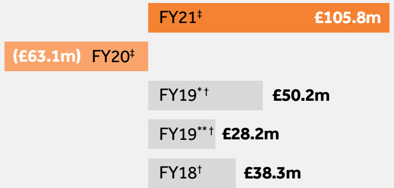
Gross sales represents the total amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Performance

Increase in sales as a result of market share gains, a shift in consumer spending to the home and delivering to customers throughout the period (note FY20 impacted by a pause in deliveries for the majority of the final quarter to comply with Covid-19 restrictions).

Underlying profit/(loss) before tax excluding brand amortisation

£105.8m



Description

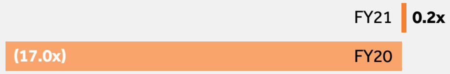
Profit before tax adjusted for non-underlying items and amortisation associated with acquired brands.

Performance

Increase driven by the higher gross sales.

Leverage

0.2x



Description

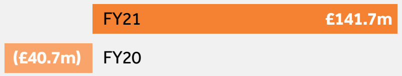
The ratio of period end net bank debt to cash EBITDA for the previous twelve months.

Performance

Increase driven by reduced net bank debt and positive cash EBITDA (negative cash EBITDA in FY20).

Underlying free cash flow to equity holders

£141.7m



Description

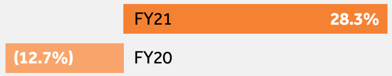
Underlying free cash flow to equity holders is the change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.

Performance

Increase driven by the higher underlying profit and a working capital inflow as a result of increased trading levels.

Underlying return on capital employed

28.3%



Description

Underlying return on Capital Employed ("underlying ROCE") is underlying post tax profits expressed as a percentage of the sum of property, plant and equipment, computer software, right of use assets and working capital.

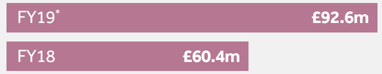
Performance

Increase driven by the underlying profit in the period (FY20 loss) and a lower level of capital employed.

FY18 AND FY19 HISTORICAL KPIs (PRE IMPLEMENTATION OF IFRS16)

The Group implemented IFRS16 in FY20 and after a year of transition now discloses all financial data solely on an IFRS16 basis. Consequently cash flow, return on capital employed and gearing KPI metrics have been redefined with the two years of data presented below. Whilst not directly comparable the metrics as disclosed in the FY18 and FY19 annual reports are shown in a separate table below.

Free cash flow



Gearing

Lease adjusted ROCE

In FY19 the Group changed its accounting reference date from 31 July to 30 June. FY19 was therefore a short accounting period of 48 weeks. In order to provide full year comparative figures, unaudited pro-forma figures are presented for the 52 weeks ended 30 June 2019, in addition to the audited statutory period of 48 weeks ended 30 June 2019.

Definitions and reconciliations of alternative performance measures for FY19 and FY18 were presented in the FY19 Annual Report.

* 52 weeks pro-forma.
** 48 weeks.
‡ IFRS16.
† IAS17.

1. Refer to pages 33 to 35 for APM definitions.

Key performance indicators – Non-financial

Net Promoter Score (%) – Post purchase customer satisfaction

86.4%

FY21	86.4%
FY20	85.7%
FY19	84.2%
FY18	84.9%

Description

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

Performance

Small year on year increase in very strong overall level.

Net Promoter Score (%) – Established customer satisfaction

30.7%

FY21	30.7%
FY20	42.9%
FY19	33.0%
FY18	35.8%

Description

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

Performance

Impact of delivery delays caused by disruption to shipping as a result of Covid-19 and raw material supply.

Suppliers – Avg days to pay

30.6 days

FY21	30.6
FY20	27.7

Description

Average number of days between receipt and payment of supplier invoices.

Performance

The small increase reflects the changing mix of suppliers and associated payment terms.

Suppliers – % paid on time

71.8%

FY21	71.8%
FY20	59.0%

Description

Percentage of supplier invoices paid within agreed terms.

Performance

Recovery from covid-impacted final quarter of FY20.

Sofology UK stores

50

FY21	50
FY20	45
FY19	42
FY18	41

Description

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

Performance

5 additional stores opened in FY21 (Cambridge, Maidstone, Hove, Stockport, Swindon).

Financial review

We continue to operate in a market with high levels of demand, and are trading well and generating strong cash flows.

IN BRIEF

- Record revenues and profits achieved in challenging conditions
- Strong cash flows have significantly reduced leverage
- Well positioned for FY22 and high levels of demand continue
- Proposal to recommence dividends

"The Group is in a strong position having gained market share, holding a significant order bank and having strengthened our balance sheet. Whilst the operating environment will likely remain challenging, we are confident in our ability to deliver our strategy, achieve our previously disclosed ambition to sustainably grow our profits and thereby provide strong returns to our shareholders."

MIKE SCHMIDT
CHIEF FINANCIAL OFFICER

Financial review continued

OVERVIEW

The Group has achieved record levels of revenues, profit and cash flow in FY21 which has significantly strengthened our financial position across the course of the year. With market share gains made through the year, a high opening order bank, strong demand experienced to date in FY22 and good strategic progress we have a positive outlook, despite the potentially challenging and changeable, Covid-impacted operating environment.

The strong financial performance in the FY21 year was driven by a number of factors:

Firstly, we started the year with a high order book that enabled us to manufacture and deliver orders at a relatively high and consistent level to our customers through the summer and autumn. The size of the order book has also strengthened our cash position, with customers typically placing a cash deposit with us at the time of order.

Secondly, there were elevated levels of consumer demand throughout the year driven by market share gains and a sustained increase in consumer interest in spending in home categories, reflecting both growth in remote working and also reduced leisure and travel spend. Our investment in our integrated retail model positioned us well to capture this demand during lockdown periods as well as when restrictions eased.

Thirdly, as our various sales channels utilise the same fulfillment operations we were able to keep our internal manufacturing, external finished goods suppliers and our final mile logistics operations working efficiently through the majority of the year. This enabled us to maintain elevated levels of customer deliveries whilst keeping our cost base well controlled.

While we incurred additional costs given the disruption of up to 21 weeks of showroom closures in the year, increased colleague sickness levels and the introduction of self-isolation and operating costs to support necessary changes to working and retail environments, these costs were offset through the suspension of UK retail business rates. Given the growth in profits due to our trading performance we therefore chose not to draw upon either the Coronavirus Job Retention Scheme or other Covid-19 support grants in FY21 (prior year details are presented in note 3 to the financial statements).

Our revenue growth in FY21 was however constrained by sector-wide pressures on supply chains from raw materials availability, container shipping delays (including the effects of disruption in the Suez Canal) and Covid-19 disruption of factory production, particularly in the final quarter of the year. Consequently, the high demand experienced in the second half and in the new financial year to date has resulted in an order bank at the end of the year even greater than the elevated order bank that we started with, providing resilience for FY22.

Our made to order model has enabled us to deliver revenue growth without investing in stock and our negative working capital model and strong profitability has enabled us to significantly de-lever. Having fully repaid the HMRC VAT liabilities that were deferred from the previous financial year, net bank debt[1] reduced by £138.7m over the year to £19.0m and our reported leverage[1] was 0.2x. This position does reflect a transitory working capital benefit of £70m which will reverse over time as the order book normalises (and related customer deposits held reduce) and landlord payments agreed to be deferred from FY20 are fully repaid.

In December 2020 we entered into a new three-year agreement, with two one year extension options for a £225m senior revolving credit facility with our existing syndicate of seven banks all continuing their involvement, but at different proportional levels of participation. In order to align our financing with our ESG sustainability ambitions we agreed to have the option to link the interest rate to the achievement of sustainability related targets. I'm pleased to confirm that we have now done this with targets covering sustainable sourcing practices for wood and leather, greenhouse gas emissions and diversity in our workforce.

Given our current financial position, confidence in our enhanced market leading position and anticipated future cash generation the Board are recommending to shareholders that dividends are restarted with a final FY21 dividend of 7.5p per share.

In what has obviously been challenging conditions for our teams to work in given the pandemic, compounded by unprecedented levels of demand to fulfil throughout our operations I'd like to take this opportunity to thank our colleagues for their effort and perseverance in helping us achieve this record financial performance.

BASIS OF PREPARATION

Following the reorganisation of our Dwell business over the summer 2020 period we have this year presented the Dwell and DFS brand segments as one segment to reflect how these brands are now managed.

As communicated in our FY20 annual report, we sold the Sofa Workshop business in September 2020. In order to aid comparison of continuing operating segments, the table below includes a subtotal excluding Sofa Workshop.

Brand contribution[1], which is reported before property or administrative expenses, remains our preferred measure of segment profitability.

As FY20 was significantly impacted by Covid-19 related government guidance preventing us from delivering orders (and therefore recognising revenue) we have also included unaudited pro-forma results for the 52 weeks ended 30 June 2019 ("pro-forma FY19"*) below to provide additional comparison with a non Covid-disrupted trading period. The year-on-year commentary covering gross sales, revenue, gross margin and brand contribution that follows focuses on comparing the results for this financial year to the pro-forma FY19 period.

* As previously published, in 2019 the Group changed its accounting reference date from 31 July to 30 June. FY19 was therefore a short accounting period of 48 weeks. In order to provide full year comparative figures, unaudited pro-forma figures are presented for the 52 weeks ended 30 June 2019. Refer to pages 33 to 35 for further details on alternative performance measures, and to the FY19 financial statements for the reconciliation from the reported 48 week results to the pro-forma 52 weeks.

1. Refer to pages 33 to 35 for APM definitions.

Financial review continued

Audited 52 weeks ended 27 June 2021 – IFRS 16

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**1,093.2**	**269.2**	**1,362.4**	**6.3**	**1,368.7**	**–**	**1,368.7**
Revenue	**848.0**	**214.6**	**1,062.6**	**5.1**	**1,067.7**	**–**	**1,067.7**
Cost of Sales	(363.4)	(101.8)	(465.2)	(1.3)	(466.5)	–	(466.5)
Gross Profit	**484.6**	**112.8**	**597.4**	**3.8**	**601.2**	**–**	**601.2**
Selling & Distribution costs	(244.4)	(55.6)	(300.0)	(0.5)	(300.5)	–	(300.5)
Brand Contribution	**240.2**	**57.2**	**297.4**	**3.3**	**300.7**	**–**	**300.7**
Property Costs					(2.9)	–	(2.9)
Administrative Expenses					(75.2)	(2.1)	(77.3)
EBITDA[1]					**222.6**	**(2.1)**	**220.5**
Depreciation, amortisation and impairments excluding brand amortisation					(83.9)	–	(83.9)
Operating Profit					**138.7**	**(2.1)**	**136.6**
Interest					(32.9)	(3.1)	(36.0)
PBT pre brand amortisation[1]					**105.8**	**(5.2)**	**100.6**
Brand amortisation					(1.4)	–	(1.4)
PBT					**104.4**	**(5.2)**	**99.2**

Audited 52 weeks ended 28 June 2020 – IFRS 16

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**735.3**	**181.7**	**917.0**	**18.0**	**935.0**	**–**	**935.0**
Revenue	**566.5**	**143.7**	**710.2**	**14.3**	**724.5**	**–**	**724.5**
Cost of Sales	(227.5)	(72.3)	(299.8)	(7.6)	(307.4)	(3.1)	(310.5)
Gross Profit	**339.0**	**71.4**	**410.4**	**6.7**	**417.1**	**(3.1)**	**414.0**
Selling & Distribution costs	(205.3)	(47.8)	(253.1)	(7.2)	(260.3)	(2.1)	(262.4)
Brand Contribution	**133.7**	**23.6**	**157.3**	**(0.5)**	**156.8**	**(5.2)**	**151.6**
Property Costs					(27.2)	–	(27.2)
Administrative Expenses					(67.7)	(0.2)	(67.9)
EBITDA[1]					**61.9**	**(5.4)**	**56.5**
Depreciation, amortisation and impairments excluding brand amortisation					(87.5)	(11.2)	(98.7)
Operating Profit					**(25.6)**	**(16.6)**	**(42.2)**
Interest					(37.5)	–	(37.5)
PBT pre brand amortisation[1]					**(63.1)**	**(16.6)**	**(79.7)**
Brand amortisation					(1.5)	–	(1.5)
PBT					**(64.6)**	**(16.6)**	**(81.2)**

1. Refer to pages 33 to 35 for APM definitions.

Financial review continued

Unaudited pro-forma 52 weeks ended 30 June 2019 – IAS 17

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**992.1**	**260.7**	**1,252.8**	**34.4**	**1,287.2**	**–**	**1,287.2**
Revenue	**762.6**	**205.9**	**968.5**	**27.7**	**996.2**	**–**	**996.2**
Cost of Sales	(306.6)	(101.5)	(408.1)	(13.5)	(421.6)	–	(421.6)
Gross Profit	**456.0**	**104.4**	**560.4**	**14.2**	**574.6**	**–**	**574.6**
Selling & Distribution costs	(248.3)	(56.7)	(305.0)	(9.4)	(314.4)	–	(314.4)
Brand Contribution	**207.7**	**47.7**	**255.4**	**4.8**	**260.2**	**–**	**260.2**
Property Costs					(107.5)	–	(107.5)
Administrative Expenses					(62.5)	(5.1)	(67.6)
EBITDA[1]					**90.2**	**(5.1)**	**85.1**
Depreciation, amortisation and impairments excluding brand amortisation					(29.3)	–	(29.3)
Operating Profit					**60.9**	**(5.1)**	**55.8**
Interest					(10.7)	–	(10.7)
PBT pre brand amortisation[1]					**50.2**	**(5.1)**	**45.1**
Brand amortisation					(1.5)	–	(1.5)
PBT					**48.7**	**(5.1)**	**43.6**

1. Refer to pages 33 to 35 for APM definitions.

SALES AND REVENUE

Gross sales[1] increased 6.3% to £1,368.7m compared to the pro-forma FY19 period (up 8.7% excluding the disposed Sofa Workshop operation). The drivers of this growth and the consequent changes in revenues are as described in the overview section above. Both Sofology and DFS achieved high order intake growth significantly above gross sales[1] and revenue growth rates relative to the pro-forma FY19 period. However, the DFS brand was better able than Sofology to grow the rate of delivery of manufactured goods in the year, and given the strength of the dfs.co.uk online website traded particularly well in the lockdown period thereby achieving a 10.2% growth in delivered gross sales[1], with Sofology delivering 3.2% gross sales[1] growth. Given the current size of Sofology's order book and the growing use of Group manufacturing relationships, we expect strong delivered gross sales growth from Sofology in FY22.

Revenue, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products increased at a slightly higher rate than gross sales[1], up 7.2% (or 9.7% excluding Sofa Workshop) driven by a higher proportion of cash purchases resulting in lower interest free credit costs.

GROSS PROFIT

Gross profit increased 4.6% to £601.2m compared to the pro-forma FY19 period (up 6.6% excluding Sofa Workshop).

Gross profit as a percentage of revenue decreased from 57.7% in the pro-forma FY19 period to 56.3%. This was principally due to a mix effect with our internal manufacturing operation, which captures an incremental manufacturing cash margin and predominantly serves the DFS brand. Although operating at full capacity in the first half of the year, the overall greater sales volumes in FY21 meant that internal manufacturing represented a lower proportion of the total value of goods sold.

Financial review continued

This effect was exacerbated in the second half of the year due to some Covid-19 related disruption resulting in below-capacity production levels. Adjusting for this mix effect, despite facing raw materials and shipping cost inflation, underlying retail gross margin was broadly flat year-on-year due to growth in average order value. Sofology gross margin increased 1.9%pts from the pro-forma FY19 period to FY21, reflecting the brand had no internal manufacturing mix impact and also less of an increase in the web channel mix (which typically has a lower gross margin).

While we have already seen and anticipate further inflation in global shipping costs and raw materials, these factors are industry-wide and are not expected to cause a deterioration of sustainable gross profit margins.

We source around one quarter of the finished goods that we sell from the Far East, and we pay for these in US dollars. We continue to manage the risk from adverse US dollar exchange rate movements for our annual spend of c.$180m-$190m, by hedging our US dollar purchases to maintain 18 months cover by value. Our hedged rate for FY21 was 6 cents lower (adverse) than the rates secured for FY20 and pro-forma FY19 period. Our hedged rate for FY22 is 3 cents higher (favourable) to the average rate secured for FY21. Each one cent movement in the dollar to sterling exchange rate impacts profits by approximately £1m, however these impacts will be felt by all industry participants who we anticipate will act to protect profitability in the case of adverse rate movements and remain 'price competitive' in the case of favourable movements.

SELLING & DISTRIBUTION COSTS AND BRAND CONTRIBUTION[1]

Underlying[1] selling and distribution costs decreased by £13.9m compared to the pro-forma FY19 period. Excluding Sofa Workshop, the reduction in costs of £5.0m was driven by increased effectiveness in our marketing approach through improved targeting.

This was partially offset by the higher sales volumes driving the variable costs in our delivery network and wage commission models, and Covid-19 related costs such as PPE.

Underlying brand contribution[1] of £300.7m for the year represents an increase of £40.5m relative to the pro-forma FY19 period (an increase of £42.0m including Sofa Workshop) reflecting the higher revenues.

Due to the impact of preparing our pro-forma FY19 period under IAS 17 and subsequent periods under IFRS 16, we now compare the following costs in FY21 with those incurred in FY20.

PROPERTY COSTS AND ADMINISTRATIVE EXPENSES

Property costs represent business rates and a small amount of rental charges where we occupy premises on a 'hold-over' basis (where the lease has expired) or for short-term leases under a year long. Property costs decreased £24.3m year-on-year due to the suspension of UK business rates for the majority of our showroom estate for the full financial year and the final quarter of the previous financial year.

Underlying[1] administrative expenses of £75.2m increased by £7.5m year-on-year due to performance recognition payments across the business, investment to support our ongoing strategy, including better use of data to target marketing, and some Covid-19 related additional operating costs. As noted in our interim results, we also recognised a one-off increase in our payment protection insurance provision in connection with historical sales transactions.

DEPRECIATION, AMORTISATION AND INTEREST

Total depreciation and amortisation charges of £85.3m were £14.9m lower than FY20 predominantly due to non-underlying impairment charges recognised last year in connection with the disposal of Sofa Workshop.

Underlying[1] depreciation and amortisation charges (excluding brand amortisation) reduced by £3.6m year-on-year primarily due to lower IFRS 16 charges on our right of use property assets as a result of savings secured on existing leases and from the assignment of leases following the disposal of Sofa Workshop. These savings are partially offset by the impact of entering leases for new Sofology showrooms.

Underlying[1] interest charges decreased £4.6m year-on-year due to lower utilisation of our revolving credit facility and lower IFRS 16 interest charges. Total interest of £36.0m included £3.1m of non-underlying refinancing costs as noted below.

PROFIT BEFORE TAX

Underlying[1] PBT excluding brand amortisation[1] of £105.8m compares to a prior year loss, impacted by Covid, of £63.1m.

A total of £5.2m of non-underlying costs were incurred in FY21 in relation to the loss on disposal of Sofa Workshop (including legal fees and other related costs), costs associated with the refinancing of the Group's revolving credit facility and redundancy costs associated with a change to the DFS brand administration function. Non-underlying costs in FY20 totalled £16.6m in relation to the restructuring of Sofa Workshop and Dwell brand and goodwill, brand name and property right of use asset impairments.

Reported PBT of £99.2m was £180.4m higher than FY20, and more than double the £43.6m for the pro-forma FY19 period.

Compared to the pro-forma FY19 period the increase in underlying profit before brand amortisation[1] of £55.6m was driven by the same factors as explained above. With a similar amount of non-underlying costs incurred in FY19 the reported profit growth was also £55.6m.

NON-UNDERLYING ITEMS

FY20	£m	FY21	£m
Brand, goodwill, fixed asset and right of use asset impairments	(11.2)	Refinancing costs	(3.1)
Stock write-down to net realisable value	(3.1)	DFS admin team restructuring	(1.4)
Restructuring	(1.3)	Residual Sofa Workshop asset write-off and disposal costs	(0.7)
Total	**(16.6)**	**Total**	**(5.2)**

TAX

The reported effective tax rate for FY21 is 10.7%. This is lower than the applicable UK Corporation Tax rate of 19.0% and is primarily due to change in tax rate used to calculate the Group's deferred tax balances and also the utilisation of some brought forward tax losses associated with one of our trading subsidiaries which were previously not recognised.

EARNINGS PER SHARE

Basic earnings per share for the Group was 34.5 pence based on a weighted average number of shares in issue for the year of 257.1m (FY20 a loss of 31.4 pence per share).

CAPITAL EXPENDITURE, CASH FLOW AND BALANCE SHEET

A strong trading performance combined with our negative working capital cycle has resulted in high levels of operating cash flow being generated in the year. This has enabled us to continue to invest to deliver our strategy.

We incurred £49.2m of cash capital expenditure in the year. This included £12.7m expenditure on the freehold acquisition of one of our leased showrooms.

1. Refer to pages 33 to 35 for APM definitions.

Financial review continued

Although this transaction secures in perpetuity a strong retail location, this was an opportunistic financial transaction that provides a favourable average c.13% annual return on investment through no longer incurring £16.2m of already committed future lease payments over the next c. 9 years. We do not currently expect that similar opportunities will arise in our lease estate, albeit we remain willing to increase investment levels where strong risk-adjusted returns are available and we have appropriate financial resources to fund that investment.

Excluding this freehold acquisition the cash capital expenditure of £36.5m was £13.1m above the relatively low level incurred in the previous year when investments were held back to mitigate the cash flow impact of the temporary pause in our operations. The increase in spend was driven by investment in six new showrooms, six part completed showrooms, a significantly higher number of refurbishments (utilising the lockdown periods) as well as an increased level of investment in technology to drive both operational efficiency and continual improvements to our web proposition. In addition, £2.9m of assets (predominantly delivery vehicles and company cars) were acquired under lease arrangements (FY20 £5.3m).

We expect to invest approximately £35m in cash and approximately £10m of finance leased assets in FY22 with a potential additional £12-15m on new manufacturing investment spread across FY22 and FY23.

Net bank debt[1] reduced by £138.7m to £19.0m in the period and our leverage (measured as net bank debt/last twelve month operating cash flows before tax and excluding working capital movements, less lease payments) fell to 0.2x (FY20 was significantly negative due to the losses incurred). Our refinanced £225m banking facility covenants remain consistent with our facility pre Covid-19 at 3.0x maximum net debt/EBITDA and minimum 1.5x fixed charge cover, both measured on an IAS 17 basis.

As we have highlighted previously, the DFS business model benefits from negative working capital, with payments received from customers upon delivery or through deposits ahead of delivery overall, while our suppliers are paid to agreed terms. Working capital balances are seasonal depending on recent trading activity, cost seasonality (particularly in advertising spend) and predictable patterns of payments on rents, tax payments and other recurring charges. We carry limited inventory, and balances at year end have remained relatively stable overall. The closing net bank debt[1] position at June 2021 benefits from higher levels of customer deposits associated with the elevated order bank. As the order bank normalises to more seasonal levels (which will be dependent on when the elevated demand levels start to reduce), deferred rent payments from the previous year are made and having now finalised the deferred consideration due to the previous Sofology shareholders at £4.7m there will be a c.£70m working capital outflow.

The Group's return on capital employed[1] for the period of 28.3% was significantly higher than the pre Covid-19 pro-forma FY19 16.6% return (calculated on a lease adjusted basis from IAS17 prepared financials) and driven by the higher profit.

LOOKING FORWARD

In our June trading statement we provided three scenarios illustrating the potential range of profit for our FY22 year. The low and medium scenarios illustrated differing levels of order intake relative to the pro-forma FY19 period. The medium scenario assumed a step up in manufacturing and delivery capacity relative to the pro-forma FY19 period and a third scenario illustrated that additional profit could be driven by a further increase in capacity and not additional order intake growth.

Pleasingly, order intake performance to date has been ahead of the high case scenario and we continue to focus on increasing manufacturing output and delivery throughput across our supply chain. However, Covid-19 related absences have impacted our operations and some of our suppliers. Compounded by raw material and shipping related disruption which are impacting the whole sector, the lead times on our made to order products continue to be longer than normal and we currently believe that the medium case reflects the most likely profit outcome, and delivering on this does still require an increase in weekly deliveries from currently achieved levels.

The sector is experiencing cost inflation across a number of categories including raw materials and logistics costs and we are needing to over-invest in operating resources such as warehouse space and colleague resourcing in order to mitigate the unpredictability of the operating environment. The Group has a track record of maintaining gross margins in periods of inflation and differing foreign exchange rates and we are taking actions to offset the current cost pressures. We have updated the scenarios provided in the June trading statement to reflect the higher revenues, largely driven by higher average order values, with profits unchanged:

Scenario:	Low	Medium	High
Order intake vs FY19 (excl Sofa Workshop)	11%	15%	15%+
Revenue (£m)	1,133	1,180	1,205
Revenue growth vs FY19 (excl Sofa Workshop)	17%	22%	24%
PBT (£m)	66	85	96

Subject to no sudden and material decline in order intake we expect to remain operating with an elevated order bank at the end of the FY22 period and consequently the strong order intake experienced to date will support financial performance in FY23.

We continue to target achieving revenue growth above upholstery market rates from LFL market share gain and showroom rollout and also to grow revenues in other home related categories, particularly the sizeable UK beds market. With an intention to have opened more than 20 new showrooms since 2019, and having evidence of sustained market share gain and AOV growth, our outlook for FY23 and beyond is to sustain base revenues of at least £1.15bn and achieve 7%+ PBT margins, with 75-80% of PBT converted to cash.

DIVIDENDS

In light of our strong financial position, significantly reduced leverage and considering the strong cash flows we continue to generate, the Board proposes to recommence dividends with a final dividend for FY21 of 7.5 pence per share in line with historical levels (FY19 7.5 pence per share). As stated in our published Capital and Distribution policy, subject always to outlook and the investment needs for the Group, we would intend to make ordinary dividend payments at a payout ratio between 40% and 50% of annual underlying cash generation.

SUMMARY

The Group is in a strong position having gained market share, holding a significant order bank and having strengthened our balance sheet. We continue to operate in a market with high levels of demand, and are trading well and generating strong cash flows. Whilst the operating environment will likely remain challenging with inflationary pressure, supply chain disruption and Covid-19 related colleague absences to manage we are confident in our ability to deliver our strategy, achieve our previously disclosed ambition to sustainably grow our profits and thereby provide strong returns to our shareholders.

Mike Schmidt

Chief Financial Officer
23 September 2021

1. Refer to pages 33 to 35 for APM definitions.

Alternative performance measures

In reporting the Group's financial performance, the Directors make use of a number of alternative performance measures ("APMs") in addition to those defined or specified under EU-adopted International Financial Reporting Standards ("IFRS").

The Directors consider that these APMs provide useful additional information to support understanding of underlying trends and business performance. In particular, APMs enhance the comparability of information between reporting periods by adjusting for non-underlying items. APMs are therefore used by the Group's Directors and management for internal performance analysis, planning and incentive setting purposes in addition to external communication of the Group's financial results.

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. Reconciliations relating to the unaudited pro-forma FY19 period (52 weeks ended 30 June 2019) were set out in the FY20 and FY19 annual reports.

Definitions of APMs may vary from business to business and accordingly the Group's APMs may not be directly comparable to similar APMs reported by other entities.

APM	DEFINITION	RATIONALE
Gross sales	Amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes	Key measure of overall sales performance which unlike IFRS revenue is not affected by the extent to which customers take up the Group's interest free credit offering.
Brand contribution	Gross profit less selling and distribution costs, excluding property and administration costs.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA [1]	Earnings before interest, taxation, depreciation and amortisation	A commonly used profit measure.
Non-underlying items	Certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA [1]	Earnings before interest, taxation, depreciation and amortisation, as adjusted for non-underlying items	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation PBT(A)	Profit before tax adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology and Dwell.	Profit measure widely used by investors and analysts.
Underlying earnings per share	Post-tax earnings per share as adjusted for non-underlying items.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
Net bank debt	Balance drawn down on interest-bearing loans, with unamortised issue costs added back, less cash and cash equivalents (including bank overdrafts).	Measure of the Group's cash indebtedness which supports assessment of available liquidity and cash flow generation in the reporting period.
Cash EBITDA	Net cash from operating activities before tax less movements on working capital and provisions balances and payments made under lease obligations.	Measure of the operating cash generation of the business, normalised to reflect timing differences in working capital movements.
Leverage (or gearing) [2]	The ratio of period end net bank debt to Cash EBITDA for the previous twelve months.	Key measure which indicates the relative level of borrowing to operating cash generation, widely used by investors and analysts
Underlying return on capital employed (underlying ROCE) [2]	Underlying post tax profit expressed as a percentage of the sum of: property, plant & equipment, computer software, right of use assets and working capital.	Represents the post-tax return the Group achieves on the investment it has made in its business.
Underlying free cash flow to equity holders	The change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.	Measure of the underlying cash return generated for shareholders in the period and a key financial target for Executive Director remuneration.

1. Following the adoption of IFRS 16, EBITDA/Underlying EBITDA are less useful as performance measures and accordingly are no longer presented as Key Performance Indicators or Financial Highlights.
2. Definition updated following the adoption of IFRS 16.

Alternative performance measures continued

RECONCILIATIONS TO IFRS MEASURES

EBITDA	Note	FY21 £m	FY20 £m
Operating profit/(loss)	2	**135.2**	(43.7)
Depreciation	3	**77.4**	81.9
Amortisation	3	**7.9**	6.8
Impairments	3	**–**	11.5
EBITDA		**220.5**	56.5

Underlying EBITDA	Note	FY21 £m	FY20 £m
EBITDA		**220.5**	56.5
Non-underlying operating items	3	**2.1**	5.4
Underlying EBITDA		**222.6**	61.9

Underlying profit before tax and brand amortisation – PBT(A)	Note	FY21 £m	FY20 £m
Profit/(loss) before tax	2	**99.2**	(81.2)
Non-underlying items	3, 5	**5.2**	16.6
Amortisation of brand names	10	**1.4**	1.5
Underlying profit/(loss) before tax and brand amortisation		**105.8**	(63.1)

Net bank debt	FY21 £m	FY20 £m
Interest bearing loans and borrowings	**23.1**	218.7
Unamortised issue costs	**1.9**	1.3
Cash and cash equivalents (Including bank overdraft)	**(6.0)**	(62.3)
Net bank debt	**19.0**	157.7

Leverage	FY21 £m	FY20 £m
Net bank debt (A)	**19.0**	157.7
Net cash from operating activities before tax	**307.2**	61.8
Less:		
Movement in trade and other receivables	**(4.6)**	1.6
Movement in inventories	**2.2**	4.1
Movement in trade and other payables	**(81.4)**	(4.7)
Movement in provisions	**(3.3)**	(6.6)
Payment of lease liabilities	**(26.7)**	(29.2)
Payment of interest on leases	**(77.1)**	(36.3)
Cash EBITDA (B)	**116.3**	(9.3)
Leverage (A/B)	**0.2x**	(17.0)x

Alternative performance measures continued

Underlying return on capital employed	Note	**FY21 £m**	FY20 £m
PBT	2	**99.2**	(81.2)
Non-underlying operating items	3, 5	**5.2**	16.6
Pre-tax return		**104.4**	(64.6)
Effective tax rate		**10.70%**	17.10%
Tax adjusted return (A)		**93.2**	(53.6)
Property, plant and equipment	8	**91.6**	74.1
ROU assets	9	**345.1**	384.5
Computer software	10	**16.4**	11.8
		453.1	470.4
Inventories	14	**61.1**	58.9
Trade receivables	15	**9.3**	10.4
Prepayments	15	**7.2**	10.1
Accrued income	15	**0.4**	0.9
Other receivables	15	**0.2**	0.8
Payments received on account	16	**(117.7)**	(86.8)
Trade payables	16	**(83.9)**	(41.9)
Working capital		**(123.4)**	(47.6)
Total capital employed (B)		**329.7**	422.8
Underlying ROCE (A/B)		**28.3%**	(12.7%)

Underlying free cash flow to equity holders	**FY21 £m**	FY20 £m
Movement in net bank debt	**138.7**	7.5
Dividends	**–**	15.9
Acquisition related costs	**–**	–
Proceeds on issue of shares	**(0.3)**	(63.9)
Purchase of own shares	**0.3**	1.1
Proceeds from sale of own shares	**(1.1)**	(1.3)
Non-underlying cash items disclosed in cash flow statement	**4.1**	–
Underlying free cash flow to equity holders	**141.7**	(40.7)

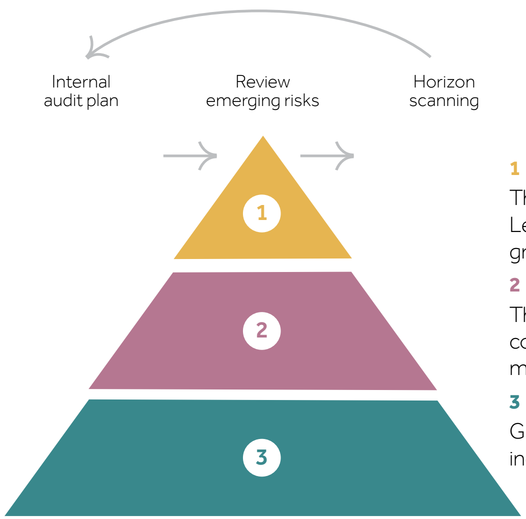
Risks and uncertainties

The Group faces a number of risks and uncertainties in both its day-to-day business operations and strategic development. In this section we provide an overview of the Group's approach to risk management alongside an assessment of the Group's principal risks, highlighting any changes during the period.

IDENTIFY

The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. The Group has an established risk register which is coordinated and analysed by the Group's Risk and Internal Audit function to facilitate triannual reviews of principal risks by the Directors, including identification of emerging risks arising and also horizon risks to be monitored. The graphic below details how responsibility for risk management is allocated across the Group.

Each principal risk is owned by a member of the Group Leadership Team ("GLT"). The Directors maintain overall responsibility for risk management throughout the Group and oversee the implementation of processes to manage these risks by the GLT and operational management. The Audit Committee, delegated by the Board, is responsible for the review of the effectiveness of the internal control framework.



1. PRINCIPAL RISKS
These risks have been identified by the Group Leadership Team ("GLT") as the ones that pose the greatest threat to the success of the Group.

2. STRATEGIC RISKS
These risks pose a threat to the Group but are considered well controlled, and the impact if materialised would be sustainable.

3. OPERATIONAL RISKS
Granular risks that have localised impact on individual departments, and/or business areas.

The Audit Committee reviews the Group's internal risk register on a regular basis. The Audit Committee and Board also review presentations on topics in relation to key risk areas such as climate change/Environment, Social and Governance (ESG), Covid-19, cyber security and significant change initiatives.

The ongoing process of management and mitigation of risk by the GLT is focused through the context of a Group risk appetite agreed by the Board, with a rolling plan for the Board to periodically review all principal risks with the GLT using this approach. The Governance, Risk and Compliance Committee, comprising senior management, meets monthly to review changes in the regulatory/legal landscape and the Group's key risks and concerns. Further detail on the Group's system of internal controls is covered in the Audit Committee report on pages 83 to 88.

The Group seeks to continuously develop its risk management processes and in the last year a particular focus of the Group Risk Team has been on growing engagement with our Group risk management platform into the day-to-day practice of all senior and middle management colleagues across each Group function. The Group Risk Team also communicates regularly with colleagues at all levels of the business, highlighting the benefits of effective risk management.

In order to support future long-term growth, the Group is currently assessing a number of external Risk Management Information Systems with a view to replacing the current in-house platform.

Additional specific risk-focused initiatives undertaken during the financial year included a full externally assessed cyber review, completed in June 2021, and a report on climate change delivered to the GLT. The Group Risk Team also provided regular updates on the Group's business continuity and resilience performance through the various Covid-19 lockdown and reopening phases, updating Business Continuity procedures as necessary.

In recognition of the Group's high standards of quality and integrity, vital to the success of internal audit and risk management, the Group's Audit & Risk function achieved first place in the 'Outstanding Team: Private Sector' category in the Chartered Institute of Internal Auditors ("CIIA") Audit & Risk 2021 awards.

EVALUATE

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

Risks and uncertainties continued

MITIGATE

The Group's principal risks are discussed opposite, together with the Group's related mitigating activities. Other risks which are currently either not known to the Group, or are not considered material, could also impact the Group's reported performance or assets. Additional controls that could be implemented to reduce or better manage particular risks will be considered by the Directors in line with the Group's risk appetite and decisions on whether the additional controls are implemented will be documented and reviewed in subsequent risk reviews.

COVID-19 PANDEMIC UPDATE

We reported extensively in the FY20 annual report on the Group's wide-ranging initiatives to manage the risks of the Covid-19 pandemic, which included a strategic and financial review resulting in a number of actions to increase financial resilience, alongside operational measures to contain the spread of the virus. In FY21, with the Group permitted to manufacture and deliver to customers throughout the period, our Covid-19 risk focus was on the health and safety of colleagues and customers while managing the various national showroom closure and reopening phases and conducting regular reviews of the effectiveness of our Covid-19 management procedures across our operations, updating Business Continuity plans as necessary.

MANAGEMENT OF CLIMATE CHANGE AND OTHER SIGNIFICANT ESG RISKS

We are committed to building a sustainable business model, both in terms of our impact on the environment and preserving our long-term success as a Group. ESG was identified as a principal risk in our FY20 Annual report and is now embedded within the Group's risk management process. We launched our ESG strategy in September 2020, with a strong focus on the Environment based on our "Sofa Cycle" approach and have made solid progress against our Phase 1 targets in the last 12 months. In June 2021, the Group undertook a formal materiality assessment, supported by Ernst & Young Global Limited, in order to identify and prioritise all of the Group's sustainability risks and opportunities. The outcome of our materiality assessment and our progress on a wide range of ESG initiatives are covered in depth in our Responsibility and sustainability report on pages 51 to 70.

CHANGES TO PRINCIPAL RISKS IN THE YEAR

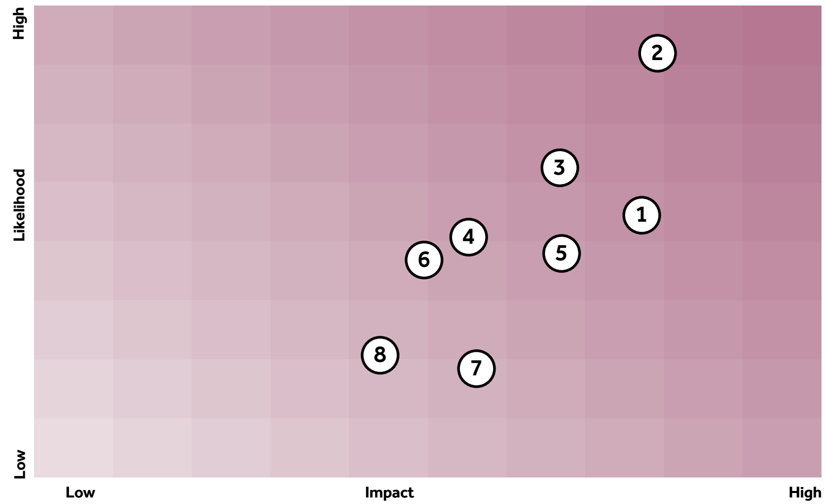
As part of our risk management process we have reviewed the Group's principal risks and made a number of changes to the list. We have introduced a new principal risk entitled 'Supply Chain and Manufacturing Resilience'. This new principal risk aggregates elements of several current strategic risks and reflects a range of factors including: strong recent demand for the Group's products; inconsistency in the cost and availability of raw materials and the cost and capacity of Far East shipping; the elevated level of the order book at both the beginning and end of the FY21 financial year; and the challenges in meeting this demand for both our external product supplier partners and our own internal manufacturing operations amid the ongoing pandemic. In contrast, following the agreement of the new trade relationship with the EU and an assessment of the consequences for the Group, we have removed Brexit from the list of principal risks.

In terms of movement in existing risks, we have increased the priority of the Consumer Proposition and Industry Competition principal risk in the period, to reflect the impact of the Covid-19 pandemic on the furniture retailing market structure, away from smaller independent specialist stores and high street department stores towards larger omnichannel or online furniture specialists and general merchandise retailers.

In recognition of the strong financial performance in FY21 and positive start to FY22, combined with an extension to the senior revolving credit facility, the Financial risk and liquidity principal risk has decreased in priority in comparison with the previous financial year end.

RISK HEAT MAP

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



Principal risks

1 Supply chain and manufacturing resilience (New)
2 Business continuity and resilience
3 Cyber
4 Consumer proposition and industry competition
5 Regulatory environment
6 ESG
7 Financial risk and liquidity
8 Transformation

→ See pages 38 to 40 for more on how risk is managed.

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase　Unchanged　Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Supply chain and manufacturing resilience Supply chain and manufacturing resilience constitutes a new principal risk and incorporates elements of existing strategic risks covering third party suppliers, delivery agents and the Group's own manufacturing operations. The Group's elevated order bank at the start of FY22 and ongoing Covid-19 disruption to employees, combined with further strong growth in customer orders due to favourable consumer trends as well as market share growth from the successful execution of the Group's growth strategy, could result in additional pressure on the Group's own manufacturing capability and those of our external raw material and finished product suppliers. The Group is also considering increased investment in order to modernise our own manufacturing operations, gain greater control over the end-to-end supply chain and support the future long-term growth of the Group. Infrastructure investment and the requirement to recruit and train less experienced colleagues could temporarily impact manufacturing efficiency. The Group maintains partnerships with a number of key finished product supplier partners in the Far East and Europe which account for around 65% of customer bookings. Supplier service levels could be affected by transport delays, regional disputes or pricing and availability of labour and raw materials. Our own manufacturing operations and those of our finished product suppliers could also be affected by a range of Covid-19 related impacts, unexpected price fluctuations and/or shortages of key raw materials products. Failure to meet customer or company expectations in relation to delivery dates or product proposition could lead to increased customer dissatisfaction and limit the Group's ability to maximise commercial opportunities, leading to loss of revenue and profits as well as impacting the reputation of the Group and its retail brands.	1 2 3	The Group has established a new Sales & Operations Planning function to proactively manage the end to end supply chain across the Group. Each brand has conducted a review of its supplier strategies which have been updated as required. In order to manage uncertainty during a period of disruption to prices and volumes in the container shipping industry, particularly in relation to deliveries from the Far East, the Group maintains annual shipping contracts that set out fixed pricing and capacity availability. The Group is developing its investment plans to expand the capacity and increase the efficiency of its own domestic manufacturing operations in the medium-term. In the short-term, the Group plans to mitigate potential raw material supply disruptions by holding larger reserves of key raw materials products. **FY21 progress** – Identification of new principal risk and responsibility for its management allocated to Group COO – Establishment of new Sales & Operations Planning function; new supply chain mitigation initiatives – Development of medium-term investment plans to expand capacity	**New addition**

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Business continuity and resilience As illustrated by the Covid-19 pandemic, the Group faces the risk of disruption to its operations from a wide range of unpredictable domestic and international events. These risks can range from smaller localised disruptions impacting systems or operations at individual sites to major incidents affecting the whole Group for an extended period. Events and situations requiring the temporary closure of some or all of the Group's showrooms, websites, manufacturing teams and customer delivery operations may result in loss or delay of revenue and cash. The business may also incur additional costs, either directly or as a consequence of the disruption impacting operational efficiency. Introduced as a principal risk in the FY20 annual report, business continuity and resilience remains one of the significant risks facing the Group due to the wide-ranging and unpredictable nature of external events and their potential impact on the Group.	1 2 3	The Group maintains detailed business continuity plans to manage a range of potential disruptions. Continuity plans were invoked in FY20 in response to the Covid-19 pandemic and remained in place during FY21. The experience gained during periods of remote working during the pandemic has been built on in order to provide further agility and resilience for the future. Cyber risk is considered a distinct principal risk for the Group in its own right (see page 40). However, IT systems are also regularly reviewed in order to ensure that they are able to support the Group in the event of a disruption to operations. The Group maintains a comprehensive overview of its cost base and commitments and communicates regularly with key stakeholder groups including employees, investors, suppliers, landlords and regulators. This supports a cooperative and dynamic approach to managing cash and liquidity in the event of severe disruption to trading, as successfully demonstrated during FY20, when financial resilience was increased by a share placing, a temporary extension to the Group's banking facility and a temporary rescheduling of rent and supplier payments. The Group regularly reviews its capital requirements in order to provide sufficient flexibility and resilience to manage disruption to its operations. **FY21 progress** – Formal business continuity plans updated during the year – Development of a hybrid working model and supporting infrastructure to facilitate a combination of remote and on-site working – Continued monitoring of Group's Covid-19 safety procedures	Unchanged

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase   Unchanged   Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Cyber The Group's operations depend upon the continued availability and integrity of its IT systems, including the security of customer and other data held by the Group, and risk of attacks is ever increasing. Increased levels of remote working during the Covid-19 pandemic have increased the Group's reliance on its IT infrastructure. The Group's IT infrastructure and websites are a key component of its omnichannel proposition and its strategic objective to lead sofa retailing in the digital age. A failure to review and innovate in this competitive area could impact achievement of the Group's growth plans. Effective operational systems supporting supply chain, customer delivery, call-handling and the processing of financial transactions are essential to the delivery of a good customer experience. We also rely on a number of key systems to support timely reporting on operational performance. Delays or errors could result in increased costs or lost revenue. Reflecting the Group's increased reliance on IT infrastructure during the pandemic, including the continued success of the Group's online retail proposition, Cyber risk remains one of the Group's more significant principal risks.	1 2 3	Full IT security backup and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated. A full external review of the Group's cyber security was conducted in June 2021, including critical risk assessments in each business area, and identified improvement opportunities were incorporated into the FY22 plan. Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated, including through external audit, which is also reported to the Board. Third party penetration testing is carried out routinely to check the resilience of the Group's systems to cyber-attack. A colleague cyber awareness programme is also in place. The Group continues to make substantial investment in both website development and digital marketing to maintain its market-leading position. An established team of experienced staff in this field is supported with ongoing relationships with external partners. The Group engages with independent third parties to actively monitor both customer satisfaction with its digital services and the emergence of new online competitors. IT systems are regularly reviewed and upgraded to ensure they continue to support the needs of the Group, and the conclusions of reviews are discussed and challenged by the Board. **FY21 progress** – Full external review of the Group's cyber security conducted in June 2021 – Implementation of Alert Logic Security Operations Centre to proactively identify and neutralise cyber attacks – Mandatory Cyber Security Awareness training for relevant colleagues	Unchanged

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Consumer proposition and industry competition Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of the business. Increased customer concerns, falls in actual product quality or poor customer service could have a negative effect on the reputation of our brands, leading to loss of revenue and profits. The Covid-19 pandemic and resultant forced closures of physical retail space has led to a further increase in the propensity for customers to interact online, favouring larger omnichannel or online furniture specialists and general merchandise retailers. While management believes the combination of digital and physical is the right long-term approach to service customers in the sofa retail market, a failure to predict changes in customer tastes or to respond to the impact of changes in the competitive environment could reduce the Group's revenues, and profitability.	1 2 3	Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value, meet the right quality and sustainability standards and are supported by excellent customer service, in order to enhance the Group's market-leading position. Our in-house design teams enable reaction to emerging trends and new entrants to the market. External design partners are also incentivised to generate new product concepts on a regular basis. The Group regularly holds innovation working sessions focused on both product and service areas, with relevant Board members joining the senior leadership in participating in these. Through our internal manufacturing knowledge and close supplier relationships, we are able to identify and address any quality issues that emerge. We also have good data and insight building on our Net Promoter Score framework that allows product level analysis of potential issues. Our made-to-order model allows identified improvements to be rapidly effected. As noted in the ESG principal risk section and elsewhere in our Sustainability Report, the Group has developed a detailed ESG strategy, and aims to lead on the environmental risks and opportunities that exist in our industry and convert these into a source of competitive advantage. The Group has performed well online and in its showrooms during the financial year, benefiting from management expertise and a long-term track record of investment in its integrated retail business model across the entire platform. We track our total and online market share performance using a variety of internal and external benchmarks. The Group's focus on customer care, quality and service is underpinned by our established use of Net Promoter Score ("NPS") at all touch points of the consumer journey. Colleagues across the business are directly incentivised on NPS scores to reinforce customer-focused behaviours. The Group has raised the importance of this principal risk in the financial year to reflect the structural changes in the furniture retailing market during the pandemic which have favoured larger integrated and online business models over more traditional furniture specialists. **FY21 progress** – Continued introduction of new ranges & partnerships to widen appeal (e.g. Boxit and Paloma Faith Home) – New ESG-led products have been launched with positive initial feedback across the Group (e.g. Grand Designs and Loop)	Increase

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase · Unchanged · Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Regulatory The Group is subject to increasing levels of compliance requirements in many of its activities from regulatory and other authorities including; the Financial Conduct Authority for its consumer finance offering, the Information Commissioner's Office in regards to data protection and Health and Safety Executive and local authorities for the health and safety of its colleagues and customers. The Group also generates income from product aftercare insurance. Changes to the regulatory environment surrounding product warranty insurance could impact the sales of these products, which currently account for a mid-teens percentage share of Group gross profits. Changes in other legislation which may have significant retrospective or future economic effects could also impact operating results. Since the onset of the pandemic in the United Kingdom, the Group has been required to adhere to detailed Government operational guidelines and restrictions to contain the spread of Covid-19. Failure to meet our regulatory obligations, or provide a safe environment for our colleagues and customers, could result in significant financial impacts and/or reputational damage.	1 2 3	Comprehensive training and monitoring programmes (including individual NPS, internal audits and mystery shoppers) are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Group Leadership Team Governance, Risk and Compliance Committee is in place supported by a number of sub-committees, which includes a committee focussing primarily on regulatory areas and conduct risks, and Health and Safety. The Committee monitors management information and reviews processes and procedures to ensure our customers are treated fairly. This includes rigorous oversight and escalation processes to maintain the status of limited permission to offer consumer finance granted by the FCA. The Committee also reviews the regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation. The CFO and the Director of Risk and Internal Audit attend these Committee meetings and are responsible for ensuring that relevant matters are also escalated to the Audit Committee for consideration. The Group continues to place significant focus on maintaining its compliance with data protection requirements and has a robust set of policies supported by annual data protection training for all employees. The Group has a compliance framework that ensures ongoing review and monitoring; a review of the Group's information security by external cyber-security professionals was completed in the year. The Group also regularly reviews customer satisfaction levels with these products, working hard on regulatory compliance and proactively seeking to ensure customers derive value from their policy. The Group continues to review the pricing and cover levels of the insurance products it offers to maintain and enhance the customer value proposition. **FY21 progress** – Compliance activities separated from audit/risk and integrated with legal to give 'three lines of defence' model – Enhanced coverage and simplified pricing of aftermarket product warranties – ICFR control assessments conducted with support from external advisors	Unchanged

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase | Unchanged | Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Environmental, Social and Governance Key stakeholders, including customers, employees, investors and regulators, as well as the media, are increasingly focused on the Group's policies and management regarding Environmental, Social and Governance ("ESG") risks. A failure to manage the business in accordance with high ESG standards could expose the Group, or its key third party suppliers, to adverse financial consequences, reputational damage, and difficulties in retaining or attracting employees. Failure to adapt to growing public interest in social and environmental concerns may deter customers or demotivate colleagues. As a UK premium listed company, the Group is required to make Task Force on Climate-related Financial Disclosures ("TCFD") disclosures in its FY22 annual report.	1 3	We have made significant progress on our ESG approach and reporting process since the Group launched its new ESG Strategy in September 2020. Our key focus last year was predominantly on sustainability and gender equality. We introduced a range of initiatives linked to 'The Sofa Cycle' Foundation framework and the Group's carbon footprint. The Group's Phase 1 targets included specific targets in relation to wood and leather sourcing, packaging, carbon reduction and increased female representation. During the year we have further developed our sustainability strategy introducing Phase 2 targets, extending and advancing our wood and leather targets and introducing targets for textiles. Additionally the Group has signed up to the BRC Climate Action Roadmap and its commitment to achieving net zero by 2040. In order to achieve this we will be working with a third party specialist to understand our Scope 3 emissions and set a carbon reduction strategy aligned to science-based targets. It is our aim to have these targets in place for our FY22 reporting cycle. We held our inaugural ESG Supplier Conference in Spring 2021 to set out our vision, mission and initial ESG requirements with our supplier base. We maintain long-standing, trusted relationships with our suppliers and we intend to bring our suppliers with us on our Sustainability journey. Track Record Global ("TRG") has been retained as our audit partner to help ensure we have transparency and traceability within our manufacturing supply chain. The scope of their work includes timber and leather due diligence and new audit protocols for Modern Slavery, in partnership with Ardea International. The Group has dedicated significant time and resources to developing its social strategy during the year. We launched our diversity and inclusion strategy in the second half of the year and have a number of initiatives to both educate our colleagues and drive change which has been led by our Inclusion Council. Our appointment to the Board of Loraine Martins OBE, an expert on inclusion, diversity and equality, will also help drive and challenge our thinking in these areas. The Group has developed a robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company, including (but not limited to) Board composition, Audit Committee structure, executive compensation and whistleblowing. With a significant and growing amount of Board time dedicated to ESG matters and recognising it is essential we have the appropriate structures in place to provide dedicated focus and governance, the Group has taken the decision to establish a Responsible and Sustainable Business Committee in FY22. We have also embedded both environmental and social elements into remuneration targets for management across the Group. To validate the focus of our ESG strategy in a developing landscape, we conducted a materiality assessment supported by a third party specialist. The topics considered have been ranked based on the relevance to the business and importance to stakeholders. We have aligned our disclosures with the United Nations Sustainable Development Goals ("UN SDGs") and have started to adopt the TCFD framework during the current year. **FY21 progress** – Responsible and Sustainable Business Committee established, ESG targets set for all Group Leadership Team members – ESG Supplier Conference in March 2021 set out expectations of manufacturing partners – Materiality assessment conducted	Decrease

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Financial risk and liquidity A downturn in the macroeconomic environment, disruption to our international supply chain, or additional uncertainty arising from the Covid-19 pandemic, may impact the Group's ability to obtain debt or equity financing. Any temporary suspension of customer deliveries, as experienced in the second half of FY20 as part of measures to contain Covid-19, may increase working capital needs for the Group with delays slowing the realisation of revenues. An increase in interest rates could increase the Group's financing costs. The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas.	1 2 3	The Group aims to maintain good working relationships with all financial counterparties and engages proactively to ensure that counterparties fairly understand the financial performance and continue to support Group activities. The Group regularly reviews its financing arrangements to ensure it has adequate funds in place and financing costs are kept to a minimum. In December 2020, the Group entered into a new three-year agreement, with two one year extension options for a £225m senior revolving credit facility with its existing syndicate of banks all continuing their involvement, but at different proportional levels of participation. Foreign exchange and interest rate risks are managed through the use of appropriate hedging arrangements in accordance with the Board approved treasury policy, with details reviewed by the Board on a regular basis. Further details on foreign exchange hedging are provided in the financial review and in the financial statements. No financial instruments are entered into for speculative purposes. The strong financial performance in FY21 and positive start to FY22 have also contributed to a reduction in financial risk. Underlying net debt and leverage is substantially reduced compared to the previous financial year end and underlying FY21 year end leverage is now within our targeted range of 0.5x to 1.0x cash EBITDA. **FY21 progress** – Refinancing of £225m revolving credit facility in December 2020 – Ongoing work on ESG standards and reporting will support access to the broadest range of funding sources – FY21 year end underlying leverage is now within our targeted range of 0.5x to 1.0x cash EBITDA	Decrease
Transformation The Group undertakes a number of significant investment or transformation projects as part of its strategy. Failure to execute transformation projects successfully could reduce the Group's operational efficiency, erode the Group's market leadership position and have a negative impact on financial performance. The Group is executing a strategy to build its platforms to support the development of the Group's retail brands, which includes transformation projects at varying stages of maturity in logistics, information technology and manufacturing. A lack of sufficient management resources or excessive complexity in the various work streams could limit the Group's ability to maximise investment opportunities. The Group makes a number of investments and acquisitions in order to unlock new growth beyond the core DFS brand. In 2017, the Group acquired Sofology in order to grow the brand's UK market share, profitability and deliver synergies for the rest of the Group. While performance since acquisition has been very positive, work relating to the brand's expansion and integration into the Group structure continues and carries some risk. Early in FY21 the Group integrated Dwell's operations into DFS to reduce operating costs. The integration of Dwell into DFS may negatively impact overall sales of Dwell products. The Group continues to develop product range opportunities beyond its core sofa retailing operations. Failure to maximise these opportunities could lead to lower than expected overall revenue and profit performance. Continued diversion of management time and ongoing disruption to the economy as a result of the Covid-19 pandemic may affect the Group's ability to deliver anticipated benefits within the original time horizon.	1 2 3	Experienced senior management have been engaged in the design and delivery of the integration and transformation plans and regular updates are given to the Board. The Group has an executive directly responsible for transformation who oversees a team of project managers engaged to drive our processes. Risk assessments are completed for all critical workstreams and have been challenged through Board and Audit Committee discussions. The Group continues to target efficiency gains by increasingly sharing Group infrastructure including logistics, central support functions, and manufacturing facilities. **FY21 progress** – Successful delivery and roll out of key in-flight transformational projects – Governance over transformation continues to remain strong, with monthly GLT reviews and regular Group Board updates – New programmes in the resource and build phase	Unchanged

Risks and uncertainties continued

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. The period assessed was the three years from 27 June 2021 as in the opinion of the Directors this reflects the longest period over which the impact of key risks can be reasonably assessed within a big-ticket retail business given the potential volatility of the trading environment.

APPROACH

The Group established a 'base case' model of financial performance over the three year assessment period which reflected prudent expectations of future customer demand and the execution of the Group's strategic plans.

The Directors then made a robust consideration of the key risks and uncertainties that could impact the future performance of the Group and the achievement of its strategic objectives, as discussed on pages 36 to 44 of this Annual Report. Particular regard was paid to the potential ongoing impact of Covid-19 and the possibility of future lockdowns resulting in the temporary closure of retail showrooms.

The primary impact of those risks which could significantly affect the future viability of the Group is a decrease in customer orders, and associated reduction in revenue. The effect of this lost revenue on profit before tax and cash was applied to the base case model using an expected 'drop through' rate, based on expected gross margins and variability of costs. The analysis considered a range of severe but plausible scenarios impacting revenue and margin, a significant reduction in customer spending, and impacts on gross margin from inflationary cost pressures.

For each scenario, sensitivity and stress-testing analysis was performed to model the impact on the Group's profitability and cash flows. The assessment considered how risks could affect the business now, and how they may develop in future.

KEY ASSUMPTIONS

The base case forecast, which is prepared on a prudent basis, assumes a modest year on year increase in customer orders for the remainder of FY22, resulting from a market share benefit arising from the recent withdrawal of competitors and the impact of the recent opening of a number of new showrooms. Thereafter low single digit growth is assumed from a combination of market volume and strategic initiatives. Revenue is expected to exceed order intake performance over the first two years of the forecast period as the current high order bank normalises.

Gross margin is based on that achieved in FY19 (used for comparison purposes due to the disruption due to Covid-19 on both FY20 and FY21), adjusted for known and expected changes to the Group's direct costs. Other costs and capital expenditure are based on FY21, adjusted for trading volumes and planned investments and benefits of strategic initiatives.

In sensitising the base case for lower revenue scenarios, the rate of drop through to profit is assumed to be consistent throughout the assessment period. Where Covid-19 necessitates the temporary closure of retail showrooms, it has been assumed that these orders are still achieved through a combination of online orders and a peak of orders following reopening, and that as experienced in the most recent two national lockdowns customer deliveries can continue while showrooms are closed.

In developing the viability assessment it has been assumed that the Group's revolving credit facility will be replaced on or before its maturity in December 2023 (at which time the facility size will be £215.0m) with a comparable facility with the same covenants.

RESULTS

The range of severe but plausible scenarios included a market decline of 5% and a further two month Covid-19 related lockdown during the winter of 2021/22. The Group maintained both covenant compliance and sufficient liquidity in all these scenarios. Based upon this assessment the Directors have confirmed that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to June 2024.

Section 172 statement

Our Section 172(1) Statement describes how the Directors, individually and collectively, acting in good faith have exercised their duties over the course of the year to promote the long-term success of the Company for the benefit of its members as a whole, and in doing so have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006.

OUR STAKEHOLDERS

We have set out some examples below of how the Directors have had regard to the matters in section 172(1)(a)–(f) when discharging their Section 172 duty and the effect on certain decisions taken by them during the year.

We have grouped our stakeholders into seven key categories. As a Board we look to balance the needs and views of all of our stakeholders, in the light of our purpose, values, culture, and strategy, to ensure all our decisions have a clear and consistent rationale. We do this through various engagement processes which help us to understand the views and needs of our stakeholder groups, and the long-term consequences of any decision made. Our stakeholders' interests are considered through direct engagement by Board members and reports and updates from members of the management team detailing the impact on stakeholders of key decisions.

The following provides an overview of the way in which the Board acted with regard to these groups when making key strategic decisions.

Our colleagues

→ See page 48

The strength of our business is built on the hard work, loyalty, and dedication of all of our colleagues. We are committed to providing everyone a positive and fulfilling working environment where "Everyone is welcome" and they can each reach their full potential.

Our customers

→ See page 49

Our purpose is to bring great design and comfort to our customers, in an affordable, responsible, and sustainable manner. We are dedicated to providing innovative, attractive, design-led, high-quality products to new and existing customers at great value.

Our suppliers

→ See page 49

Our trusted suppliers work with us to design and make our products to the highest standard, provide the showrooms through which we store, sell, and display our products and provide the other essential services we need to operate our business. Our suppliers rely on us to generate revenue and employment for them.

Our communities

→ See page 49

The communities and the wider public expect us to act in a responsible and sustainable manner, to be a good neighbour, and have a positive impact on the local areas in which we operate.

Our environment

→ See page 49

Through our Sustainability 2020-ESG strategy we work to minimise any adverse impact we might have on the environment.

Our investors

→ See page 50

We rely on our shareholders and providers of debt funding as essential sources of capital to further our business objectives. They rely on us to protect and manage their investments responsibly to generate value for them over the long term.

Our regulators

→ See page 50

We seek to enjoy a constructive and cooperative relationship with the bodies that authorise and regulate our business activities. We require all our colleagues to apply the high standards of business ethics in their business dealings.

Section 172 statement continued

CONSIDERING THE LONG-TERM IMPACT OF OUR DECISIONS

When considering an investment proposition, the Board considers the likely consequences of any decision making in the long-term. An example of this was the restructuring of our supply chain and the creation of The Sofa Delivery Company.

CASE STUDY

During FY21, the Board approved further long-term investment in The Sofa Delivery Company to improve the final mile logistics operation.

This brought together over 1,000 people and the supply chain infrastructure from our retail brands into a new business, with the aim of being a best-in-class final mile logistics business.

The Board's rationale behind the investment was to build on the existing Group model and benefit from the resulting synergies.

Specifically, the Board was aware that the decision would:

- Create shareholder value through cost savings and improved stock management;
- Provide greater control and resilience within the supply chain;
- Improve customer experience with 7 day a week delivery;
- Represent a change in working patterns for colleagues; and
- Provide the associated environmental benefits, with lower CO_2 emissions due to better utilisation of the Group's delivery vehicles.

Taking all stakeholder interests into account, the Board approved the proposal as it would most likely promote the success of the Company for the benefit of its members as a whole.

Section 172 statement continued

CONSIDERING OUR EMPLOYEES

Colleague engagement

Our colleagues and the members of our wider workforce are our most valuable asset. The Board takes active steps to ensure that their suggestions, views, and interests are captured and considered in our decision-making.

Both the CEO and CFO worked for the Group as employees for several years, before joining the Board. They each remain actively involved in the Group's day to day operations. Their knowledge of the business and active style of engagement means our Executive Directors have an acute insight into the mood, culture, and views of our colleagues, which they then report on to the Board. There are a number of formal and informal workforce engagement mechanisms in place across the Group:

– Workplace, our online web-based platform for employees facilitates ongoing, meaningful conversations between managers and teams and has helped us support our employees through the pandemic through the Health and Wellbeing programme.
– Employees are kept informed of performance and strategy through regular online and where possible, in person presentations, from members of the Group Leadership Team.
– Employee engagement surveys are undertaken regularly through our on-line tool Peakon to help us to understand how our colleagues are feeling. Recent surveys have focused on employee engagement and inclusivity.
– The Designated Non-Executive Director, the Chairman, and other members of the Board attend meetings with our employees, including our Workplace Voice Forum, as well as visiting our showrooms, factories, offices, and warehouses.
– Our use of technology, using a cloud-based system G suite allows us to accommodate most meetings and communications remotely, this helps support flexible working and enabled our colleagues to stay in touch throughout the pandemic.
– The Group People Director provides regular briefings to the Board and Remuneration Committee on employee-related matters, including engagement activities, the results of employee opinion surveys, staff retention rates, diversity, numbers and nature of whistleblowing, disciplinary and grievance procedures, learning and development activity, pay and reward including gender pay gap and HR initiatives.

The Board considers that, taken together, these arrangements deliver an effective means of ensuring the Board stays alert to the views of our colleagues and wider workforce.

CASE STUDY
During the year, we refocused our attention on reinvigorating our approach to Inclusion and Diversity.

Led by our CEO and Group People Director with support from the Board we created our Group wide Inclusivity and Diversity strategy "Everyone Welcome". As part of this we created our Inclusion Council with colleagues from across the Group, who working together developed our strategy and launched a number of initiatives to both educate our colleagues and drive change.

Diversity and inclusion are a central consideration across our business and is regularly considered by the Board. Our aim is to recruit and retain a diverse and inclusive workforce representative of our customer demographic attracting the best talent to meet agreed targets over the next four years and beyond. Working with experts in the field the Group has developed a strategy to ensure that the specific areas of the business each have the right actions in place to ensure we can achieve our aims.

CASE STUDY
Restructuring of DFS retail administration.

The significant increase in customer contacts as a consequence of both the pandemic and increased business volumes highlighted the need to develop a centralised and flexible approach to DFS retail administration, which had historically been handled by colleagues based locally throughout our showroom network.

For customers this change meant a more consistent experience with fewer contacts and a better, simpler service with the ability to scale resource during busier times using the support of our experienced third party customer contact partner.

The ability to flex resource, and share best practice, results in operating efficiencies and associated cost savings, increasing value for shareholders.

The changes created opportunities for more than half of impacted colleagues to move to new roles either in the new customer service team or other parts of the business, including other store roles or with The Sofa Delivery Company. However, around 100 colleagues were supported in leaving the Group through a programme of voluntary and compulsory redundancy.

While a difficult decision to make, the Board was satisfied that the benefits to customer experience made it worthwhile and affected colleagues received strong levels of support and compensation.

Section 172 statement continued

CASE STUDY

During lockdown our teams refurbished 16 of our showrooms to provide customers with a better experience, enabling them to touch and feel a wider range of products in a more natural home environment to help them envisage how the products could work for them in their homes.

We also completed the review of our insurance product offered by our brands Sofacare & Sofashield. The changes to these products provide new benefits for all our customers, removing exclusions relating to accidental damage caused by pets and extending the warranty cover for interiors, exteriors and mechanisms. Additionally, we simplified the pricing of the insurance product, linking it directly to the value of the customer's furniture.

CONSIDERING OUR CUSTOMERS

As a large retail business, we are focused on the needs of our customers, whether that relates to the products we design or the services we offer. The sentiment of customers can be seen in the Company's underlying sales performance figures and Customer NPS scores.

The Board seek to understand our customers' requirements through a number of different mechanisms. The Executive Directors and management teams for each of the brands provide regular updates to the Board on their perceptions of consumer sentiment and the market view.

The interests of customers are considered in Board decisions relating to showroom portfolio changes; selection of product lines including our third-party brands; the availability of customer credit products; the development of our online platform; the selection and monitoring of suppliers to ensure quality and safety standards are met; and as discussed in the case study above our final mile operations.

CONSIDERING OUR SUPPLIERS

Throughout the year the Board was briefed on major contract renegotiations and the strategy regarding key suppliers and certain landlords of the Group's premises. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers. Throughout the pandemic and the uncertainty this brought, we and our suppliers have continued to mutually benefit from the strong relationships we have fostered.

CONSIDERING THE COMMUNITY

We operate showrooms, manufacturing operations, distribution centres and head offices across c.200 locations in the UK and Ireland as well as 6 in the Netherlands and 2 in Spain providing local employment to many communities.

The Board supported policies to encourage colleagues to volunteer their time and to give back to their local communities. Whilst the pandemic has restricted some of the volunteering activities of our colleagues, many of them have still participated in volunteering days either planting trees, working with the homeless, raising money for charity and making a difference to the communities where we live and work.

CONSIDERING THE ENVIRONMENT

The Board supports the Group's ESG strategy with a view to reducing any adverse impacts on the environment and supporting the communities that it touches. The Board's commitment to tackling environmental issues can be seen through the establishment of the Responsible and Sustainable Business Committee, chaired by Alison Hutchinson, the Senior Non-Executive Director.

CASE STUDY

Ethical trading and responsible sourcing

During the year, the Board approved the 2020 Modern Slavery Statement.

www.dfscorporate.co.uk/governance/policies.

All our Suppliers are required to sign up to our Supplier Code of Conduct and to confirm that they comply with the Modern Slavery Act. To help our suppliers gain a greater understanding of our requirements and the wider environmental and social issues around ethical trading and responsible sourcing, in March 2021 we hosted our first ESG Supplier Conference.

Section 172 statement continued

CONSIDERING OUR INVESTORS

The CEO and the CFO lead on engagement with shareholders in relation to business performance via virtual roadshows following major announcements. The Chair, Senior Independent Director and Remuneration Committee chair also have regular contact with shareholders in order to ensure that the Board is aware of their expectations in respect of governance. During the year we have engaged with investors on a range of topics, including:

- The structure and design of the new Remuneration Policy being proposed to shareholders at the AGM;
- The Group's ESG strategy;
- Company performance against its strategy; and
- Extension of our banking facilities.

The Board recognises the importance of shareholder returns and carefully considers the needs of its investors in recommending a final dividend to shareholders in line with the Company's dividend policy; see page 10 for more details.

CONSIDERING OUR REGULATORS

Our subsidiary companies are regulated by the Financial Conduct Authority in respect of the provision of credit broking. As a responsible authorised group of companies, we seek always to cooperate and engage constructively with the FCA and meet its standards. The Audit Committee exercises independent oversight over the regulated Finance business that includes updates on matters under discussion with the FCA.

DFS manages its tax affairs responsibly and proactively to comply with tax legislation. The Company's approach is to seek to build solid and constructive working relationships with all tax authorities.

During the year, the Board approved the Group's 2021 Tax Strategy to comply with Schedule 19, paragraph 16(2) of the UK Finance Act 2016 published at www.dfscorporate.co.uk/governance/policies.

This policy includes a requirement that the Company engages with HMRC constructively, honestly and in a timely and professional manner, and seeks to resolve disputed matters through active and transparent engagement. The CFO provides regular updates to the Board on tax matters.

The reporting of the Group's financial results is subject to oversight by the Financial Conduct Authority ("FCA"). In preparing its annual report and accounts, the Group maintains an awareness of published FCA guidance to support the quality of its reporting, and where specific enquiries are raised seeks to engage with the regulator in a positive and constructive manner.

The Group Financial Operations Director is responsible for managing the relationships with our banking syndicate, and for the Group's cash/debt management and financing activities. The CFO provides regular reports to the Board on these activities.

S172 Statement of non-financial information

The table below sets out where the information required to be disclosed under sections 414CA and 414CB Companies Act 2006 can be found in this Annual Report.

Reporting requirement	Relevant information	Policies and Standards
The Company's employees	Section 172 Statement – Having regard to the interests of the Company's employees – page 48 Responsibility and sustainability report – page 63 to 68	– Diversity & Inclusivity Policy* – Equal Opportunities Policy – Whistleblowing Policy* – Group Health and Safety Policy
Anti-corruption and anti-bribery matters	Responsibility and sustainability report – page 70	– Group Code of Conduct* – Anti- Bribery Policy* – Supplier Code of Practice Standards* – Whistleblowing Policy*
Respect for human rights	Section 172 Statement – Modern Slavery – page 49 Responsibility and sustainability report – page 57	– Modern Slavery Policy* – Data Protection Policy – Privacy Policy*
Social matters	Section 172 Statement – page 49 Responsibility and sustainability report – page 57	– Tax Strategy*
Environmental matters	Responsibility and sustainability report – page 53 and 62 Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 49	– Environmental Policy* – Timber Sourcing Policy* – Leather policy*

* These policies can be found at www.dfscorporate.co.uk/governance/policies