DFS Furniture plc
Annual Report & Accounts 2023

LEADING THE WAY IN FURNITURE RETAIL

Affordable Sustainable Responsible

dfs sofology THE SOFA DELIVERY CO

In a challenging economic climate, the Group has continued to progress its strategy and grow market share.

OUR PURPOSE

To bring great design and comfort into every home, in an **affordable, responsible and sustainable** manner. Our customers and our people are at the heart of everything we do, and our culture is rooted in our core values.

Sustainable

Becoming a circular business
Our Sofa Cycle strategy sets out a framework for the future.

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Affordable

Choice and innovation
Through market-leading scale and service.

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Responsible

Driving change and creating value
Through well governed environmental and social targets.

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Governance report

Financial statements

HIGHLIGHTS

The Group has made good operational and strategic progress in a challenging environment as we focused on executing our strategy and continuously improving our operating platforms.

Financial highlights

Definitions and reconciliations of Alternative Performance Measures ('APMs') can be found on pages 25 to 27. Throughout this report, references to income statement measures including revenue, EBITDA[1], profit before tax, underlying profit before tax and brand amortisation[1] are in respect of continuing operations only unless otherwise stated.

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

£30.6m

FY23	£30.6m
FY22	£60.3m
FY21	£109.2m

Group revenue

£1,088.9m

FY23	£1,088.9m
FY22	£1,149.8m
FY21	£1,060.2m

Underlying earnings per share[1]

9.4p

FY23	9.4p
FY22	16.9p
FY21	36.0p

Profit before tax

£29.7m

FY23	£29.7m
FY22	£58.5m
FY21	£102.6m

Earnings per share

11.1p

FY23	11.1p
FY22	12.3p
FY21	34.5p

Operational and strategic highlights

Focus on executing our Pillars and Platforms strategy leading to record market share of 38%.[4]

Opened three new Sofology showrooms, driving additional upholstery market share gain through a proven approach.

Laid the foundations for growth in the £5bn Home market with exclusive upholstery brand partnerships expanded to bed frames and drop-ship logistics solution for beds and mattresses developed with Wincanton.

NPS scores increasing from improved operational grip and easing of supply chain crisis.

New sofa, the Gaia, created for the Circular Economy.

Investment in colleagues' learning and development with high attendance at our leadership development academies, driver school and data apprenticeship programs.

Post purchase NPS[2]

91.3%

FY23	91.3%
FY22	86.3%
FY21	86.4%

Established customer NPS[2]

18.6%

FY23	18.6%
FY22	11.7%
FY21	30.7%

1. Refer to pages 25 to 27 for APM definitions.
2. Net Promotor Scores for the DFS brand.
3. Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.
4. Sources: GlobalData and proprietary Barclaycard data.

PURPOSE DRIVEN APPROACH

OUR PURPOSE

Our Purpose is to bring great design and comfort into every home, in an affordable, responsible and sustainable manner. Our customers and our people are at the heart of everything we do, and our culture is rooted in our core values.

CULTURE AND VALUES

Our values run through everything we do. They guide our actions to create a sustainable and responsible business.

Think customer

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

Be real

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

Aim high

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

RESPONSIBILITY AND SUSTAINABILITY

As our Group purpose states, we want to bring great design and comfort into every living room.

But we want to do it in an affordable, responsible and sustainable manner. This means making sure our business is built on the right ethical foundations to ensure that, with our sofas, people feel more comfortable – in every way.

See **page 39** for more information on responsibility and sustainability at DFS

OUR STAKEHOLDERS

Committed to building a sustainable business model for:

- Colleagues
- Customers
- Suppliers
- Communities
- Environment
- Investors
- Regulators

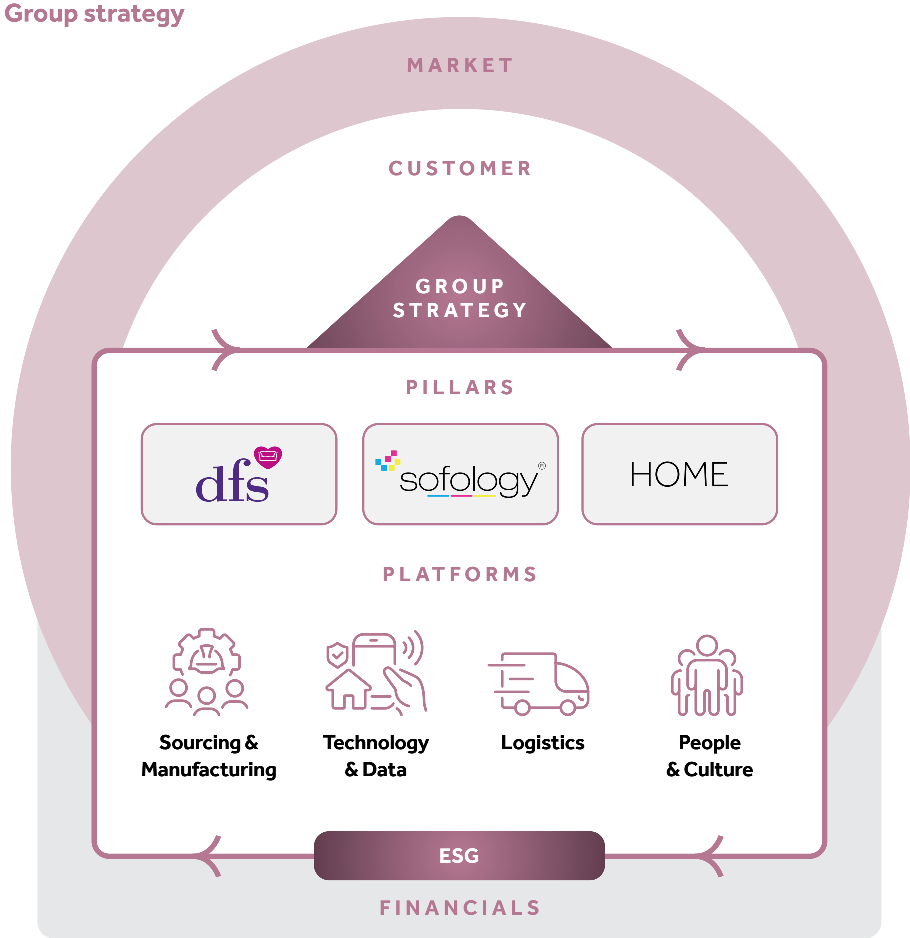
See **page 36** for more information on how we consider and engage with our stakeholders

OUR STRATEGY FOR GROWTH

Our vision is to lead furniture retailing in the digital age.

Our strategy is made up of the three pillars of our business: Our DFS brand, our Sofology brand, and our expansion into the Home market. The growth of our three pillars will be enabled by our Group enabling platforms: Technology and Data, Logistics, Sourcing and Manufacturing, and People and Culture.

Group strategy



See **page 17** for more information on our strategy

Strategic report

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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 6**

AT A GLANCE CONTINUED

We are the leading sofa retailing group in the UK – we operate across two retail 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 117 showrooms in the UK and Republic of Ireland, 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 million unique visitors each month in the 12 months to June 2023.

The majority of sofa orders are fulfilled on a made-to-order basis.

FY23 brand revenue (including Dwell)

£858.5m

FY23 number of showrooms

117

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

COUNTRY LIVING sofas exclusively at dfs

Joules sofas exclusively at dfs

ICONICA sofas exclusively at dfs

FRENCH CONNECTION sofas exclusively at dfs

HouseBeautiful sofas exclusively at dfs

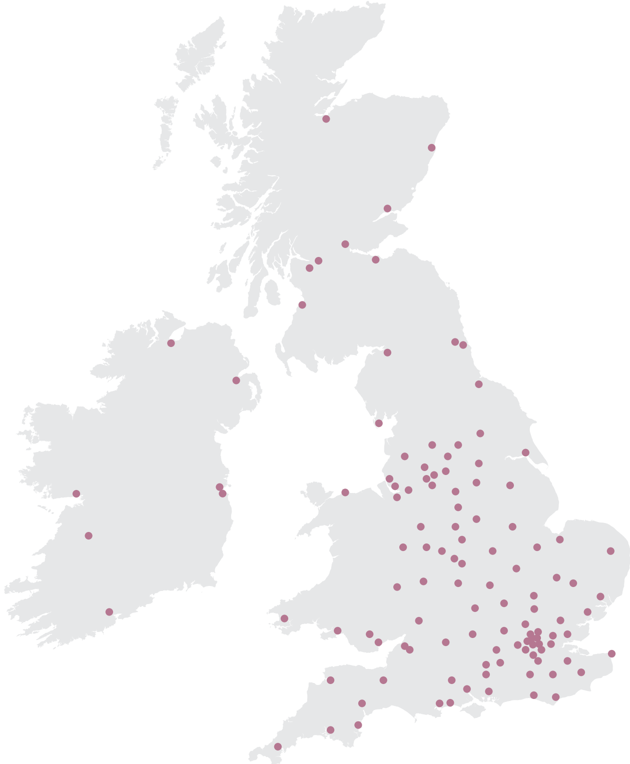
PLATINUM EXCLUSIVELY AT DFS

GRAND DESIGNS EXCLUSIVELY AT DFS

Cath Kidston EXCLUSIVELY AT DFS

dfs storeaway

dfs VEGAN



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 58 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.

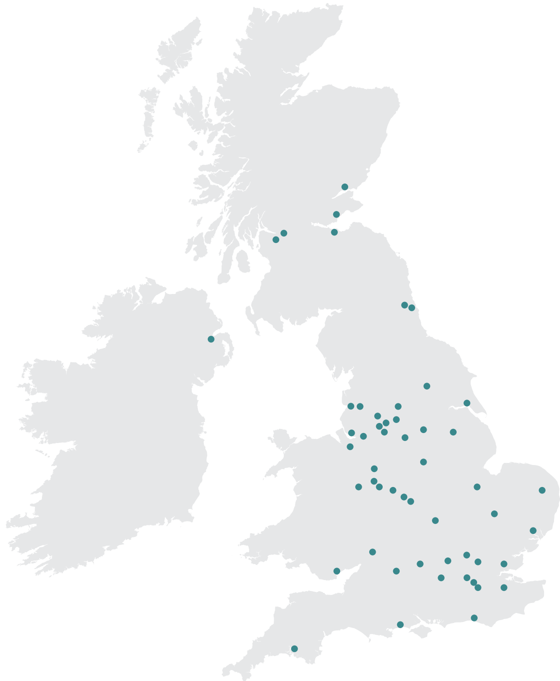
Its sofa orders are fulfilled on a made-to-order basis.

FY23 number of showrooms

58

FY23 brand revenue

£230.4m



THE SOFA DELIVERY Co

Our Group-wide logistics platform is one of several key infrastructure components supporting our retail brands.

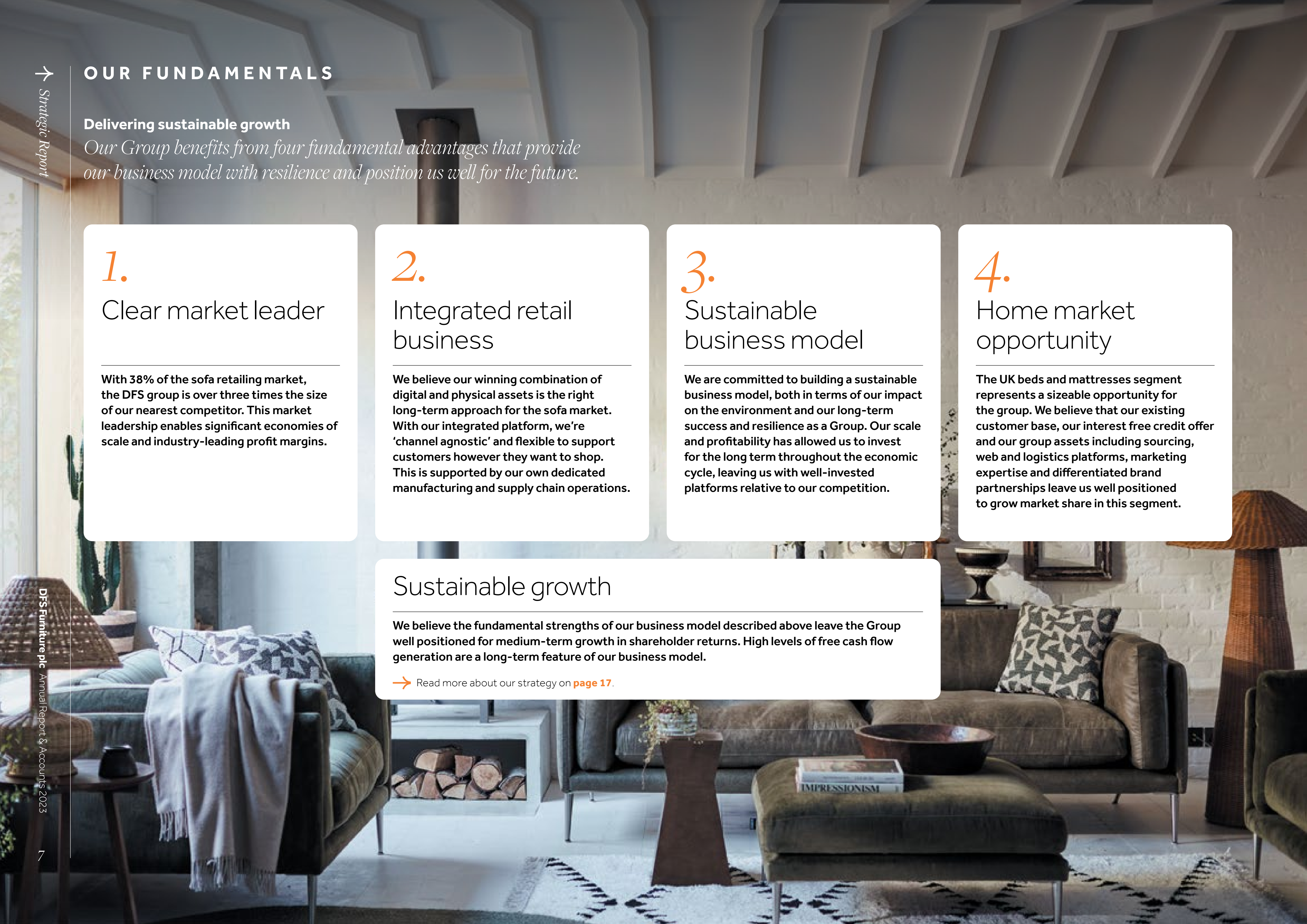
The Sofa Delivery Company also plays an important role in achieving the Group's environmental targets in relation to emissions, waste and recycling.

Offering extended hours delivery to our customers seven days a week, virtually all year round.

Delivery vehicles

276

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.

1. Clear market leader

With 38% 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.

2. Integrated retail business

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

3. 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.

4. Home market opportunity

The UK beds and mattresses segment represents a sizeable opportunity for the group. We believe that our existing customer base, our interest free credit offer and our group assets including sourcing, web and logistics platforms, marketing expertise and differentiated brand partnerships leave us well positioned to grow market share in this segment.

Sustainable growth

We believe the fundamental strengths of our business model described above 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 17**.

CHAIR'S STATEMENT

Growing market share in a challenging year

The year to June 2023 has been marked by an uncertain and disrupted external environment, with the continuing impact of the conflict in Ukraine, global inflationary pressures, and the move away from the extremely low level of interest rates seen over the last ten years all weighing on UK consumers.

This external backdrop has meant another incredibly challenging year for the Group, with the business constantly balancing the need to invest in the assets and resources to support future growth with caution given current market volatility. I am delighted to be able to report that, as always, no matter how big the challenge, our colleagues across the Group have responded with skill and enthusiasm to ensure that the business continues to deliver a positive experience for all our customers. The success of the Group in growing its market share to record levels is testament to the operational excellence within the business along with the strong affinity our brands have developed with our customers.

Financial results

FY23 was a year of significant challenge due to the weak economic backdrop. Despite consumer demand being impacted by the macroeconomic environment, the business has extended its long history of growing market share which increased to 38%. This growth in market share has been underpinned by the Group's leading brands, scale and well invested integrated retail proposition and the Group expects to continue to outperform a declining market in FY24.

IN BRIEF

- Appointment of a new Chair
- Recruitment of a new CFO
- Appointment of a new Chair of the Remuneration Committee
- Completion of a £250m refinancing of the Group

STEVE JOHNSON
Chair of the Board
Bio on **page 63**

Despite the challenging market environment we are confident that the Group's long-term value generation ambition remains unchanged. Further growth in market share and carefully managing the cost base will deliver a return to growth in profit and the potential for significant value creation through share price appreciation and capital returns.

Board and Governance
This has been a year of significant change at Board level, but we believe that both the external Board appointments and the internal promotions have further enhanced and reinvigorated the Group's capability and talent.

Ian Durant had indicated to the Board a wish to retire at the AGM in November 2022 and after a robust, externally led search I was delighted to accept the opportunity to Chair the Board. On behalf of the Board I would like to thank Ian for his invaluable contribution to the business over the last six years. Under his leadership the DFS Group achieved substantial growth and successfully navigated the challenges the business faced during the last few years first with the pandemic and then the cost of living crisis. We all wish Ian well for the future.

In November 2022 we were pleased to announce the appointment of John Fallon as Chief Financial Officer (CFO). John is an accomplished finance leader who brings a wealth of retail experience to the Group, all of which will be hugely beneficial as we work to achieve our strategic aims and drive profit through growing market share and closely managing our cost base.

In March 2023 we announced the appointment of Gill Barr to the Board as a Non-Executive Director and Chair of the Remuneration Committee. Gill has wide experience in retail, consumer, and logistics both as an executive and Non-Executive Director, including as a seasoned Remuneration Chair, and I am looking forward to working closely with her.

Jane Bednall decided to step down from the Board at the end of the financial year. My thanks go to Jane for her contribution during her time with the business and I wish her the best for her future ventures. I am delighted that Loraine Martins has agreed to take over Jane's responsibilities as the Designated Non-Executive director representing the views of the wider workforce.

I would like to thank my Board colleagues and the Group Leadership Team for their commitment and support over the last year. The Nomination Committee section of this report on page 76 provides further details.

One of my key responsibilities as the Chair is to set the tone for our Group and ensure good governance. As a Board we continue to work closely with the Group Leadership Team to maintain oversight of the strategic, operational and compliance risks across the Group, to help to shape our strategy and uphold the standards expected of us. The Corporate Governance report (see pages 65 to 70) sets out our approach to ensuring good governance and provides details of this year's activities.

People
Our people live our values, they are dedicated and loyal and put our customers and each other at the heart of everything they do. They are committed to delivering the highest level of customer service and to collaborating closely with our suppliers and the local communities we operate in, wherever they are. We rely on their skills, experience, competence, agility, and drive to take our business forward. For all this we thank our colleagues. We will continue to support their efforts, to help them develop and grow their careers in ways that benefit both them and the business. One great example of how we support our colleagues and provide them with new opportunities can be found at page 43 where we provide details of the work of our Driver Training School.

Strategy
As previously announced, the Group decided in 2022 to simplify its structure and close its operations in Spain and the Netherlands. This work was completed in the Autumn of 2022. Since then, the Group has made good progress in refocusing the business on our DFS and Sofology brands and The Sofa Delivery Company. Continuing to improve productivity across our operations is key to better supporting our customers and to carefully managing our cost base in light of ongoing inflationary pressures. To this end, a full review of the Group's operating cost base has been undertaken, led by the new CFO, with support from the Group Leadership Team and external advisers. As a result of this review and given the significant cost increases facing UK manufacturing, we are currently working to consolidate our UK manufacturing base and are consulting with colleagues on the proposed closure of our smallest factory and the wood mill that supplies it. As part of that process we are working with those colleagues who are impacted to identify alternative opportunities for them at our other manufacturing sites and within the wider Group.

As the market leader, we have always believed that long term sustainable growth can only be achieved by being aware of the impact our activities can have on the wider society and understanding what is important to colleagues and customers both now and in the future. Work continues on developing the Group's ESG strategy with the focus on building our relationships with our existing supplier base to develop sustainable and ethical products and to drive a more circular product lifecycle. During the year Sofology launched the Gaia, our first fully circular range. As a Board we are keen to continue to show leadership in this area and to be judged by our performance, including through our approach to executive pay. In FY23 we included ESG measures in our annual bonus and, from FY24, ESG targets will be included in our Long-Term Incentive Plan performance measures. Our ESG commitments and progress are discussed in detail on pages 39 to 61.

Capital structure and returns
Having reviewed our approach to dividends and having published an updated Capital and Distribution policy in March 2023, the Board is recommending a final dividend of 3.0 pence per share (2022: 3.7p), giving a total ordinary dividend for the year of 4.5p (2022: 7.4p).

I am pleased to announce that since the year end the Group has successfully completed a £250m refinancing. The facility is a combination of a £200m Revolving Credit Facility, provided by members of the previous banking syndicate and £50m of US private placement notes.

Looking Forward
The Board remains mindful of the impact on consumers of the uncertain macroeconomic environment that resulted in the upholstered furniture market being 15% below pre-pandemic levels, and we expect a mid-single digit year on year market decline in FY24. Despite this the Group's financial and operational position is robust. Our market share continues to grow, driven by our operational excellence, and the Group Leadership Team is focused on robustly managing our margins and cost base, supporting our customers, and collaborating with our suppliers to bring the best possible products to the market, whilst remaining alert and agile to deal with the unexpected. The Board is confident that this approach will allow the Group to create a solid base for long-term cash generation and attractive returns to shareholders once the market returns to a more stable trading environment.

STEVE JOHNSON
Chair of the Board
21 September 2023

Group revenue
£1,088.9m

Underlying profit before tax and brand amortisation[1]
£30.6m

1. Refer to pages 25 to 27 for definitions of APMs.

Profit before tax
£29.7m

CHIEF EXECUTIVE'S REPORT

Strategic progress in a challenging environment

The Group has made good progress strategically and operationally throughout the year as we focused on executing our growth strategy and continuously improving our operating platforms. We have continued our long term track record of growing our market share in the UK upholstery sector with a significant 2% pts step up in the period, taking the Group's value share of the upholstery market to a record high of 38%. This has been achieved whilst rebuilding our gross margin rate back towards historical levels. We have also seen a step change in our customer experience scores through improved operational grip and the easing of the external supply chain crisis.

This progress has been made against a backdrop of a very challenging market environment with high levels of cost inflation and significant increases in interest rates. The combined impact of these macroeconomic factors reduced consumer confidence levels, which have remained at or close to record lows and reduced consumer real disposable income levels. Consequently the UK upholstery market has been under significant pressure and we estimate that market order volumes were down 15% or more relative to pre-pandemic levels. In addition, like most other businesses, we have had to tackle high levels of input cost inflation. As expected, we have seen improved efficiency in our operating platforms following historical investments and these, alongside careful management of our operating costs and selective retail price increases have helped to mitigate these cost headwinds.

IN BRIEF

- Continuing to win share in a very tough market, extending market leadership with 2% pts share gain to a record 38% of the UK upholstery market
- Brands continue to evolve: DFS range continues to broaden appeal to wider customer base; further three Sofology showrooms opened taking the total to 58 (38 at acquisition)
- Continue to strengthen the foundations for growth in the £3bn beds and mattresses market with drop-ship delivery solution launched and exclusive brand partnerships extended to bed ranges, driving online sales up 69% year on year
- Operationally in the strongest position since the pandemic, reflected in customer experience scores with supply chains, order banks and customer lead times all fully back to normal

TIM STACEY
Chief Executive Officer
→ Bio on **page 63**

CHIEF EXECUTIVE'S REPORT CONTINUED

Despite the weaker than anticipated market environment the Group's underlying profit before tax and brand amortisation[1] performance of £30.6m was within the range we had guided to when we reported our interim results. In what we expect to be a challenging trading environment for at least the next financial year we are continuing to focus on executing our strategy, developing our customer propositions and adapting our cost base to bolster profitability in this period of subdued demand whilst ensuring we are well placed for the long term.

Market update
Proprietary data that we have access to indicates the upholstery market has been in significant decline in FY23 with market order volumes down 15% or more relative to the pre-pandemic period. Demand across the period was also volatile with weaker demand more pronounced in the first and final quarters of the year. As a result of the low demand in the final quarter, profits were constrained to the lower end of the range we had guided to.

Over the period as a whole the Group outperformed the market, growing its share by 2% pts across the year to a record level of 38% as tracked by GlobalData and our proprietary Barclaycard data. Market share was picked up predominantly from the independent and pure play competitors which now represents 26% of the market. We anticipate that this competitor set will continue to decline, providing opportunity for further market share growth for the Group.

With the cost of living crisis lingering on and consumers now also being impacted by higher property costs, we anticipate that market demand will drop further in FY24 before we start to see a recovery to pre-pandemic levels. We do however expect to continue our track record of growing market share underpinned by the Group's leading brands, scale and well invested integrated retail proposition.

Reflections on FY23 financial performance
Stepping back, when I consider FY23 as a whole, the fact that profits were delivered within our guided range despite the tougher than expected trading conditions our market faced is testament to the relative strength of our brands and our operational agility.

The reported profit before tax of £29.7m and underlying profit before tax and brand amortisation[1] of £30.6m however is a low point for the Group (outside the Covid lockdown impacted FY20 period) and reflective of a very weak market and high levels of input cost inflation. These headwinds were mitigated, to an extent, by the market share gains we achieved, gross margin rate improvement, effective operating cost management and the benefit of a high opening order bank that unwound in the period.

Our plan to recover gross margin rates to pre-pandemic levels of c.58% is making progress. Since FY22 where a margin rate of 51.9% was recorded we have seen steady improvement to 53.8% in H1 FY23 and 55.0% in H2 FY23 with the exit rate for the year being higher.

We anticipate that the margin rate will improve further through FY24 as we target an exit rate approaching 58% supported by the full year benefit of reduced Far East shipping rates (which have now returned to pre-pandemic levels), retail price increases implemented in March 2023, raw material input costs that are now reducing and improved sourcing strategies which I elaborate on further below. These will more than offset a headwind from Bank of England base rate increases that result in higher costs for providing our interest free credit (IFC) proposition. We took the decision to alter our IFC proposition in March to mitigate the cost increase by reducing the maximum credit term from 48 months to 36 months and our proposition still remains industry leading.

Led by our new CFO, John Fallon, and supported by external advisors we have carried out a full review of the operating cost base. A number of quick win opportunities have been enacted to date and the Group Leadership Team are each taking ownership to deliver projects which will drive multi-year cost improvements, starting in FY24, through operating more efficiently and effectively. More detail can be found in John's CFO report.

Strategic update
Our vision is to lead furniture retailing in the digital age. To achieve this vision our strategy is to profitably and sustainably grow our core upholstery brands across both our physical and online propositions and also our share of the £5bn non upholstery Home market. This growth is based on utilising and enhancing our enabling platforms; technology and data, logistics, sourcing and manufacturing, and people and culture.

Our brands
Our two retail brands, DFS and Sofology, have both performed relatively well in the period, each growing their market share.

During the year the DFS brand performed well, extending its leadership position as the largest UK upholstery retailer through focusing on the customer experience and expanding its proposition to appeal to a wider audience. Utilising our customer and marketing segmentation data the brand developed and launched ranges to appeal more to customer segments where we were under indexing. We've seen the benefits coming through via increased conversion rates and increases in our average order values.

Our new store format initiative has progressed well in the year with 11 DFS showroom refurbishments taking place. We have now refurbished our 58 top priority showrooms over the last four years and payback periods for the more recent investments remain strong at under two years.

During the year we opened three new Sofology showrooms, bringing the total to 58 (from 38 showrooms at acquisition). The new showrooms are performing well and the average return on investment of recent stores trading over 12 months is over 65%. We continue to see opportunities for a total of 65-70 showrooms across the UK and Ireland for the brand. The new leadership team at Sofology has also refined and developed a new three-year growth plan called 'Drive to 25' that has been approved by the Board and launched internally and which builds on the recent progress on performance and customer satisfaction. The ambition is for Sofology to become the UK's number 2 sofa retailer, behind DFS.

NPS performances across DFS and Sofology have improved through FY23 following a decline across the pandemic. This decline was driven by lead time delays due to factory lockdowns, global logistics challenges, raw material shortages and a drop in customer service levels driven by high levels of demand. We have since invested to improve our customer service levels which have contributed to DFS's established customer satisfaction NPS improving from 12 in FY22 to 19 in FY23 and in Sofology, which was materially impacted by Covid disruption, from -49 to -6 and we expect the improving trend to continue through FY24.

Both brands continue to build and strengthen their integrated retail business models, enabling our customers to shop seamlessly across all channels, online, in store and at every stage of their journey: from early-stage researching, to advice and support across their purchase decisions through to delivery, installation and after-sales support.

The home market opportunity
We have made good progress in laying the foundations to support the Group's growth in the £5bn Home market and are seeing early signs of success through increased sales levels.

We are targeting the £3bn beds and mattresses market first and have expanded our exclusive brand partnerships in the upholstery market with high quality brands such as French Connection, Grand Designs and Joules to cover bed frames. We have targeted sales of our ranges through our online channels and through dedicated spaces in a select number of showrooms. To fulfil these orders we have developed a drop-ship solution for beds and mattresses with Wincanton which went live in January of this year. Our beds and mattresses online sales have been in line with our expectations, up 69% year on year.

Our supporting platforms
Sourcing & Manufacturing: To support the gross margin improvements discussed above we have reviewed the relative end to end cost of sourcing products across our supplier base, including from potential new suppliers in alternative geographies. This review covered the cost of producing and shipping products along with risk and quality considerations and ESG matters such as suppliers' ability to align with our raw material sourcing requirements and ethical working practices.

1. Refer to pages 25 to 27 for definitions of APMs.

CHIEF EXECUTIVE'S REPORT CONTINUED

Following investment in our larger UK sites in recent years, we have determined that the Group will benefit from consolidating its UK manufacturing operations. As a result, in early September 2023 we commenced a consultation with our colleagues employed at our smallest manufacturing site and one of our wood mills. As part of that process we are working with colleagues to identify opportunities at our other manufacturing sites and within the wider Group if that becomes necessary.

We are continuing to build good relationships with partners internationally and there are opportunities to optimise our global supplier mix.

Data and technology: Data-backed decision making and utilisation of technology to support efficient operations across the business remains a critical enabler in supporting the Group's continued market share growth and driving bottom line profitability.

We are making good progress in developing our customer data platform that brings together data from a myriad of systems across the Group to provide a detailed customer view. Examples of where we are utilising this include multiple touchpoints from the initial purchase through to the delivery experience, where we are able to support and guide each customer, with timely communications that are personalised to their unique journey. We are also developing our Intelligent Lending Platform used by DFS to be used by our Sofology brand. This increases the likelihood of customers obtaining the interest free credit that meets their requirements and speeds up the process of completing orders enabling increased conversion rates at times of high demand.

To help ensure our colleagues utilise the data that is available we have launched a data apprenticeship programme. Starting with the Sofa Delivery Company we have 40 people enrolled on the course which is run in conjunction with a third party. Over the 13 month course our colleagues are developing their skills to utilise and transform data into insights to drive appropriate action.

Logistics: Following the formation of the Sofa Delivery Company in June 2021 that brought together the logistics functions of our two brands we now deliver all the Group's sofa sales through the same systems and physical infrastructure. Scale benefits are now being realised as a result of improved fleet utilisation, van fill and labour productivity. As part of this process, through the year we have also rationalised the number of distribution centres we operate from which will drive further savings over the short to medium term as a result of lower property costs.

People: Our colleagues are fundamental to the success of the Group. Looking after their wellbeing as well as their personal development has been a key focus in FY23. In what is a challenging time for many, given the cost of living crisis, our 'winter wise' support scheme was designed to support colleagues in a number of ways, for example through thank you vouchers at Christmas that could be used at a number of retail stores and access to a discounted health care scheme available to all employees. We have also seen 140 colleagues attend our leadership academies – these are targeted at middle management to provide the skills to develop into future leaders. Our sustainability report has further details on how we are supporting and developing our colleagues.

Sustainability

We have a dedicated section of our annual report that covers sustainability in detail set out on pages 39 to 61. The key elements I want to highlight here are in relation to: culture and governance; where we are on our net zero journey; and employee development.

The Group is guided by our purpose to bring great design and comfort into every home in an affordable, responsible and sustainable manner and has pledged to achieve net zero by 2040.

In the previous financial year we completed the model to capture our full carbon footprint. Like many other businesses, the majority of our carbon footprint sits within our scope 3 emissions (c.90%). Throughout this year a significant amount of progress has been made in developing our carbon reduction roadmap and we are on track to submit science based targets to the SBTI for approval by June 2024. We have developed a number of policies and targets to help reduce our impact on the environment covering key elements of the materials that make up the sofas we sell, for example leather, textiles and timber. Details, including the progress we are making on these alongside our other environmental and diversity and inclusion targets can be found in the Responsibility and Sustainability report.

A sustainability mindset is now fully embedded across the business and our sustainability and responsibility champions have proved to be a real driving force in developing ideas and initiatives, cultivating a diverse and open environment for all our colleagues from the ground up. We have a well-developed and effective governance structure (see page 60). This helps ensure we have a clear strategy, act with integrity and with transparency and hear a wide range of views with committee members representing all areas of our business.

Colleague wellbeing and development is very important to the Group to nurture and retain talent. One specific example that I am very proud of is the Sofa Delivery Company Driver School. This was launched late in the previous financial year and to date we have had nearly 70 colleagues graduate. The driver school provides career progression and improved pay for our colleagues, principally warehouse operatives and 3.5T drivers by funding their training to become 7.5T HGV drivers whilst addressing a business issue of recruiting this role given the competitive labour market.

Outlook

As mentioned above, upholstery market volumes are down 15% relative to pre-pandemic levels. We expect a further decline in the upholstery market order volumes in FY24 before they start to recover given the ongoing pressures on the consumer.

Based on all the data points we can see, our baseline assumption is that the market will decline by a further 5% in volume terms in FY24, with the Group continuing to outperform the market leveraging the strength of our brands, operating platforms and scale. Despite the continued pressure on revenues, we are targeting a modest year-on-year increase in underlying profit before tax and brand amortisation[1] supported by the continued delivery of our gross margin improvement plan and operating cost savings.

Following a mid-single digit year on year decline in the final quarter of FY23 in part linked to the hot weather, across the FY24 period to date order intake has strengthened back into positive growth in line with our expectations and helped by the expected opportunity from weaker prior year comparatives.

Conclusion

I want to sincerely thank our colleagues for their truly outstanding and consistently high level of determination and dedication to deliver at their best for the Group and for their help in getting us to the strongest position we have ever been in terms of market share.

The Group is operating in one of the toughest economic climates we have experienced. Whilst we are confident the upholstery market will recover, forecasting the specific timing and pace of the recovery is challenging.

We do, however, expect to generate a modest year-on-year increase in profit before tax in FY24 despite a relatively weak market in which we expect volumes will continue to decline across the next 12 months. Looking to the future as market volumes recover, we remain confident in achieving the financial performance set out at our Capital Markets Day in 2022 of £1.4bn of revenues at an 8% PBT.

TIM STACEY
Chief Executive Officer
21 September 2023

1. Refer to pages 25 to 27 for definitions of APMs.

MARKET OVERVIEW

We are the leading sofa retailer in the digital age

The Group has continued its long term track record of market share growth achieving a record 38% in FY23.

Large potential customer base
The DFS Group has a specialist focus on the retail upholstered furniture segment. The UK upholstery furniture market was estimated by GlobalData to be valued at £3.4bn (incl. VAT) in the calendar year 2022. As a Group, we view the beds and mattresses segment as a key opportunity increasing our Total Addressable Market ('TAM') by approximately £3bn.

Clear leader in the segment
The Group, through its DFS and Sofology and brands, is the clear leader in the upholstered furniture market, with 38%[1] market share by value in FY23. 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 Wayfair; and larger general merchandise or homeware retailers such as Amazon, Argos, Dunelm, Ikea, John Lewis, and Next.

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.

Historically, the Group has tended to gain market share during periods of market weakness as weaker multiples and independent chains have exited the market. For example, the Group's market share increased from c.19% to 24% during the 2008-2010 Global Financial Crisis impacted period (GlobalData).

Market conditions are currently challenging with the UK upholstery market seeing a reduction in volumes.

Historically, the Group has been able to grow market share during economically challenging times.

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.

1. GlobalData calendar year 2022.

MARKET OVERVIEW CONTINUED

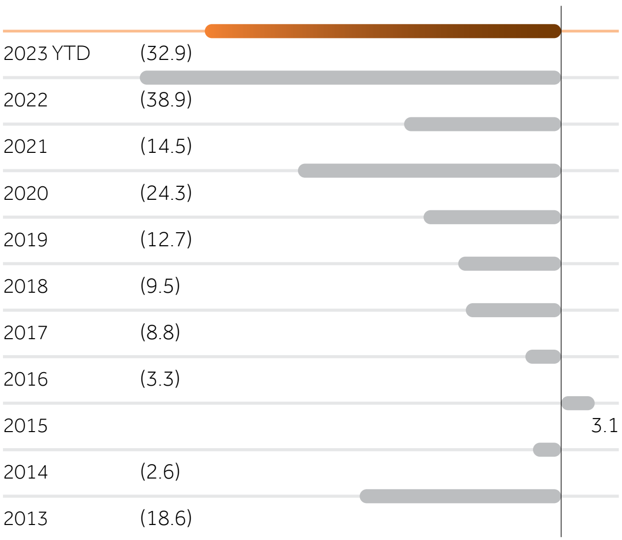
Market conditions are currently challenging with the UK upholstery market seeing a reduction in volumes. Historically, the Group has been able to grow market share during economically challenging times.

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 2020, consumer confidence fell further due to economic and financial uncertainty around the pandemic, but subsequently recovered to pre-pandemic levels. In 2022, consumer confidence declined reaching record lows in September 2022 and currently remains at relatively low levels with high inflation and interest rates putting pressure on consumer budgets.

Consumer confidence[1]

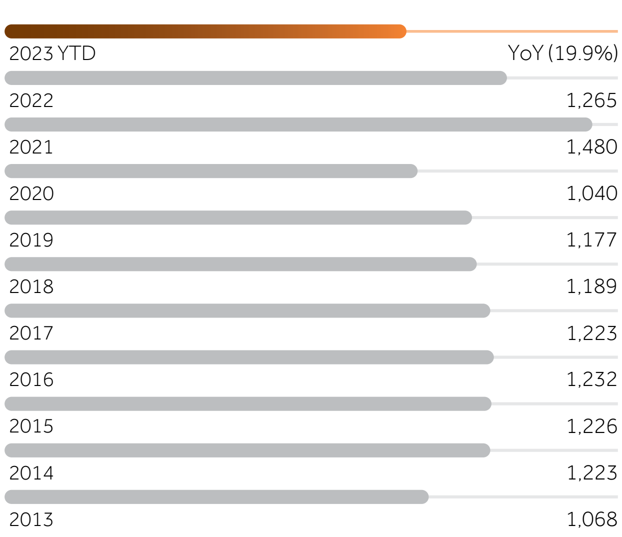


1. GfK UK Consumer Confidence average of individual month scores for each year.

Housing Market

Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. As the pandemic spread in spring 2020, government social distancing measures led to a sharp contraction in housing market activity, which subsequently bounced back in 2021 as a result of temporary government measures to reduce stamp duty payable on residential property purchases. Transactions then fell in 2022, albeit remaining above pre-pandemic levels. Rising interest rates are impacting the level of activity in the housing market with transactions in 2023 to date tracking significantly below pre-pandemic levels.

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

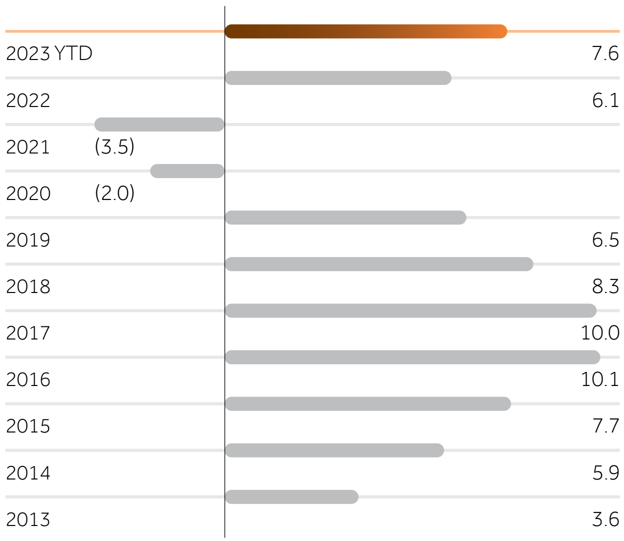


2. HMRC – number of residential property transaction completions with a value over £40,000 for the UK, seasonally adjusted.

Consumer credit

Upholstered furniture typically has relatively high unit prices and the availability of consumer credit can facilitate purchases and upselling. Consumer credit growth slowed since the EU referendum, reflecting increased economic and political uncertainty. Through the pandemic, UK consumers reduced debt, as government restrictions reduced options for discretionary spending e.g. foreign travel and leisure. Consumer unsecured lending has grown since 2022.

Net unsecured lending growth[3] (%)



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 Grand Designs ranges feature all elements made from recycled or recyclable materials and our fully circular Gaia sofa.

90% of customers research online

90%

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.

UK showrooms

175

3 CUTTING EDGE TECHNOLOGY

We focus on embracing and leveraging technology to maintain our position as the leading sofa retailer in the digital age.

Colleagues enrolled on new data apprenticeship programme

40

4 MANUFACTURING

We are one of the largest manufacturers of upholstered furniture in the UK. Our factories collectively produce around 20% of all the furniture we sell.

Orders manufactured in own factories

20%

5 SERVICE

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

Service managers

220

6 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.

Delivery vehicles

276

7 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.

Sofas saved from landfill

84,000

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 of c.38%[1], over three times that of our nearest competitor.

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 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 the 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

91.3%

DFS post purchase NPS

EMPLOYEES

35%

employees > five years' service

SUPPLIERS

37%

customer orders from British factories[2]

SHAREHOLDERS

£182m

net cash distributed since flotation[3]

COMMUNITY

£6.9m

raised since 2013 for BBC Children in Need through customer donations and fundraising initiatives

1. GlobalData calendar 2022 estimate.
2. Includes third party manufacturing and internal manufacturing.
3. Dividends and share buy backs net of 2020 equity raise.

OUR STRATEGY

Our strategy is made up of the three pillars of our business: Our DFS brand, our Sofology brand, and our expansion into the Home market. The growth of our pillars will be enabled by our group enabling platforms: Technology and data, Logistics, Sourcing and manufacturing and People and culture. The strategy reflects the Group's expertise, scale, assets and supporting infrastructure and the ability to use our enabling platforms to both improve the operational efficiency and the growth across our 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.

Pillars

DFS & Home

dfs HOME

Customer proposition and service innovation
New services to engage customers

Focus for 23/24
- Continued investment in new format stores and range evolution
- Leverage foundations laid in FY23 to drive beds and mattress sales
- Continued improvement of established customer NPS scores to pre-pandemic levels

Sofology

sofology

Increase scale of business
To further grow the showroom estate throughout the UK

Focus for 23/24
- Commence implementation of new 'Drive for 25' strategy
- Continue roll-out of showrooms on the route to targeted 65-70 locations
- Continued improvement of established customer NPS scores to pre-pandemic levels

Platforms

Group Enabling Platforms

Technology & data
Using data and technology to unlock growth in our brands

Focus for 23/24
- Development & enhancement of customer data platform to enhance cross-channel selling
- Rollout of Intelligent Lending Platform in Sofology

Logistics
Best in market two person delivery and installation

Focus for 23/24
- Continue to optimise operational performance
- Sublet or surrender distribution centres no longer required following integration

Sourcing & manufacturing
Optimising our supplier portfolio

Focus for 23/24
- Implementation of product strategy to drive 58% gross margin

People & culture
Delivering fundamental cultural change

Focus for 23/24
- Continue to develop our Employee Value Proposition (EVP) ensuring our external perception is appealing and matches our internal reality

OUR STRATEGY CONTINUED

Retail

Best experience
Biggest range and the critical 'sit test':
86%
of DFS customers visit a store before buying

Best ranges
91%
of shoppers agreed that DFS was somewhere they can find the latest styles and trends

Best sales teams
9/10
people would recommend DFS having purchased within a DFS store

Sustainability

HOME

Sourcing & Manufacturing platform

Technology & Data platform

Logistics platform

People & Culture platform

Sustainability

Digital

Best online brand strength
'DFS' is searched for
1.8x
more than the term 'Sofas'
87%
of store customers research online before coming in to store

Best enhanced technology
The largest collection of augmented reality (AR) assets accessed through a web browser in the furniture category

Best ecommerce platform
Europe's first implementation of HCL Commerce v9

Growth ambitions

Revenue ambition
£1.4bn

Sustainable profit margin
8%

KEY PERFORMANCE INDICATORS – FINANCIAL

Gross Sales[1]

£1,423.6m

FY23	£1,423.6m
FY22	£1,474.6m
FY21	£1,359.4m
FY20	£935.0m
FY19*	£1,287.2m
FY19**	£1,165m

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
Decline in sales due to reduced levels of market demand which was partially offset by increased market share.

Underlying profit/(loss) before tax excluding brand amortisation[1]

£30.6m

FY23	£30.6m
FY22	£60.3m
FY21	£109.2m
FY20	(£63.1m)
FY19*	£50.2m
FY19**	£28.2m

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

Performance
Decrease due to the lower level of revenue, inflationary cost increases and the increase in interest rate linked charges.

Underlying return on capital employed[1]

13.5%

FY23	13.5%
FY22	18.7%
FY21	38.7%

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
Decrease driven by the lower underlying profit in the period and to a lesser extent from higher capital employed as a result of working capital normalisation.

Leverage[1]

1.9x

FY23	1.9x
FY22	1.0x
FY21	0.2x

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

Performance
Increase driven by higher net bank debt due to normalisation of working capital and special returns paid in respect of performance in prior periods as well as a lower level of cash EBITDA.

Underlying free cash flow to equity holders[1]

(£7.0m)

FY23	(£7.0m)
FY22	(£5.0m)
FY21	£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
Reduction driven by transitory working capital inflows over the last two years normalising as well as the lower relative profits in the period. Excluding the working capital movement, free cash flow was £29.4m (FY22: £37.2m).

Key

* 52 weeks pro-forma.
** 48 weeks reported.
1. Refer to pages 25 to 27 for APM definitions.
2. Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

KEY PERFORMANCE INDICATORS – NON-FINANCIAL

Net Promoter Score (%) – Post purchase customer satisfaction

91.3%

FY23	91.3%
FY22	86.3%
FY21	86.4%

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

Performance
Significant year on year increase maintaining a very strong overall level.

Strategic Links

Net Promoter Score (%) – Established customer satisfaction

18.6%

FY23	18.6%
FY22	11.7%
FY21	30.7%

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

Performance
Recovery following FY22 which was heavily impacted by disruption to shipping, reduced HGV reliability and extended manufacturing lead times as a result of Covid-19 and raw material supply.

Strategic Links

Suppliers – Average days to pay

39.4 days

FY23	39.4
FY22	35.8
FY21	30.6

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

Performance
Increase from FY22 due to standardisation of key supplier terms to 60 days.

Strategic Links

Suppliers – % paid on time

73.8%

FY23	73.8%
FY22	72.0%
FY21	71.8%

Description
Percentage of supplier invoices paid within agreed terms.

Performance
Increase from FY22 driven by continuous improvement within the operational teams.

Strategic Links

Sofology UK stores

58

FY23	58
FY22	55
FY21	50

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

Performance
Three additional stores opened in FY23 (Hedge End, Inverness and Redbrick Mill).

Strategic Links

Key to Strategic Links

- Sourcing & Manufacturing
- Technology & Data
- Logistics
- People & Culture

FINANCIAL REVIEW

Financial review

The Group has operated through a challenging trading environment in FY23, influenced by reductions in consumer disposable income and increased market volatility. Against this backdrop, we delivered strong market share gains despite Group revenue being towards the lower end of our expectations coming into the year. There was good progress on gross margin rate and this together with disciplined cost control helped to underpin profit conversion and ensured that full year profits were delivered within the guidance range we shared at our interim results.

Looking to the future, the Group remains financially secure and we continue to strengthen our foundations for future growth. We recently completed the successful refinancing of our debt facilities, which has resulted in increased funding for an extended period, supported by a more diversified lending group. After a comprehensive review of the Group's cost base, we have also established a cost efficiencies programme across our product, property and operating cost models.

IN BRIEF

- Profit before tax and brand amortisation[1] of £30.6m, within guidance at interims
- Profit down year on year as a result of weaker market and inflationary pressures, partially offset by improving gross margins, cost efficiencies and share gains
- Gross margin up 170bps to 54.4%, on track to keep improving towards our pre-Covid average of 58%
- New Cost to Operate efficiencies programme established, targeting c£50m of annualised savings by FY26
- Net debt increased to £140m from £90m due to working capital normalising after inflows during pandemic period, and shareholder returns
- £250m refinancing successfully completed, extending the facility and diversifying the lending group

JOHN FALLON
Chief Financial Officer
Bio on **page 63**

1. Refer to pages 25 to 27 for definitions of APMs.

FINANCIAL REVIEW CONTINUED

Continuing operations £m	52 weeks ended 25 June 2023 FY23	YoY
Gross Sales[1]	**1,423.6**	(3.5%)
DFS (inc Dwell)	**1,125.5**	(3.7%)
Sofology	**298.1**	(2.2%)
Digital % Sales*	**24.0%**	+0.7% pts
Revenue	**1,088.9**	(5.3%)

* Digital % Sales represents the Gross Sales for orders completed online and via telephone sales as a percentage of total Gross Sales.

Basis of preparation

As detailed in the FY22 annual report, following the decision to close the Group's operations in the Netherlands and Spain, the results from these businesses have been presented as discontinued operations. During the first half of the period, the residual order book of these discontinued operations has been delivered and the operations wound down. Unless otherwise indicated the commentary below relates to continuing operations.

Revenue and gross sales

Group gross sales[1] which are recognised on delivery of orders to customers, decreased by 3.5% for the period to £1,423.6m (FY22: £1,474.6m) with both retail brands reporting a reduction on prior year.

The decrease is partly reflective of the challenging market environment in FY23, compared with more favourable market conditions in FY22 when the market benefitted from higher volumes linked to the pandemic. The Group partially mitigated this by both brands growing their market share[2].

Relative to the pre-pandemic FY19 period, Group gross sales increased by 15.0% supported by higher average order values.

The Group has invested ahead of its competitors in both digital and showroom sales channels and we remain the clear market leader in both. In FY23 24.0% of sales were completed digitally, lower than the peaks of the pandemic, but up from 17% in FY19. We continue to be channel agnostic, supported by our market research which consistently reinforces that a significant majority of customers prefer to utilise both channels in their shopping journey as part of a seamless experience and transaction.

Sales of our beds & mattresses ranges continued to grow, with online gross sales up 69% in the period. Across our upholstery ranges, those sofas with added features such as recliners with memory settings, charge points and hidden storage performed relatively better.

Group revenue of £1,088.9m was 5.3% lower than prior year (£1,149.8m). This included an increase in the subsidy costs of our interest free credit (IFC) offering as a result of the steadily increasing Bank of England base rates and credit participation levels moving back to historical averages after slightly reducing during the pandemic period. We partially mitigated this impact through the change in our IFC proposition that Tim mentioned in his CEO report, which will also go some way to mitigating the increased IFC costs we are expecting to incur through FY24. Following the change to our IFC maximum term, every 1% increase in Bank of England rate would result in a c£6m increase in costs for the Group, if unmitigated.

Gross profit

Gross profit of £592.2m decreased by £13.7m (2.3%), driven by the lower revenues.

We have made good progress improving our gross margin rate across the period. As a percentage of revenue, gross margin in the period was 54.4% (FY22: 52.7%), an increase of 170 bps year on year.

Prior to the pandemic, the Group consistently achieved a gross margin rate in the region of 58%, but this reduced through the pandemic period as a result of i) higher levels of goodwill gestures, ii) an increased level of cancelled orders sold at discounted levels, iii) a shortage in supply of raw materials resulting in higher costs, and iv) a large increase in container shipping rates.

Gross margin rate reached a low of 51.9% in H2 FY22 and since then we have seen steady improvement. The rate improved to 53.8% in H1 FY23 and 55.0% in H2 due to the majority of the pandemic disruption impacts falling away, the impact of selective retail price increases being realised on orders delivered from May 2023 and a reduction in freight rates which started to return close to pre-pandemic levels in our final quarter. These improvements more than offset the dilutive effect on gross margin of the increased IFC costs mentioned above.

Whilst the macroeconomic outlook remains uncertain, we expect gross margin to continue to improve. The FY24 gross margin rate is expected to be above 57% as a result of freight rates now contracted at pre-pandemic levels, the full year effect of FY23 retail price increases, and cost price benefits from our product sourcing strategy mentioned in Tim's CEO statement. These benefits will more than offset the higher IFC costs and a hedged USD FX rate that is 10 cents adverse to the FY23 average rate paid (c£13m in cash terms).

Selling, distribution and administration and property costs

Selling, distribution and administration costs totalled £434.8m (FY22: £430.0m), representing a cost % of revenue of 39.9% (FY22: 37.4%).

The increase year on year was a result of inflationary increases across the operating cost base and investments in marketing to support growth in our beds & mattresses ranges. These increases were mostly mitigated by a reduction in prior year costs associated with inbound logistics disruption and Covid related absence, together with on-going efficiency improvements, from the Sofa Delivery Company and retail workforce optimisation tools. In addition, variable costs associated with delivery volumes and commission levels reduced.

Property costs, which include business rates and a small amount of rental costs that fall outside the scope of IFRS 16 remained broadly flat year on year at £30.2m (FY22: £29.6m). The end of business rates relief which benefitted FY22 has been partially offset by business rate revaluations effective April 2023 and empty property rates relief (see below), netting to a £2.2m increase. This increase was partially offset by a lower amount of rental costs that fall outside the scope of IFRS 16.

Depreciation, amortisation and interest

Depreciation, amortisation and interest charges have increased by £11.2m to £128.2m (FY22: £117.0m). The increase is driven by three components.

Firstly, £6.6m from higher interest costs on our RCF facility due to higher SONIA rates and a higher average drawn balance, compared to limited utilisation of the facility through FY22.

Secondly, a £1.8m increase in depreciation and amortisation charges as a result of our higher tangible and intangible asset base.

Thirdly, a £2.0m right of use asset impairment charge. This charge is associated with the rationalisation of operational distribution centres following completion of the integration of the DFS and Sofology logistics functions and from closing temporary storage sites opened in the pandemic period.

We have seen continued success in securing lower rents on retail leases that were approaching expiry (average of over 30% annualised saving per lease) and these savings have almost fully offset the full year impact from opening two large distribution centres mid way through FY22.

Profits and earnings per share

Reported profit before tax for the 52 week period to 25 June 2023 was £29.7m (FY22: 58.5m). Underlying profit before tax and brand amortisation[1] (PBTa) was £30.6m compared to £60.3m in FY22, mainly reflecting lower revenues, inflationary cost increases and costs linked to interest rate increases.

The tax charge recognised in the financial statements has been calculated using an effective tax rate for the year of 21.3%, broadly in line with the average applicable UK Corporate tax rate of 21.5% across the

1. Refer to pages 25 to 27 for APM definitions.
2. Market share sources: GlobalData (July 2023) Barclaycard proprietary data.

FINANCIAL REVIEW CONTINUED

period. This effective rate of 21.3% is below the rate for FY22 (29.9%) which was high due to the differential in rates between current and deferred taxes along with the effect of overseas branch exemptions.

Reported profit after tax for the period of £26.2m is inclusive of a £1.4m brand amortisation charge, £7.1m tax charge, a £3.6m credit in relation to profit before tax on discontinued operations that arose due to a release of a provision booked in FY22 in relation to closing our operations in the Netherlands and Spain and a £0.5m non-underlying credit on continuing operations. Reported profit after tax in FY22 was £31.4m which included a £12.8m loss associated with the closure of those international operations.

Basic underlying earnings per share from continuing operations for the Group was 9.6 pence (FY22: 17.5p).

Cash flow, net debt and dividends
Net bank debt increased from £90.0m to £140.3m. This included special returns paid to shareholders in respect of cash generated in prior periods (£30.9m) and net working capital outflows of £40.0m as creditor balances and customer deposit levels reduced to more normal levels.

Working capital has now normalised following a significant inflow in FY21 through the pandemic period as a result of increased sales demand leading to higher trade creditors and accruals and extended supply chain lead times leading to a higher level of customer deposits being held. Excluding the working capital outflow, free cash flow[1] of £29.4m was generated in FY23.

Cash capital expenditure for the period was £33.6m (FY22: £45.6m). This included spend on three new Sofology showrooms taking the total to 58 as we continue our national roll-out programme, 11 DFS showroom refurbishments (58 showrooms completed over the last four years) and technology investments to enhance the customer experience and support operational performance as Tim explained in his CEO statement. The year on year reduction in spend is due to a lower number of Sofology showroom openings (FY22: 7) and the opening of two large distribution centres in the prior year. In addition £8.7m was incurred on leased motor vehicle additions (FY22: £7.7m) which includes company cars and commercial vehicles.

The Group's return on capital employed for the period was 13.5%, lower than that achieved in FY22 of 18.7% due to the reduced profit in the period and to a lesser extent from higher capital employed as a result of working capital normalisation. We expect returns to grow over time given i) our anticipated improved profitability as our product, property and operating cost reductions are delivered and market volumes recover and ii) our negative working capital model.

Leverage increased to 1.9x at the end of FY23, compared to 1.0x at FY22, reflecting our higher net debt level and lower profit. Over the medium term we remain committed to managing leverage within our target range of 0.5-1.0x.

Post year end, in September we completed the refinancing of our debt facilities, increasing the total amount of funds available to £250m from £215m. The new facilities were secured at competitive rates and consist of £200m from existing banking partners which runs to September 2027 (with a 16 month extension option) and £50m from the addition of US private placement notes with redemption dates split equally between September 2028 and September 2030.

The covenants and other facility terms remain unchanged from the previous facility; 3.0x maximum leverage and 1.5x minimum fixed charge cover. The increased facility is an endorsement of the continued confidence and support the Group maintains with our lending partners and provides liquidity headroom and flexibility to continue investing in our strategy.

Aligned to our capital distribution policy we are proposing a final FY23 dividend of 3.0p per share, bringing the total dividend to 4.5p per share (an underlying EPS cover of 2.3x[2]. This is in line with guidance at the interim results in March.

1. Refer to pages 25 to 27 for APM definitions.
2. Calculated using the share count post completion of the share buy back programme.

Looking forward
FY24 Guidance
Forecasting sales performance accurately over the next year is difficult. In particular, we cannot accurately predict how the forecasts for inflation and higher borrowing costs will affect consumer behaviours. In that context, we currently forecast that the upholstery market will see further declines over the next 12 months of c.5%, but this assumption remains a key sensitivity.

FY24 PBT is budgeted to increase slightly year on year, supported by progress on gross margin rate and operating cost efficiencies, mitigating cost inflation and interest rate headwinds.

FY24 Guidance

Group revenue	£1,060 - £1,080m
PBTa[1]	£30m - £35m
Cash capex	£25m - £30m

Cash capex will reduce slightly to £25-30m with the range dependent on whether potential new Sofology showrooms are opened towards the end of FY24 or fall into FY25.

FY24 will be a 53 week period. Whilst underlying working capital has normalised and is expected to be stable year on year, significant rent and tax payments are scheduled to fall due in the 53rd week, resulting in a working capital outflow of c£15m for the FY24 period.

In a year when we expect limited opportunities for growth, we are increasing our focus on the actions we can take to strengthen the foundations of the business, both to support short term share gains and to ensure we are strongly positioned for profitable growth in future years. This includes the 'Cost to Operate' efficiencies programme described below as well as capital investments being prioritised into areas with proven returns.

'Cost to Operate' efficiencies programme
Following a full review of our cost base completed earlier this year, supported by external benchmarks and insight, we have established a Cost to Operate efficiencies programme that is targeting annualised savings of c£50m by FY26.

Whilst we expect to start to see savings from this year, some projects will require longer periods of planning, or investment in new systems and processes. Approximately half of the targeted benefits are expected to come from our product related strategies, which will underpin delivery of our 58% gross margin target. The other benefits will lower our operating costs, helping to offset future inflationary headwinds and overall supporting the growth we are targeting in our profit margins. The three main programmes are summarised below.

1. Product costs (manufacturing and sourcing): Cost of goods (COGs) £20-£25m annualised saving Better leveraging of our scale to lower COGs and develop a best in class sustainable supplier portfolio. COGs opportunity will support our target Gross Margin of 58%.

2. Operating cost models: £20-£25m annualised saving opportunity:
   Improving productivity and lowering our cost to operate through a combination of projects:
   – Group operating models that are more efficient. Initial opportunities are in customer services & repairs and marketing, in addition to realising the remaining logistics benefits via The Sofa Delivery Company.
   – Goods not for resale procurement savings from consolidating the supplier base, retendering contracts across key spend areas, supported by better systems and controls.
   – 'Operate for less' programme focused on simplifying, centralising and automating other key processes (utilising technology) to unlock fixed and variable cost savings across showrooms, logistics and central support centres.

3. Property costs. £6m to £8m annualised saving opportunity:
   – Continuing to optimise our store estate, taking full advantage of our covenant strength to maximise lease re-gear savings.

FINANCIAL REVIEW
CONTINUED

We have also introduced a robust project governance structure to support planning, decision-making and implementation of the programme, led by the Group Leadership Team.

We expect to deliver around a quarter of these savings in FY24 with the remainder split evenly over the following two years and estimate c.£4-5m per year in non-underlying cash charges in FY24 and FY25 to access the benefits for the first two years (P&L charge likely to be c.£2m per year higher due to asset write-downs).

Profit margin growth

Although we are preparing for the macro outlook and consumer demand to be weak over the short term, we are confident the Group is well placed to achieve our 8% PBT margin taget in the medium term.

We expect market volumes will recover back to pre-pandemic levels (volumes expected to be down by c.20% by end of FY24 versus FY19), but it is difficult to predict how quickly and over what period that recovery will take place. In that context, we see a route to a PBT margin of 5% without market recovery, increasing further to our 8% CMD target as and when market volumes recover, supported by benefits from our gross margin and cost to operate programmes, together with incremental PBT contribution from growth in our Home business.

JOHN FALLON
Chief Financial Officer
21 September 2023

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 UK-adopted International Financial Reporting Standards ('IFRS'). APMs are not IFRS measures, nor are they intended to be a substitute for IFRS measures.

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

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below.

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

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 cost of or 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. See note 2 for further details.	Measure of brand-controllable profit as it excludes shared Group costs.
Adjusted EBITDA	Earnings before interest, taxation, depreciation, amortisation adjusted to exclude impairments.	A commonly used profit measure.
Non-underlying items	Items that are material in size, unusual or non-recurring in nature which the Directors believe are not indicative of the Group's underlying performance. See note 1.6 for further details.	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA	Earnings before interest, taxation, depreciation and amortisation from continuing operations, as adjusted to exclude impairments and non-underlying items.	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation PBT(a)	Profit before tax from continuing operations 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 from continuing operations as adjusted for non-underlying items. See note 7 for further details.	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, adding back non-underlying items before tax.	Measure of the non-underlying operating cash generation of the business, normalised to reflect timing differences in working capital movements.
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.
Leverage (or gearing)	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)	Underlying post-tax operating profit, from continuing operations 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.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Key performance indicators

Reconciliations to IFRS measures

Adjusted EBITDA	Note	FY23 £m	FY22 £m
Operating profit from continuing operations	2	**63.8**	87.3
Depreciation	3	**80.5**	77.7
Amortisation	3	**11.6**	10.5
Impairments	3	**2.0**	–
Adjusted EBITDA from continuing operations		**157.9**	175.5

Underlying EBITDA	Note	FY23 £m	FY22 £m
Adjusted EBITDA from continuing operations		**157.9**	175.5
Non-underlying operating items	3	**(0.5)**	0.4
Underlying EBITDA from continuing operations		**157.4**	175.9

Underlying profit before tax and brand amortisation – PBTa	Note	FY23 £m	FY22 £m
Profit before tax from continuing operations	2	**29.7**	58.5
Non-underlying items	3	**(0.5)**	0.4
Amortisation of brand names	10	**1.4**	1.4
Underlying profit before tax and brand amortisation		**30.6**	60.3

Net bank debt	Note	FY23 £m	FY22 £m
Interest bearing loans and borrowings		**165.8**	93.5
Unamortised issue costs	18	**1.2**	1.5
Cash and cash equivalents (including bank overdraft)		**(26.7)**	(5.0)
Net bank debt		**140.3**	90.0

Movement in net bank debt	FY23 £m	FY22 £m
Closing net bank debt	**(140.3)**	(90.0)
Less: Opening net bank debt	**90.0**	19.0
Movement in net bank debt	**(50.3)**	(71.0)

Underlying free cash flow to equity holders	Note	FY22 £m	FY21 £m
Movement in net bank debt		**(50.3)**	(71.0)
Dividends	21	**12.1**	53.8
Purchase of shares by Employee Benefit Trust		**–**	8.2
Proceeds from sale of own shares		**–**	(0.4)
Purchase of own shares		**30.9**	4.4
Non-underlying cash items included in cash flow statement		**0.3**	–
Underlying free cash flow to equity holders		**(7.0)**	(5.0)
Exclude:			
Working capital outflow		**40.0**	28.8
Operating result from discontinued operations	29	**(3.6)**	13.4
Underlying free cash flow to equity holders excluding operating result from discontinued operations and working capital outflow		**29.4**	37.2

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Leverage	Note	FY23 £m	FY22 £m
Net bank debt (A)		**140.3**	90.0
Net cash from operating activities before tax	26	**122.4**	139.7
Adjusted for:			
Pre-tax non-underlying items		**(4.3)**	11.7
Movement in trade and other receivables		**(13.2)**	7.2
Movement in inventories		**(8.6)**	3.3
Movement in trade and other payables		**55.8**	16.6
Movement in provisions		**6.0**	1.7
Payment of interest on lease liabilities		**(23.5)**	(25.0)
Payment of lease liabilities		**(61.6)**	(63.5)
Cash EBITDA (B)		**73.0**	91.7
Leverage (A/B)		**1.9x**	1.0x

Underlying return on capital employed from continuing operations	Note	FY23 £m	FY22 £m
Operating profit from continuing operations		**63.8**	87.3
Non-underlying operating items		**(0.5)**	0.4
Pre-tax return		**63.3**	87.7
Effective tax rate for continuing operations		**22.6%**	24.3%
Tax adjusted return (A)		**49.0**	66.4
Property, plant and equipment	8	**97.4**	105.9
ROU assets	9	**312.6**	338.0
Computer software	10	**22.0**	17.7
		432.0	461.6
Inventories	14	**55.8**	64.4
Trade receivables	15	**7.7**	12.6
Prepayments	15	**3.0**	11.4
Accrued income	15	**0.1**	0.3
Other receivables	15	**0.3**	–
Payments received on account	16	**(39.1)**	(72.2)
Trade payables	16	**(97.6)**	(122.5)
Working capital		**(69.8)**	(106.0)
Total capital employed (B)		**362.2**	355.6
Underlying ROCE (A/B)		**13.5%**	18.7%

RISKS AND UNCERTAINTIES

The Group faces a number of risks and uncertainties in both its day-to-day business operations and strategic development. Effective mitigation of these risks is essential to enable us to meet the needs of our customers.

Identification of risks

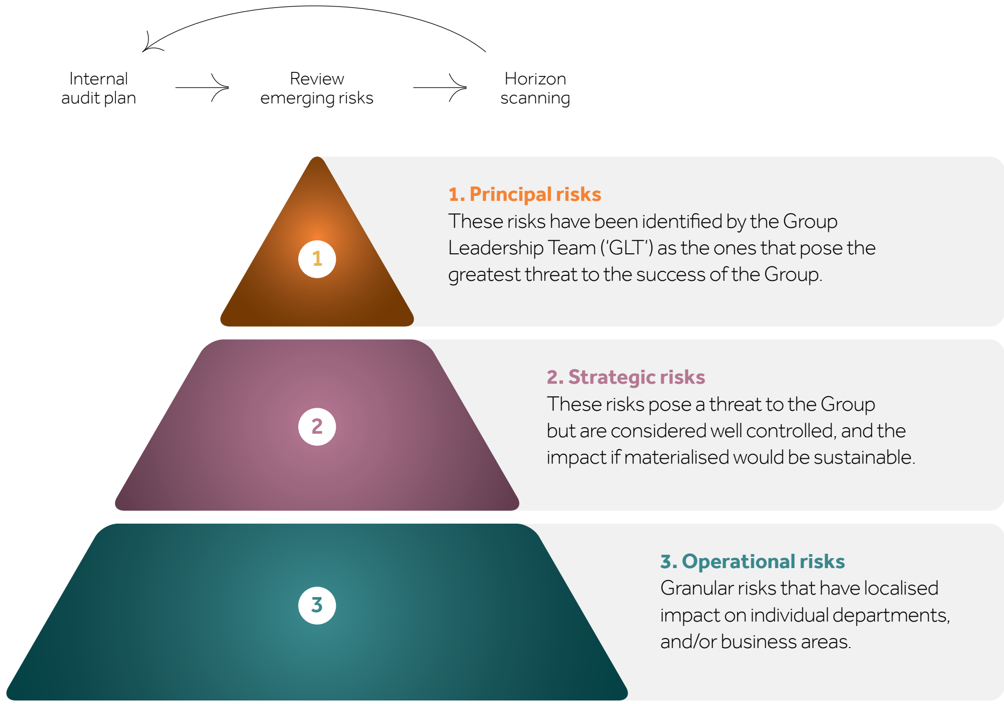
The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. The Group has an established risk register of existing risks, emerging risks arising and horizon risks to be monitored. This risk register is managed by the Group risk team, and the principal risks are formally reviewed by the Directors three times a year.

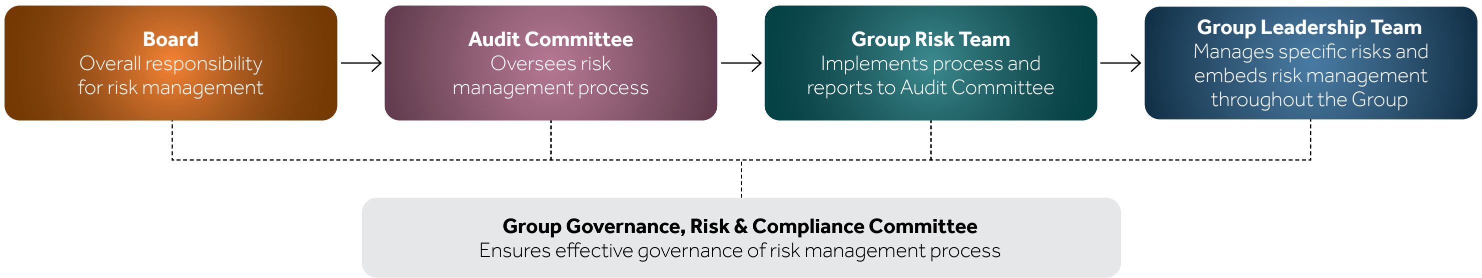
The graphic to the right details how responsibility for risk management is allocated across the Group.

Each principal risk is owned by a member of the Group Leadership Team ('GLT'), with strategic and operational risks being owned and managed by the senior management team. The Board maintains 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.

Management and mitigation of risk by the GLT is driven by a Group risk appetite agreed by the Board. The Group Governance, Risk & Compliance Committee ('GRC'), comprised of senior management, meets monthly to review changes in the regulatory/legal landscape and the Group's key risks and concerns. In addition to the GRC, a formal quarterly risk review is conducted by the GLT.

The Group Risk Team supports risk owners in managing risks effectively, utilising the Group's CAMMS Risk Management system to facilitate an enterprise-wide approach to risk management and reporting. The Group Risk team also performs regular horizon scanning and reviews of emerging risks.





RISKS AND UNCERTAINTIES CONTINUED

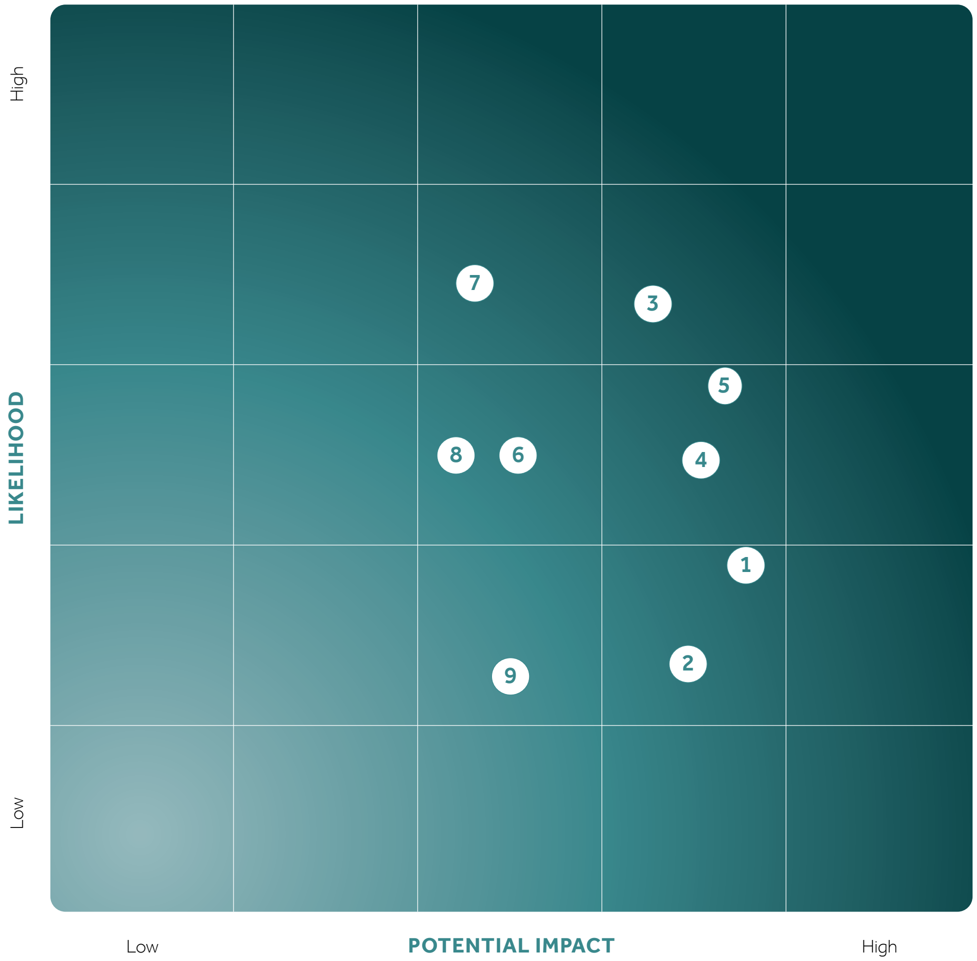
Evaluation of risks
The Directors have made a robust assessment of the principal and emerging risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Principal risks and mitigation
The Group's principal risks are discussed below, together with 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 Board 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.

Changes to principal risks in the year
As part of our risk management process the Group principal risks are regularly reviewed with the GLT and the Audit Committee. There have been no new risks added or risks removed in FY23.

Risk heat map
The impacts of identified risks are measured against pre-defined criteria in a number of areas – Financial, Operational, Health & Safety, Legal & Regulatory, Technology – to establish a robust and objective assessment. The heat map below illustrates the distribution of identified risks according to their relative likelihood of occurrence and the potential severity of their impact after taking into account mitigating activities.

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 remains a principal risk in our FY23 Annual report and is embedded within the Group's risk management process with specific oversight by the Responsible and Sustainable Business Committee ('RSC'). As part of our risk management strategy we consider all ESG impacts associated directly or indirectly to our existing, new and emerging risks and have developed and implemented an ESG specific risk register for greater visibility and control over these threats.



Principal risks

1. Financial risk and liquidity
2. Regulatory environment
3. Cyber
4. Supply chain and manufacturing resilience
5. Macroeconomic uncertainty
6. ESG
7. Retention of skilled workers due to labour shortages
8. Consumer proposition and industry competition
9. Transformation

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

FINANCIAL RISK AND LIQUIDITY

What is the risk?
The geopolitical and macroeconomic environment or other events (such as a future pandemic or expansion of the Ukraine war into other territories) may impact the Group's working capital requirements, its ability to access debt or equity financing, the cost of that financing, or the price of purchases in foreign currencies.

Strategic link

Potential impact
– An increase in interest rates could increase the Group's finance costs, reducing profitability.
– Temporary suspension of customer deliveries, or manufacturing delays could delay the realisation of revenues and increase the Group's working capital needs.
– A change in the US dollar rate could result in the Group paying more for purchases of goods transacted in US dollars, reducing profitability.
– A failure to comply with financial covenants associated with the facility could result in it being withdrawn.

Mitigation
– Good working relationships maintained with all financial counterparties, ensuring that counterparties fairly understand our financial performance. Regular reviews of financing arrangements to ensure adequate funds in place and financing costs kept to a minimum.
– Management of foreign exchange risk through the use of appropriate hedging arrangements in accordance with the Board approved treasury policy.

FY23 progress
– Refinancing completed in September 2023 across a more diversified lending group with available funds increasing from £215m to £250m and maturity dates split between September 2027 and September 2030.
– Update of treasury policy to improve alignment with trading patterns.

Movement
Increase

Principal Risk

REGULATORY ENVIRONMENT

What is the risk?
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 relation 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 revenue from the sale of product aftercare insurance, a form of general insurance add-on product.

Strategic link
1, 2, 3, Technology & Data

Potential impact
– Changes in legislation with significant retrospective or future economic effects could impact operating results.
– Failure to meet our compliance obligations could negatively impact the Group's reputation or result in fines/penalties, reducing profitability.
– Non-compliance could result in potential civil or criminal liability for the Group's companies and/or senior management.
– Changes to the regulatory environment surrounding product aftercare insurance could impact the sales of these products.
– The Group's reputation could be negatively impacted if the sales process for these products does not ensure that customers have adequate information to make appropriate buying choices.

Mitigation
– Comprehensive training and monitoring programmes (including individual colleague NPS, internal audits and mystery shoppers) in place to ensure employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance.
– Monitoring of management information and review of processes and procedures by GRC to ensure customers are treated fairly.
– Rigorous oversight and escalation processes in place to maintain status of limited permission to offer consumer finance granted by the FCA.
– Review of regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation.
– Escalation of relevant matters to Audit Committee for consideration.
– Robust policies to ensure compliance with data protection requirements, including annual data protection training for all colleagues.
– Regular review of pricing and cover levels of insurance products offered to maintain and enhance the customer value proposition.
– Robust sales principles and compliance frameworks across all brands.
– Mandatory training programme for colleagues involved in sale of product aftercare insurance.

FY23 progress
– Review of procedures and controls to ensure compliance with Consumer Duty regulations.

Movement
Increase

Link to strategic pillars and platforms

Pillars: 1 DFS — 2 Sofology — 3 Home

Platforms: Sourcing & Manufacturing — Technology & Data — Logistics — People & Culture

Movement: Increase — Unchanged — Decrease

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

CYBER

What is the risk?
A cyber-attack, ransomware or data breach could result in business disruption, and loss or corruption of customer data, which could adversely impact our reputation and customer confidence.

Our website and IT infrastructure are key elements of our strategy. A failure to review and innovate in this competitive area could impact achievement of the Group's growth plans.

Strategic link

Potential impact
– Inability to access core operating systems (supply chain, customer delivery, call-handling, financial transaction processing) could adversely impact customer experience and lead to increased costs or loss of revenue.
– Loss of customer data could lead to a loss of reputation and regulatory fines. Delays or errors in reporting on operational performance could result in increased costs or lost revenue.

Mitigation
– Full IT security backup and business continuity procedures in place and regularly reviewed, tested and updated.
– Technical security measures against data loss through a systems breach in place and regularly reviewed and updated, including by third-party experts, the results of which are reported to the Board.
– Third party penetration testing carried out routinely to check the resilience of the Group's systems to cyber attack.
– Mandatory cyber awareness programme for relevant colleagues.
– Substantial ongoing investment in website development and digital marketing, complemented by third party monitoring of both customer satisfaction with our 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.

FY23 progress
– Supplier security requirements defined, documented and utilised during procurement.
– New infrastructure deployments evaluated against security best practice benchmarks.
– Expansion of protection tools, now using AI to reduce risk of phishing and business e-mail compromise.

Movement

Link to strategic pillars and platforms

Pillars: 1 DFS | 2 Sofology | 3 Home

Platforms: Sourcing & Manufacturing | Technology & Data | Logistics | People & Culture

Movement: Increase | Unchanged | Decrease

Principal Risk

SUPPLY CHAIN AND MANUFACTURING RESILIENCE

What is the risk?
Disruption across our supply chain, including shortages of critical materials, reliance on key manufacturing sites and logistics constraints could result in supply shortages or delays.

Strategic link

Potential impact
– Failure to supply customer orders on time or to expected quality, could lead to loss of revenue and/or profits and adverse impacts on the reputation of the Group and its retail brands.
– Inefficient production schedules due to raw materials supply, could result in increased costs.
– Increased lead times as a consequence of production details or transport disruption could result in loss of sales.

Mitigation
– Sales & Operations Planning function established to proactively manage the end-to-end supply chain across the Group.
– Annual shipping contracts that set out fixed pricing and capacity availability maintained in order to manage uncertainty of prices and volumes in the container shipping industry, particularly in relation to deliveries from the Far East.

FY23 progress
– Full review of supplier strategies for each retail brand.
– Implementation of formal supplier performance reviews.

Movement

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

MACROECONOMIC UNCERTAINTY

Strategic link

What is the risk?
The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the economic environment in which the Group operates including (but not limited to): consumer confidence, employment levels, real income, the availability of credit and the level of housing market activity.

Potential impact
– Increases in interest rates and associated higher costs of borrowing may reduce levels of customers' discretionary spending and result in lower housing market activity, reducing revenues and profits.
– Significant cost inflation in raw materials, fuel and freight costs, could reduce the Group's profitability or necessitate increases in product selling prices, discouraging customer purchases.

Mitigation
– Continuous review of product ranges to ensure they provide an attractive customer proposition at a variety of price points.
– Range selection supported by detailed data analysis and customer choice enhanced through exclusive and strategic brand partnerships.
– Regular reviews of interest free credit offering to balance the cost to the Group with the flexibility required by our customers.
– Management of cost base in periods of lower income through reduced discretionary and variable spend.

FY23 progress
– Continued programme of forward purchase of freight, energy and foreign currency to manage costs in an inflationary environment.
– Modification of interest free credit offering to mitigate impact of increased interest rates.

Movement
Increase

Principal Risk

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Strategic link
1 2 3

What is the risk?
Key stakeholders, including customers, colleagues, 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. The Group is also required to meet increasing non-financial reporting and disclosure requirements.

Potential impact
– Failure to manage the business in accordance with high ESG standards could result in underlying risk to business resilience, reputation, growth and share price performance.
– Failure to address existing and emerging ESG risks across our products, the environment and society could deter customers or demotivate colleagues.
– Potential for regulatory penalties if related reporting requirements are not adequately met.

Mitigation
– Responsible and Sustainable Business Committee ('RSC') established as a dedicated Board committee responsible for governance and oversight of the Group's ESG strategy.
– Detailed metrics and targets developed across a broad range of ESG matters monitored by the Committee, from gender diversity to sustainable and ethical sourcing of raw materials and reductions in carbon emissions.
– External audit and certification of suppliers of goods for resale and external assurance on reported carbon emissions.

FY23 progress
– Completed Climate Scenario Analysis, both transition and physical risks and integrated strategic risks in risk register with strategic planning, particularly within manufacturing strategy.
– Developed Net Zero roadmap aligned to Science Based targets with the intent to submit to SBTI in June 2024. Set supplier engagement targets for FY23/24 to validate plan prior to submission in addition to scope 1 intensity targets.
– Implemented Sustainable Sourcing Policy with additional targets for cotton, packaging and fire retardants as well as continuing to improve on existing targets.

Movement
Unchanged

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing Technology & Data Logistics People & Culture

Movement: Increase Unchanged Decrease

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

RETENTION OF SKILLED WORKERS DUE TO LABOUR SHORTAGES

What is the risk?
There has been increased pressure within the UK labour market in general with low levels of unemployment, high levels of vacancies and shortages of skilled workers across all sectors. The Group needs to attract, retain and develop the right talent and required capabilities to achieve targeted business performance and delivery of our strategy.

Strategic link: Sourcing & Manufacturing; Technology & Data; Logistics; People & Culture

Potential impact
– Failure to attract and retain high quality colleagues could negatively impact operational performance and customer service levels.
– Excessive wage inflation could increase the Group's cost base, reducing profitability.

Mitigation
– Regular function specific remuneration benchmarking and business-wide annual salary reviews ensure colleague remuneration is competitive.
– Significant resource and focus invested in building an inclusive and engaging culture.
– Suite of additional benefits available to colleagues, with particular emphasis on colleague wellbeing.
– Internal training and development programmes developed in areas where skills shortages are identified.

FY23 progress
– Expansion of The Sofa Delivery Company driver school to generate required skills in shortage areas.

Movement: Unchanged

Principal Risk

CONSUMER PROPOSITION AND INDUSTRY COMPETITION

What is the risk?
The reputation of, and value associated with, the Group's brands and product offering is central to the success of the business. Failure to maintain a well-designed, high-quality product range that is priced attractively could compromise the success of the Group.

Strategic link: 1, 2, 3

Potential impact
– 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.
– Reputational damage resulting from customer complaints, 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.
– Competitors could improve their offering, reducing our market share.

Mitigation
– Continual review of products and services 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-house product design team and external design partners ensures product range is attractive and innovative.
– Internal manufacturing, close supplier relationships and made-to-order model allows any quality issues to be addressed swiftly.
– Use of Net Promoter Score (NPS), and incentivisation of colleagues on the basis of NPS scores encourages customer-focused behaviours throughout the customer journey.
– Frequent competitor analysis and mystery shopping at competitor's stores and online offerings.

FY23 progress
– Development of new competitor insight tool to facilitate regular reporting on price movements and new product launches.

Movement: Unchanged

Link to strategic pillars and platforms

Pillars:	1 DFS	2 Sofology	3 Home	
Platforms:	Sourcing & Manufacturing	Technology & Data	Logistics	People & Culture
Movement:	Increase	Unchanged	Decrease	

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

TRANSFORMATION

What is the risk?
The Group undertakes a number of significant investment or business change projects that are key to successfully executing its strategy.

Strategic link
1
2
3

Potential impact
– A lack of sufficient management resources or excessive complexity in the various work streams could limit the Group's ability to deliver anticipated benefits within the original timeframe.
– 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.

Mitigation
– An executive member (the COO) has responsibility for transformation, overseeing a programme structure and a team of project managers dedicated to its execution.
– Risk assessments completed for all critical workstreams and challenged through Board and Audit Committee discussions.
– Experienced senior management engaged in the design and delivery of the integration and transformation plans providing regular updates to the Board.
– Regular review of transformation programme to ensure priorities and areas of focus are appropriate to support delivery of the Group's strategy.

FY23 progress
– Group-wide review of established key change programmes in order to focus time and resources appropriately.
– Alignment of governance structures to ensure consistency across all active programmes.

Movement
Unchanged

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing Technology & Data Logistics People & Culture

Movement: Increase Unchanged Decrease

Viability Reporting

In accordance with the 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 26 June 2023 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 28 to 34 of this Annual Report. Particular regard was paid to the potential for further market contraction and continued inflationary pressures or increases in interest rates.

The primary impacts of those risks which could significantly affect the future viability of the Group are a decrease in customer orders, reducing revenue, and an increase in the Group's costs, including those resulting from the impacts of climate change on materials and suppliers, reducing profitability. The effect of 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. Cost increases were modelled on general and specific assumptions for inflation. The analysis considered a range of severe but plausible scenarios impacting revenue and margin, a significant reduction in customer spending, and impacts on profitability from inflationary cost pressures and interest rate rises.

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 assumes a further underlying contraction in the Group's market of 5% in FY24, from an already low base relative to pre-pandemic levels, followed by a slow recovery (mid single digit annual growth) in subsequent years. The base case also reflects a cautious assessment of the anticipated growth in the Group's market share driven by delivery of our strategic initiatives. Revenue is assumed in line with order intake, keeping order bank levels relatively consistent across the assessment period.

Gross margin percentage for FY24 is expected to be ahead of FY23 through more effective sourcing and the annualised impact of price increases and freight rate reductions already implemented. Other costs reflect anticipated inflationary increases and benefits from specific cost saving initiatives. Capital expenditure is assumed to remain in line with planned investments and 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.

The viability assessment reflects the continued availability of the Group's debt facilities which from 1 September 2023 comprise a £200.0m revolving credit facility maturing in September 2027 (with an option to extend to January 2029) and £50.0m of fixed rate private placement debt notes £25.0m maturing in September 2028 and £25.0m maturing in September 2030.

Results

The range of severe but plausible scenarios included a market decline of up to 10% in FY24, further interest rate rises of 2%, and a sustained reduction in gross margin.

These impacts were modelled individually and in certain combinations, in conjunction with a range of mitigating actions that could be taken to preserve the Group's profitability and cash flows. Mitigating actions included reductions in discretionary costs and capital expenditure and a reduction or pause in dividend payments. Reverse stress-testing was also performed on the most severe scenarios.

The Group maintained both covenant compliance and sufficient liquidity in all these scenarios. Based upon this assessment the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and remain commercially viable over the three year period of assessment.

SECTION 172 STATEMENT

Section 172(1) (a)-(f) of the Companies Act 2006 ('Section 172(1)') requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

The Directors have had regard to the matters set out in Section 172(1) when performing their duties. They consider they have acted in good faith, in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with, and are affected by, our business.

Engaging with our stakeholders

As a Board we recognise the importance of balancing the needs and views of all of our stakeholders. Throughout the year we have engaged with all our stakeholder groups to understand the impact of the decisions we make. The Board considers that taken together, the arrangements detailed below deliver an effective means of ensuring the Board stays alert to the views of all our stakeholders. The table below identifies where, in the Annual Report, information on the issues, factors and stakeholders the Board has considered in respect of Section 172(1).

Section 172(1) (a)-(f)			How we engage	Where to find it	Page numbers
A	**The likely consequences of any decision in the long term**	The Board reviewed the progress made against the Group's Pillars and Platforms strategy and ensured that both decisions taken and future plans support the long-term success of the Group.	– Focus is on how we deliver on our purpose and ensure we live up to our values. – Focus on how we manage the Group's cost base given the current economic uncertainty. – Look to ensure we balance the way we reward our people with how we provide a return on investments to our shareholders.	– Our strategy – Key performance indicators – Financial review – Principal risks and uncertainties – Viability statement – Corporate governance report – Directors' remuneration report	17 19 - 20 21 - 24 28 - 34 35 65 - 70 78 - 99
B	**The interests of our colleagues**	Our colleagues are critical to the success of our business and the Board has ultimate responsibility for ensuring the Group's decisions consider their interests. During the year colleagues have taken part in our Voice forums held by members of the Board to raise any concerns or issues with them directly.	– Regular virtual & in-person Town Halls are hosted by the Group Chief Executive Officer. – Regular briefings to the Board by the Chief People Officer on employee-related matters, including engagement activities, the results of opinion surveys, retention rates, learning and development activity, pay and reward initiatives. – We encourage open and honest discussions with our colleagues but for those who wish to report concerns anonymously we have an independent whistleblowing helpline.	– Chair's statement – Our fundamentals – Chief Executive's report – Our strategy – Key performance indicators – Responsibility and sustainability report – Principal risks and uncertainties – Corporate governance report – Directors' remuneration report	8 - 9 7 10 - 12 17 19 - 20 39 - 61 28 - 34 65 - 70 78 - 99
C	**The need to build strong beneficial relationships with our customers and suppliers.**	Managing these relationships is critical in ensuring the Group delivers on its strategy. We are committed to bringing great design and comfort to our customers, in an affordable, responsible, and sustainable manner. We regularly engage with our suppliers to discuss how we can achieve our purpose.	– We conduct regular focus groups for customers to review our new products. – Ensuring we have the market leading financial services products (IFC and our product insurance) available for our customers. – We seek feedback from our customers through Net Promoter Score ('NPS') customer satisfaction surveys. – Monitoring our own manufacturing operations and our third party suppliers to ensure quality and safety standards are met.	– Chair's statement – Our fundamentals – Our business model – Chief Executive's report – Market overview – Responsibility and sustainability report – Corporate governance report – Directors' remuneration report	8 - 9 7 16 10 - 12 13 39 - 61 65 - 70 78 - 99

SECTION 172 STATEMENT CONTINUED

Section 172(1) (a)-(f)		How we engage	Where to find it	Page numbers
D **The impact of the company's operations on the community and the environment**	As a responsible business, the Group is committed to acting in the best interests of our communities and in a sustainable manner. We are committed to working to lessen our impact on the environment and improve the communities in which we operate. Led by the Responsible and Sustainable Business Committee the Group's ESG strategy has clear targets that aim to integrate sustainability throughout all aspects of our business, to minimise any adverse impact we might have on the environment.	– We support national charities, including Children in Need and during the year Sofology established a national partnership with Home-Start. In addition the Group provided over £650,000 of our products to a range of good causes. – We give colleagues volunteer days to help them get involved in the communities in which we operate. – We are focused on developing new sustainable products to reduce our carbon footprint.	– Chair's statement – Our fundamentals – Chief Executive's report – Our strategy – Responsibility and sustainability report – Principal risks and uncertainties – Corporate governance report	8 - 9 7 10 - 12 17 39 - 61 28 - 34 65 - 70
E **The desirability of the company maintaining a reputation for high standards of business conduct**	We have strong internal governance processes and all our colleagues receive mandatory online training on Our Code of Conduct, Data Protection, Modern Slavery, Cyber Security and Anti-Bribery & Corruption. Our suppliers are required to comply with our supplier code of practice which details our requirements for product quality, safety, employee standards and anti-bribery and corruption policies. We seek to have a positive and constructive relationship with the regulatory bodies that authorise and regulate our business activities.	– We are transparent in our approach and publish our policies including our Employee Code of Conduct on our corporate website. – We have a clear Tax Strategy. – We rolled out our 'Consumer Duty' compliance programme to all employees in customer facing roles.	– Responsibility and sustainability report – Corporate governance report – Directors' remuneration report	39 - 61 65 - 70 78 - 99
F **The need to act fairly as between members of the company**	The Board seeks to ensure Investors receive a fair and balanced return on their investment. During the year the Board approved a £10m share buyback and paid investors an interim dividend in line with the Capital & Distribution policy of 1.5p. Throughout the year the Group has continued to engage with our investors to ensure their views and interests are taken into account when making decisions.	– We publish regular financial reporting and trading updates via RNS. – A series of events is held throughout the financial year, including our AGM, and presentations of our half-year and full-year results. – The Board meets with investors and potential investors throughout the year. – Management have regular discussions with our banks about our strategic priorities.	– Chair's statement – Our business model – Corporate governance report	8 - 9 16 65 - 70

SECTION 172 STATEMENT CONTINUED

The chart below demonstrates the Board process in considering Section 172(1) in its decision-making.

Board papers highlight information considering Section 172(1) matters

Board Information

Our Board continually engages with stakeholders

See **page 36** for more information

The Group's culture helps ensure that there is proper consideration of the potential impacts of decisions

Board Strategic Discussion

Section 172(1) matters are considered in the Board's discussions on strategy, how decisions impact a stakeholder group and underpin long-term value creation, and the implications for business resilience

Actions taken as a result of Board engagement

Board Decision

Outcomes of decisions assessed and further engagement and dialogue with stakeholders

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 –Engaging our colleagues – page 36 Responsibility and Sustainability report – pages 39 to 61 Directors Remuneration report – pages 78 to 99	– Diversity & Inclusivity Policy – Equal Opportunities Policy – Whistleblowing Policy – Group Health and Safety Policy
Anti-corruption and anti-bribery matters	Responsibility and Sustainability report – page 51	– Group Employee Code of Conduct – Anti- Bribery Policy – Supplier Code of Practice – Whistleblowing Policy
Respect for human rights Modern Slavery	Responsibility and Sustainability report – page 53	– Anti-Slavery and Human Trafficking Policy – Modern Slavery Statement – Data Protection Policy & Privacy Policy – Group Human Rights Policy
Social matters	Responsibility and Sustainability report – pages 39 to 61	– Tax Strategy – Group Employee Code of Conduct – Group Communities and Charitable Giving Policy
Environmental matters	Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 37 Responsibility and Sustainability report – pages 39 to 61	– Environment Policy – Group Timber Policy – Group Leather Policy

Copies of all our policies are available at https://www.dfscorporate.co.uk/governance/policies-statements.

"The Responsible and Sustainable Business Committee remains focused on ensuring the business is supporting Our People, Our Planet, Our Customers and Our Communities."

ALISON HUTCHINSON
Chair of the Responsible and Sustainable Business Committee

→ Bio on **page 63**

A responsible and sustainable business

As the largest upholstery business in the UK, we are conscious that we have the opportunity, and the privilege, to lead in many areas, including sustainability, inclusion, and diversity, as well as supporting the customers and communities in which we live and work.

The role of the Responsible and Sustainable Business Committee ('RSC') is to provide support and governance, ensuring we are driving change whilst creating value. The four pillars – Our People, Our Planet, Our Customers and Our Communities – ensure we are looking at every aspect of our business impact, and taking steps to make it a positive impact where we can.

This year, we built on the successful launch of our Everyone Welcome strategy in 2022, by focusing on creating a team which reflects the diverse society we live in while providing support through leading wellbeing programmes on menopause and mental health. We have always invested heavily in training for our teams, and we are particularly proud of the launch of our Driver School, training Class 2 drivers to address a critical skills gap in the UK and unlock new career paths for over 120 people so far. Ensuring we are creating a fair and equal workforce, where everyone is welcome, will continue to be a core area of focus in the year ahead.

Collaboration and engagement are at the heart of our Planet pillar. We regularly hear from our suppliers that we are leading the sustainable agenda in the industry. The Sofa Cycle framework, though only three years old, has proved to be a strong blueprint. Our new Sustainable Sourcing Policy embodies our supportive approach, ensuring we add value where we can through greater transparency and third-party certification. In fact, we have developed our Science-based Net Zero strategy with engagement at the core, as we know partnership is the only way we will achieve our ambition of Net Zero by 2040.

We are particularly proud of the giant leaps we made on product innovation this year, laying foundations for our circular ambitions with the award-winning cushions for the Grand Designs ranges at DFS and the launch of the fully circular Gaia range at Sofology. In the year ahead we will continue our collaborative approach, by supporting our own manufacturing partners with their own Net Zero strategies and collaborating with our raw material suppliers to develop solutions for a circular economy.

Our customer service and quality teams worked tirelessly to surprise and delight our customers with outstanding service over the past 12 months. This effort is reflected in our strong Trustpilot and established customer NPS scores. Looking forward, we are concentrating on driving awareness of our volunteering initiatives and providing support to colleagues to give back to our communities, particularly through our partnerships such as Home-Start.

As leaders within our sector, we are committed to ensuring this business acts responsibly and sustainably. We have achieved so much already, as illustrated in the case studies shared in this report and we are looking forward to the year ahead.

ALISON HUTCHINSON
Chair of the Responsible and Sustainable Business Committee
Senior Non-Executive Director

Our Pillars and Highlights

Our People

We believe attracting, developing, and retaining colleagues from a variety of backgrounds with the right skill sets and mindset is crucial to the success of the business.

Our Planet

We are committed to reducing our environmental impact and our carbon footprint to reach Net Zero by 2040.

Our Customers

We ensure we act ethically and transparently while supporting our customers in making sustainable choices.

Our Communities

We are proud to be part of hundreds of communities across the UK and we are committed to helping each community thrive.

UNDERSTANDING OUR PEOPLE

more than

>99%

response rates on protected characteristics survey

BUILDING A HEALTH & SAFETY CULTURE

Reduced accidents by

20%

in the past year

DELIVERING EMISSION REDUCTION

FY23 total carbon footprint

387

kt CO_2e

SUSTAINABLE SOURCING

80%

of all upholstery body fabrics now OEKO-TEX STeP certified

INNOVATIVE AND AWARD-WINNING PRODUCT DESIGN

Launched fully circular sofa range and award-winning recyclable seat cushions

NEW CHARITY PARTNERSHIP

Home-Start partnership providing support direct to our communities

SUPPORTING OUR CUSTOMERS

Sofology established customer NPS score improvement from

-30 to +20

INVESTING IN OUR PEOPLE

129

participants in our Driving School programme with 69 graduates

Our ESG Targets

Our Targets			Target date	Status	Performance
Our Planet	**Sustainable sourcing**	Sustainably sourced timber (certified FSC & PEFC) used in all products	December 2025	↑	Upholstery 27%; Home 53%
	Sustainable sourcing	All leather used on upholstery sourced from supply chains with LWG certification	December 2024	↑	FY23 51%
	Sustainable sourcing	OEKO-TEX STeP certification for upholstery ranges for cotton, viscose and polyester	July 2022, 2023 and 2024 respectively	↑	Cotton 87%; Viscose 78%; Polyester 81%
	Sustainable sourcing	Cotton textiles sourced through suppliers with Better Cotton membership (BCI) by July 2024	July 2024	↑	FY23 40%
	Sustainable sourcing	Bromide-free FR treatment across all fabrics	December 2025	↑	FY23 47%
	Sustainable sourcing	Zero polystyrene in product packaging	December 2024	↑	Upholstery 100%; Home 3%
	Carbon reduction	Reduce scope 1 CO_2 emissions by a minimum of 10% (baseline FY18/19 – 16,873 t CO_2e)	December 2023	↑	FY23 9.1%; 15,297 t CO_2e
	Carbon reduction	Science-based targets approved by SBTI	July 2024	↑	FY22 – FY24
Our People	**Inclusion and Diversity**	50% of employees engaged in data collection of protected characteristics to set more specific diversity targets	December 2023	✓	Responded 64%
	Inclusion and Diversity	A minimum 50% showroom management will be female	December 2024	↑	FY23 33:67 (Female : Male)
Our Community	**Charity**	15% of our non-operational colleagues will support community-based organisations through paid volunteering by June 2023	June 2023	✗	FY23 40 days
	Charity	Gift £650,000 to charities through fundraising and donations	June 2023	✓	FY23 £660,000

Key ✓ Achieved ↑ In progress ✗ Missed — Responsible sourcing certified materials — Policy available (human rights, timber etc) — Externally assured — Bonus target

Please refer to our Basis of Reporting document for a full explanation for these targets and their methodologies dfscorporate.co.uk/esg/responsible-and-sustainable-business. Where data is shared by supplier partners, which is difficult to verify, it is reported in good faith. All information provided represents end of financial year (FY23) figures unless otherwise stated.

OUR PEOPLE

Our commitment to our team

Strategy summary
Our core values 'Aim High, Be Real and Think Customer' are at the heart of how we operate as a business and as a team. We take pride in fostering an environment in which colleagues feel welcome, free to be themselves and thrive. We believe that attracting, nurturing and retaining colleagues with the skill sets, attitudes and motivation, from a variety of backgrounds is critical to the success of the business.

At DFS Group we pride ourselves on cultivating an open environment for our colleagues in which everyone feels welcome and is encouraged to share their thoughts, ideas and opinions, as well as their involvement in how we improve as a business. To attract, retain and develop our colleagues to their full potential, we need to promote an inclusive and diverse workforce across all areas of the business, provide equal opportunities and treat all colleagues fairly and with respect. We invest in our people, providing opportunities for personal and professional development so that everyone can fulfil their potential.

KEY FIGURES

20%
Reduction in accidents following H&S awareness campaign

64%
Colleagues shared protected characteristics data to support diversity and inclusion

24,000
Non-mandatory training modules completed

Inclusion

Understanding our employee population and how we can best support them, particularly in their skills and development, is critical to our success. Our Inclusion agenda has been constantly evolving to maintain momentum and stay relevant, responding to the energy of our people.

In March 2023, we conducted our first in-house colleague engagement survey called Your Say, which included capturing colleague demographic data. Over 64% of colleagues completed the survey, and of those >99% provided their protected characteristics. This level of response rate allows us to be confident in the data that's been provided. Key findings of this exercise.

- 29% of colleagues identify as Black, Asian and minority ethnic (BAME), this compares with 20.5% from the 2021 Census in England and Wales.
- 8% of our colleagues are from the LGBTQIA+ community (the latest Census data collected a 3.2% return of LGBTQIA+ people).

Alongside our well-established LGBTQIA+ network, our Disability Inclusion, Black Heritage and Women's Networks were launched in FY23. We view these spaces as a launchpad for change from the perspective of a collective voice, whilst also providing colleagues from marginalised groups with a safe space to connect with like-minded people, helping to create a sense of community and belonging for everyone.

Our Inclusion Council is made up of voluntary members across the Group, representing minority communities, who work together with our brand leads and Executive Sponsors. This forum enables open and honest conversation about where we are culturally and inspires future activity.

Creating a balanced gender mix in our store leadership is a continued area of focus; currently 26% of store leaders in DFS and 44% of store leaders in Sofology are female. This brings the total female leadership in our stores to 33% across DFS Group. In the year ahead we'll continue to focus on shaping our teams in line with our values.

Training

We believe we have the best people on our team and to ensure they evolve with the business; we invest heavily in continued education.

Our Learning Management System has been accessed by 6,000 colleagues during the year, with 22,600 mandatory learning module completions, and 24,000 non-mandatory modules completed.

Over 100 leaders attended our Inclusive Leaders programme, to ensure our Everyone Welcome approach is being led from the top. Additionally, our middle managers attended programmes within our Leadership Academies – amassing nearly 2,000 hours learning in total.

Employee wellbeing

Our wellbeing priority is to enable every colleague to proactively live happy and healthy lives. We strive to help colleagues to feel confident to have conversations about their wellbeing and access tailored support.

We launched a Winter Wise campaign which focused on supporting colleagues through a tough macro-environment, and provided extra support over the Christmas period with a Thank You voucher. In March 2023, we launched a discounted Health Cash Plan scheme with Westfield Health, giving colleagues access to a 24/7 private GP line and the ability to reclaim certain health costs such as dentistry and physiotherapy.

We also have mental health first aiders across the business providing accessible support. In 2023 we trained an additional ten volunteers bringing the Group total to 78.

To ensure our employees can find the work-life balance that suits them, we introduced a Holiday Buying (salary sacrifice) scheme giving colleagues the opportunity to buy up to one week's extra holiday to use within the holiday year.

Health and safety campaign

Reducing our accident rate was a high priority for the business in FY23. The Health and Safety (H&S) Team created a campaign focused on raising awareness, encouraging conversations, and providing visuals and engagement materials to help with the on-boarding of the teams across all areas of the business. Primarily, every employee needs to understand what they can and should do to reduce the risk of injury and build a more proactive safety culture.

We launched a safety culture campaign across the DFS Group in the financial year with the overall aim to reduce the number of significant incidents. This included leadership training with conversation guides, safety training requirements for all visitors and H&S branding including tone of voice for conversation guides and animations for training.

The Be Safe Taking Care campaign is now used in all communication and learning materials and has delivered a 20% reduction in accidents. Preventive observation reporting has significantly increased delivering a proactive approach to health and safety.

In FY23 the team were awarded High Commended at the SHE awards for The Best Health and Safety Project for their rollout of a Vehicle Key Control Project across all The Sofa Delivery Company distribution centres

Our Learning Management System has been accessed by

6,000

colleagues during the year

22,600

mandatory learning modules completed

Number of leaders who attended our Inclusive Leaders programme

100+

CASE STUDY

Our Driver School

The ongoing shortage across the UK of HGV drivers is well documented, especially of 7.5 tonnes delivery drivers, a key business critical role for our logistic platform, The Sofa Delivery Company.

To react to the skills gap, caused in part through the government's removal of the 7.5t driving licence 'Acquired Rights', we decided to develop our own licence acquisition programme, with the objective of securing a pipeline of the 7.5t drivers to meet the needs of the business as we deliver against our strategy.

Our Driving School programme reaches further than the driving element of the role. It sets trainees up successfully as furniture installation experts, meeting our customers' expectations and delivering the moments that matter for our customers.

The programme has been running for over 12 months now and is a great option to offer to our warehouse teams to progress their careers within the Sofa Delivery Company. As well as delivering significant value and results for the organisation, it works particularly well where we have had volume recruitment needs.

In FY23 we have seen 129 trainees, of which 69 have graduated and another 60 are currently in progress. Additionally, the turnover rate amongst graduates is much lower than the industry average, just 7% versus 20% which demonstrates the success of the approach in meeting this big skills gap.

OUR PLANET

Our roadmap to the future

Strategy summary
Our environmental strategy, the Sofa Cycle, launched in 2019, illustrates our ambition to become a circular business. It also provides a framework to ensure we are tackling our environmental impact at every area of the value chain and product life-cycle. Defined in the three key pillars of sustainable sourcing, carbon reduction and circularity, we have developed a roadmap to reduce our impact and ensure we achieve our Net Zero ambition by 2040.

Our approach became clearer this year with some fantastic innovations from our manufacturing partners and smart reduction initiatives across our operations. Supplier engagement proved ever more critical to us, a cornerstone in our Net Zero strategy and SBTI plans.

KEY FIGURES

Our total carbon footprint scope 1,2 (market-based) and scope 3 is

387kt CO_2e

Reduced scope 1 & 2 emission intensity by 26% to FY18/19 baseline

26%

Of all textiles are OEKO-TEX STeP certified

Over 80%

Over 70% of upholstery suppliers are FSC certified

70%

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

Better sourcing

In FY23 we introduced a new Sustainable Sourcing Policy to ensure our manufacturing partners and extended value chain are all clear about our ambition and expectations from them, not only from ethical sourcing but also material sourcing to reduce their environmental impact. The document outlines the principles behind our sourcing policies and sets standards for suppliers.

The policy will continue to be updated as we meet targets and set new targets such as requiring bromide-free fire retardants (FR) by 2025 and sourcing Better Cotton to ensure better water management and labour practices.

Timber

The Ukraine conflict continued to create disruption in the timber markets, limiting availability resulting in inflation. Hence, we took the decision to expand the scope of our timber certification requirement for all timber products by 2025 to include PEFC (Programme for the Endorsement of Forest Certification) as well as FSC (Forest Stewardship Council). At present, 70% of all upholstery manufacturers are FSC certified.

Leather

Our leather certification target is to ensure all our leather is sourced from Leather Working Group (LWG) certified supply chains. Our due diligence through Track Record Global traces the leather hides back to farm or slaughterhouse to ensure they are sourced outside the Amazon biome.

The relationship between the slaughterhouse and wet blue/curer is critical to our traceability efforts so we widened the scope of our certification ambitions to include these in the target. This also aligns to LWG's new traceability requirement within the certification protocol which only extends to the wet blue level.

As members of the LWG Traceability Group we took the opportunity to partner with WWF on deforestation and conversion policy and implementation review along with nine other leading retailers. The programme focused on creating aligned and effective policies and plans which drive collective change and widen the conservation areas to include other biomes across South America. This project is ongoing and will be completed by the end of 2023.

Textiles

Our ambition to ensure OEKO-TEX STeP certification across all our materials by June 2024 is making excellent progress, with over 80% of all body-upholstery fabrics now certified.

The OEKO-TEX STeP certification is a holistic on-site audit of textile mills to ensure responsible sourcing of materials, handling of chemicals and waste, ethical labour practices and environmental stewardship. No suppliers in the value chain held certification when the target was launched.

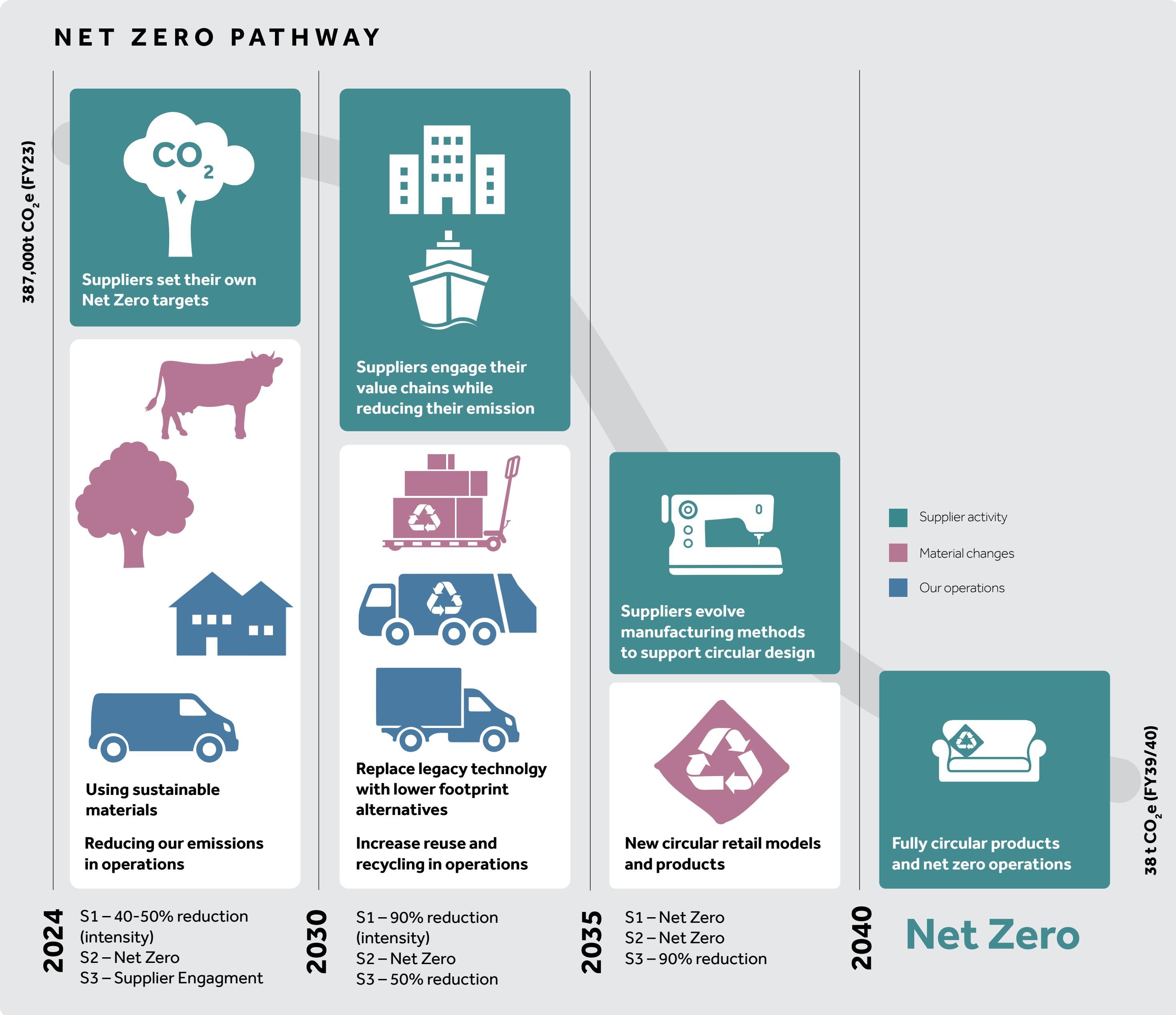
Cotton continues to be an area of concern in the textile industry due to labour and environmental impacts. In FY23 DFS Group introduced a new target for Better Cotton sourcing to ensure all material is fully traceable and sourced responsibly.

Chemicals and waste

In FY23 we launched a new target of bromide-free FR to be used on all upholstery ranges by 2025. FR is currently a legal requirement of all domestic upholstery in the UK and has historically used intensive chemicals, including Deca BDE, a persistent organic pollutant which was banned in 2019. The bromide-free target is aimed to enable recycling of upholstery fabrics which will not be possible with bromide-treated material. The new bromide-free treatment process is far more laborious, requiring significant testing on each fabric type and colourway to ensure the treatments do not affect the performance of the fabric.

New legislation came into effect in 2023, barring all upholstery from landfill due to the historical use of Deca BDE. Any upholstery reaching the end-of-life must now be incinerated to ensure the FR chemicals do not contaminate the environment. Our ongoing partnership with Clearabee easily enabled customers to ensure their old sofas were collected and disposed of responsibly with 83,993 items collected in FY23.

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED



Our Net Zero strategy

Our ambition to reach Net Zero by 2040 is aligned to the Climate Action Roadmap. However we use the definition of Net Zero – 90% absolute reduction in emissions across all three GHG scopes compared to baseline year FY23 and the residual or unabatable emissions offset through carbon credits.

Over the past year, we have developed a plan to achieve our Net Zero ambition from many different angles and come to a clear conclusion. We will only reach Net Zero by 2040 by becoming a circular business.

We have divided this into three key themes and in three key phases.

PHASE 1 – FY24-29

First we are tackling areas within our control such as modifying our own operations to lower emission technologies and specifying lower emission materials. But with 95% of our emissions in our supply chain, we need to engage our manufacturing and upstream transportation partners to look at their own footprint.

PHASE 2 – FY30-34

In the second phase we will encourage our suppliers to introduce their own operational reductions while engaging their value chains in Net Zero planning. Internally we will continue to roll out our reductions through material changes and implement the last of the low carbon technology for our delivery fleet. We will also ensure we have built infrastructure to support reverse logistics for a circular business.

PHASE 3 – FY35-39

The final phase is to ensure all our suppliers are engineering their designs to enable circularity, either as finished products or components of products. Our business model will evolve to support customers in the circular economy.

Much of this plan relies on innovation and development of new technologies and infrastructure, particularly in our logistics, materials and manufacturing methods. We now have clarity on what we need to do in the short-term to ensure we deliver our long-term ambition.

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

Scope 1 & 2 progress
As we continue to reduce our carbon footprint on scope 1 emissions we are replacing gas heating with electric heating, in the form of infra-red panels and Heating Ventilation and Air Conditioning (HVAC) systems, which consume more electricity. Though we use 100% renewably sourced electricity, there is currently a limited supply and it is subject to increasing costs.

To tackle this problem in FY23 we tested infrared panels across the estate, including in distribution centres where heating at scale is difficult to achieve with HVAC alone. Additionally, we installed building management systems which help centrally control temperatures at site level and implemented an energy management and monitoring portal to identify high consuming sites using their energy profiles which resulted in a 13% reduction in energy consumption year-on-year. These results were achieved despite increased operational hours from five days to seven days in The Sofa Delivery Company and adding a new manufacturing site to the property portfolio.

The Sofa Delivery Company completed their strategic operational changes in FY23 with the consolidation of the Customer Delivery Centres and embedding a postcode optimisation project, to ensure every journey is as efficient as possible. The team have also trialled several lower emission vehicles in order to build our Net Zero strategy. Electric cars, vans and 3.5 tonne vehicles will be prioritised to deliver near-term reductions, but the efficiency and infrastructure to support electric or hybrid 7.5 tonne and HGV vehicles is in its nascent development to commit to a specific technology at this time.

Scope 3 progress and plan
In FY23 our target was to create a credible carbon reduction roadmap to submit to the Science-Based Targets Initiative (SBTI).

Each member of the Leadership Team sponsors the development of our decarbonisation strategy for at least one category. Working collaboratively across the Group, we developed a strategic approach for each aspect of our footprint. The initiatives varied in scale and scope, from a clear timetable for investment in low-carbon technologies to plans for a salary sacrifice scheme to support employees adopting electric vehicles to reduce our emissions from our employees' commute (launch date to be confirmed).

We determined that it would only be possible to tackle our largest contributing areas, product and transport, by ensuring our suppliers are on the journey with us and equally committed to our Net Zero ambition. As such we have set a Supplier Engagement target for our scope 3 emissions category 1 (Purchased goods and services) and 4 (Upstream transportation and distribution).

Our Supplier Impact Assessment conducted in FY23 illustrated low understanding of the climate change emergency amongst our suppliers, with few having calculated their footprint or set a net zero ambition.

Our carbon target in FY24 is to secure a commitment from suppliers who contribute at least 20% of total scope 3 emissions (30% of emissions required for SBTI submission), to create their own science-based targets (excluding internal manufacturing). We will use the next 12 months to build solid foundations of understanding of what is needed and how we can collectively tackle our environmental impact together.

Scope 1 and 2 emissions

The tables below show our energy use and associated Greenhouse Gas emissions in line with the UK Government Streamlined Energy and Carbon Reporting Requirements (SECR).

	FY23 MWh	FY22 MWh	% increase/ (decrease)
Electricity	**27,006**	28,930	(6.65)
Natural gas	**18,717**	23,405	(20.03)
Diesel and kerosene	**41,304**	42,774	(3.44)
Petrol	**5,698**	3,164	80.09
Electric vehicles*	**256**	–	–
Propane*	**200**	–	–
Total energy consumption	**93,181**	98,273	(5.18)

* To enhance the quality and coverage of our energy reporting, we have incorporated the electricity consumption data from our electric vehicle fleet and propane consumption data this year.

	Absolute emissions (tCO_2e)							Emission intensity (tCO_2e/£m gross sales)				
	FY23	FY22	% Increase/ (decrease)	FY21	FY20	FY19	Notes	**FY23**	FY22	% Increase/ (decrease)	FY21	FY20
Scope 1 emissions	**15,297**	16,215	(5.7)	18,058	17,462	16,873	1	**10.7**	10.9	(1.58)	13.0	18.6
Scope 2 emissions							1					
Market based	**104**	223	(53.5)	1,697	5,195	6,189	2	**0.1**	0.1	(51.45)	1.2	5.6
Location based	**5,684**	5,828	(2.5)	5,797	5,195	6,189		**4.0**	3.9	1.75	4.2	5.6
Total scope 1+2 MB	**15,401**	16,438	(6.3)	19,755	22,657	23,062		**10.8**	11.0	(2.1)	14.2	24.2
Gross sales (£m)								**1,423.6**	1,487.7		1,388.7	935.0

Footnotes
1. Scope 1 and 2 GHG emissions and intensity data was subject to external independent limited assurance by DNV for the year ended 30 June 2023. DNV's assurance report is available on our corporate website at dfscorporate.co.uk.
2. We have increased our renewable energy contract to cover 99% of our electricity consumption, and increase from 96% from last year. Additionally, we have completed the closure of our European operations which were completed in October 22, which also contributes to the reduction in market-based emissions.

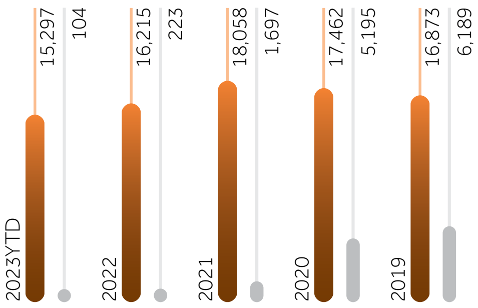
We engaged Normative.io to support our carbon accounting in FY23 (previously Planetly). Their methodology strictly adheres to the GHG protocol and enables us to continually build and refine our carbon model. We used primary data to calculate our scope 1 and 2 GHG emissions and a combination of activity data (e.g. waste, commuting) and spend-based data (e.g. water) for scope 3.

Our Carbon Methodology

DFS conducts greenhouse gas accounting and reporting in accordance with the Greenhouse Gas Protocol (GHGP). To refine our data for this financial reporting year, we engaged Normative, who employed a different carbon calculation methodologies and emission factor databases to Planetly (FY19 – FY22).

We improved the accuracy of our calculations through increased supplier data, including material, waste and energy consumption and utilised a hybrid methodology of spend and activity data which resulted in a net decrease of 15% on our overall footprint. We will continue to adjust our methodologies as per the requirements of the Greenhouse Gas Protocol and The Science Based Targets Initiative and work with our suppliers to improve data quality.

Scope 1 & 2 emissions

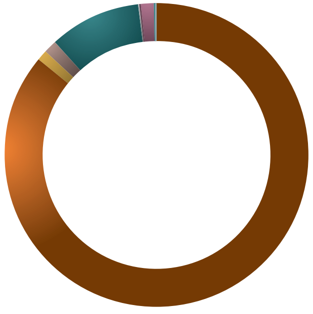


Scope 3 emissions*

	Absolute emissions (kt CO_2e)						Emission intensity (kt CO_2e/£bn gross sales)					
	FY23	FY22	% Increase/ (decrease)	FY21	FY20	FY19	**FY23**	FY22	% Increase/ (decrease)	FY21	FY20	FY19
3.01 – Purchased goods and services	**320.0**	321.1	(0.34)	309.2	215.8	284.8	**224.8**	217.6	3.30	222.6	230.8	244.5
3.02 – Capital goods	**3.7**	17.4	(78.78)	15.1	10.3	8.2	**2.6**	11.7	(77.83)	10.9	11	7
3.03 – Fuel and energy related activities	**5.2**	4.0	29.42	4.2	4.0	3.9	**3.6**	2.7	35.25	3.0	4	3
3.04 – Upstream transportation and distribution	**36.7**	74.6	(50.74)	58.5	33.2	36.7	**25.8**	50.1	(48.53)	42.1	36	32
3.05 – Waste generate in operation	**0.3**	1.4	(81.57)	1.3	0.9	1.3	**0.2**	0.9	(80.74)	0.9	1	1
3.06 – Business travel	**0.5**	1.2	(60.56)	0.8	1.3	1.3	**0.3**	0.8	(58.78)	0.6	1	1
3.07 – Employee commuting	**4.8**	4.7	3.00	4.1	4.5	5.4	**3.4**	3.2	7.63	3.0	4.8	4.6
3.08 – Upstream leased assets	**0.6**	4.0	(85.37)	3.2	3.1	2.5	**0.4**	2.7	(84.71)	2.3	3.3	2.1
3.11 – Use of sold products	**0.0**	0.6	(97.80)	0.7	0.5	0.7	**0.0**	0.4	(97.70)	0.5	0.5	0.6
3.12 – End of life treatment of sold products	**0.1**	10.2	(98.78)	9.7	7.1	9.0	**0.1**	6.9	(98.73)	7.0	7.6	7.7
Total scope 3 emissions	**371.9**	439.2	(15.32)	406.8	280.7	353.8	**261.2**	297.0	(11.51)	292.9	300.0	303.5

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

2023 scope 3 emissions by category (kt CO_2e)



- 3.01-Purchased goods and services – 320.0
- 3.02-Capital goods – 3.7
- 3.03-Fuel and energy related activities – 5.2
- 3.04-Upstream transportation and distribution – 36.7
- 3.05-Waste generate in operation – 0.3
- 3.06-Business travel – 0.5
- 3.07-Employee commuting – 4.8
- 3.08-Upstream leased assets – 0.6
- 3.11-Use of sold products – 0.0
- 3.12-End of life treatment of sold products – 0.1

* Where data is shared by supplier partners, which is difficult to verify, it is reported in good faith. All information provided represents end of financial year (FY23) figures unless otherwise stated.

A Circular Business

Circularity is a critical aspect of our Net Zero strategy. Without reuse of materials, it will be almost impossible to reduce our carbon footprint to Net Zero. Traditional manufacturing techniques and current materials make circularity almost unachieveable, due to material contamination and degradation.

In FY23 both DFS and Sofology developed important, innovative first steps to fully circular product ranges with the launch of the Gaia range in Sofology and an award-winning sprung seat solution for the Grand Designs range at DFS.

CASE STUDY

Our first circular product range

The Gaia range from Sofology, launched in November 2022 and is a truly innovative approach to manufacturing upholstery, created with circularity in mind.

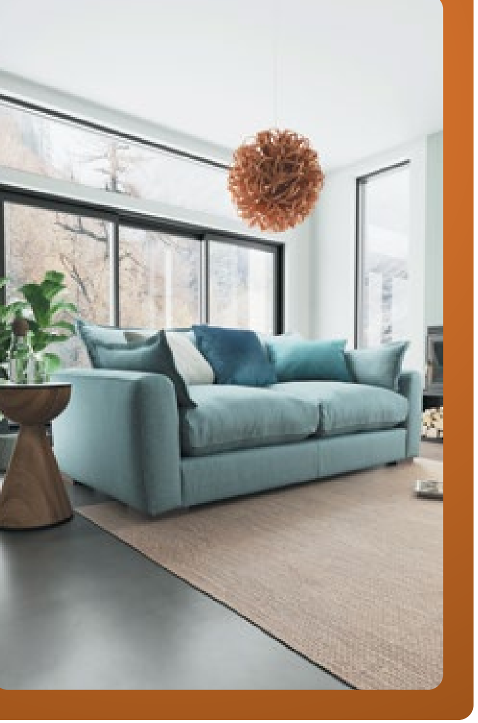
The traditional upholstery method requires a layered approach, using staples to fix the layers of foam, fabric and fibre to the timber frame, making reverse engineering a sofa almost impossible. This compromises any possibility of extracting the raw materials at the end-of-life for circularity.

The Gaia is the first of its kind, with patent-pending innovation. The Gaia employs a loose cover design which appears like a fixed cover, using a unique combination of materials and design engineering.

The Gaia range has been designed for a customer to dismantle easily, including removing and replacing covers and seat cushions and as well as screws and velcro (adhered with a water-based glue), ensuring each material can easily be separated and recycled.

The materials used throughout Gaia are also the lowest impact options available today such as recycled polyester fibre with inherent FR (Fire retardants) ensuring there is no chemical leaching into other materials, recycled fibre and plastic struts, bio-based foam and FSC-certified timber. Recycling some of these materials is possible today, and by extending the long-life cycle of upholstery by replacing components as needed and reconfiguring the modular design to suit lifestyle choices, the Gaia range is a strong first step towards creating a circular business model, the key to the final stage of our Net Zero strategy.

The Gaia range is available in every Sofology store and was proudly launched in partnership with George Clarke, architect and TV presenter with whom we have co-created a number of ranges.



CASE STUDY

Award-winning product innovation

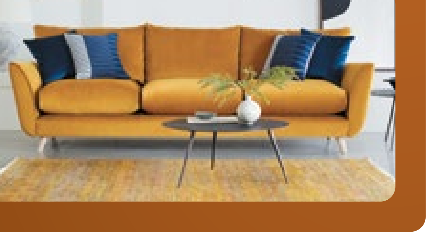
Customers have always appreciated a choice of seat interior, typically either a fully fibre or fully foam seat. The former is a relaxed look, with high comfort and better environmental credentials, but typically much higher maintenance while foam provides a more tailored appearance, retaining comfort and requiring minimal maintenance but with greater environmental impact.

The ambition was to create a seat which could offer the positive attributes of foam with recycling capabilities at the end of life – without compromising on comfort.

Inspired by the technology widely used within the mattress industry, we worked with our manufacturing partner to create a custom-made pocket sprung component, encased within a compressed recycled fibre block, using recycled and recyclable components.

Not only have sales increased by 40% on orders of the Grand designs Lambourne range, but FIRA, the Furniture Industry Research Association awarded the seat cushion a Gold award for innovation.

https://www.dfs.co.uk/content/grand-designs



OUR CUSTOMERS

Our customers, our commitment

Strategy summary
Customers are at the heart of our business, in our core values, how we shape our operations and, in many ways, how we measure our success. Their feedback helps define our priorities, both today and in the future.

We know customers value trust and we work hard to nurture that or rebuild it where we need to. We monitor our quality and customer metrics very closely to ensure we can address issues quickly. Our Net Promoter Score improved during FY23 across both brands, particularly in Sofology.

Quality
DFS is extremely proud to have been awarded the British Standards Institute Kitemark standard for a sixth consecutive year, and we are still the only retailer and manufacturer to hold this accreditation across all our upholstery products. The Kitemark standard involves intensive audits across all our upholstery supplying partners conducted by BSI each year, and includes the factories, machinery, health and safety, manufacturing, compliance, quality and internal audit processes.

We place as much value on a great quality service as we do on great quality products. Voluntary ratings and requests for feedback are not always easy to source from customers, who tend to be more vocal when things aren't running smoothly. Our continued 'Excellent' scores on Trustpilot reflect the outstanding work of our quality and customer care teams.

KEY FIGURES

50 points

established customer NPS score

DFS is awarded the BSI Kitemark award for a sixth consecutive year

Rating on Trustpilot for both brands

'Excellent'

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

Ensuring we surprise and delight our customers, especially when things don't go quite right, is a challenge. Our Trustpilot scores – DFS with 4.8 and Sofology at 4.7 – are a testament to our perseverance and Think Customer values.

Ethical business

Code of Conduct

As part of our belief in being a responsible business, we ensure that all employees undertake a Code of Conduct refresher session each year as part of their mandatory training.

The Code of Conduct outlines our policies and expectations of employees on a number of topics including bribery and corruption, conflicts of interest and data protection.

We are committed to conducting all of our business in an honest and ethical manner, acting professionally, fairly and with integrity in all our business dealings and relationships and ensuring we have effective systems to counter the risk of bribery and corruption.

Data protection policy and cyber security

Protecting our customer information depends upon the continued availability and integrity of our IT systems, and the risk of cyber attacks is ever increasing. Cyber has been identified as a principal risk, see page 31 for further details on the procedures and system in place to mitigate the risk

The Group takes all steps necessary to comply with the principals as set out in the GDPR and DPA 2018 and Data Protection Policy.

CASE STUDY

Sofology customer service

Customer feedback is essential when it comes to making the right decisions on our product range, so after four months of a customer living with the sofa, we send a survey to ask what they think. We call this established customer NPS.

Customers are much more likely to respond to our survey if something has gone wrong, particularly if they had been waiting for some time for a solution to a technical issue. We knew our focus needed to be on dramatically improving the time it takes to get the customer loving their sofa again, as well as improving or removing products that are not good enough.

The solution wasn't about 'doing things faster', but a combination of retraining our contact centre colleagues to have more informative conversations, to identify the problem and deliver a first-contact resolution.

We worked with our manufacturing partners to significantly reduce the number of parts that arrive outside lead time, improved our stock holding of component parts and made sure our own technicians are available in the right areas at the right times. We also set up a clearer product feedback loop to help make data-driven decisions on products. All of these positive steps have helped to reduce the number of customers in the journey by 60% in just seven months, resulting in the NPS score going from -30 to +20 year-on-year.

We still have not seen the full benefits from the progress we have made, but we have laid the foundations for a more streamlined journey for our customers, so they get a resolution that will help them feel at home on a sofa they love now, and in the future.

OUR COMMUNITIES

Our commitment to helping everyone thrive

Strategy summary
We recognise the vital role large organisations can play in supporting the communities in which we live and work and we are committed to helping each community thrive. Our commitment is to invest not only financial capital through our Giving Back initiative but also human capital in time and skills. We are also acutely aware of our duty to protect those more vulnerable, across the UK and our wider value chain by continuing to drive awareness and exercise due diligence to eradicate modern slavery.

We launched our Giving Back programme in 2021, in which we have committed to raise and donate up to 1% of our profit before tax every year, give every colleague one day's paid volunteering and donate up to 1% of our products (by volume) each year to charitable causes.

From planting trees to helping at local homeless shelters, every one of our colleagues is encouraged to get out into their community and support a cause close to their heart.

We missed our volunteering target, in part due to the demand for focus on business challenges.

KEY FIGURES

Number of logistics managers who were provided with modern slavery training

>60

GNFR suppliers risk assessed for forced labour in their operations and value chain

250

Donated to charity in FY23

£660,000

In FY24, we are focusing our efforts on creating more opportunities and structure to ensure colleagues engage in volunteering. We have found focusing on projects within the communities colleagues live ensures they see how they can have an impact which leads to better engagement and outcomes for all.

DFS has continued to partner with BBC Children in Need and donated over £660,000 in FY23. All DFS sites, including stores, factories and delivery centres are partnered with a BBC Children In Need funded project within 10 miles of their location. Sofology launched a new charity partnership in FY23 with Home-Start.

Modern slavery
We have always been committed to ensuring that we demonstrate the value of people, in all aspects of our value chain, they are at the heart of our business. This includes ensuring that our supplier partners, in every part of the business, are aligned to our values.

In addition to our continued manufacturing partner ethical audits, in 2022 we conducted a desktop audit of our top 250 GNFR (Goods Not For Resale) supplier partners in higher risk sectors. This covered not only their own labour policies and procedures but what they required from their own suppliers with regards to modern slavery audits and policies. Many suppliers were not legally required to address these risks under UK law due to scale but chose to put in place policies and frameworks. Where suppliers were deemed to be high risk, they were offered individual support to address areas of concern.

We also provided further training for our teams. A cohort of legal, quality and compliance and sustainability team members completed a six-week training programme with Ardea International, to ensure we have resources internally to support our wider value chain. And in The Sofa Delivery Company, deemed to be a higher risk category with freelance logistics and warehouse staff, all managers (over 60 people) took part in a modern slavery awareness session tailored to scenarios that occur in logistics. Follow up collateral was distributed to all CDCs.

DFS Group is a values driven business with people at the heart of everything we do. How we engage our teams, work with our suppliers, support our communities and lead our industry through change, always stems from our values – Think Customer, Aim High and Be Real. The challenges we face, particularly to address the escalating climate crisis, will rely on the passion and perseverance of our teams and partners, but we're confident we can achieve our ambitions, working together.

CHARITY CASE STUDY

Our Home-Start Partnership

In January 2023, Sofology established a brand new national partnership with Home-Start to help struggling children and families receive support during difficult times. Given the challenging economic circumstances at the moment, the support that Home-Start provides is more vital than ever in assisting these families to ensure that they have support if and when they need it.

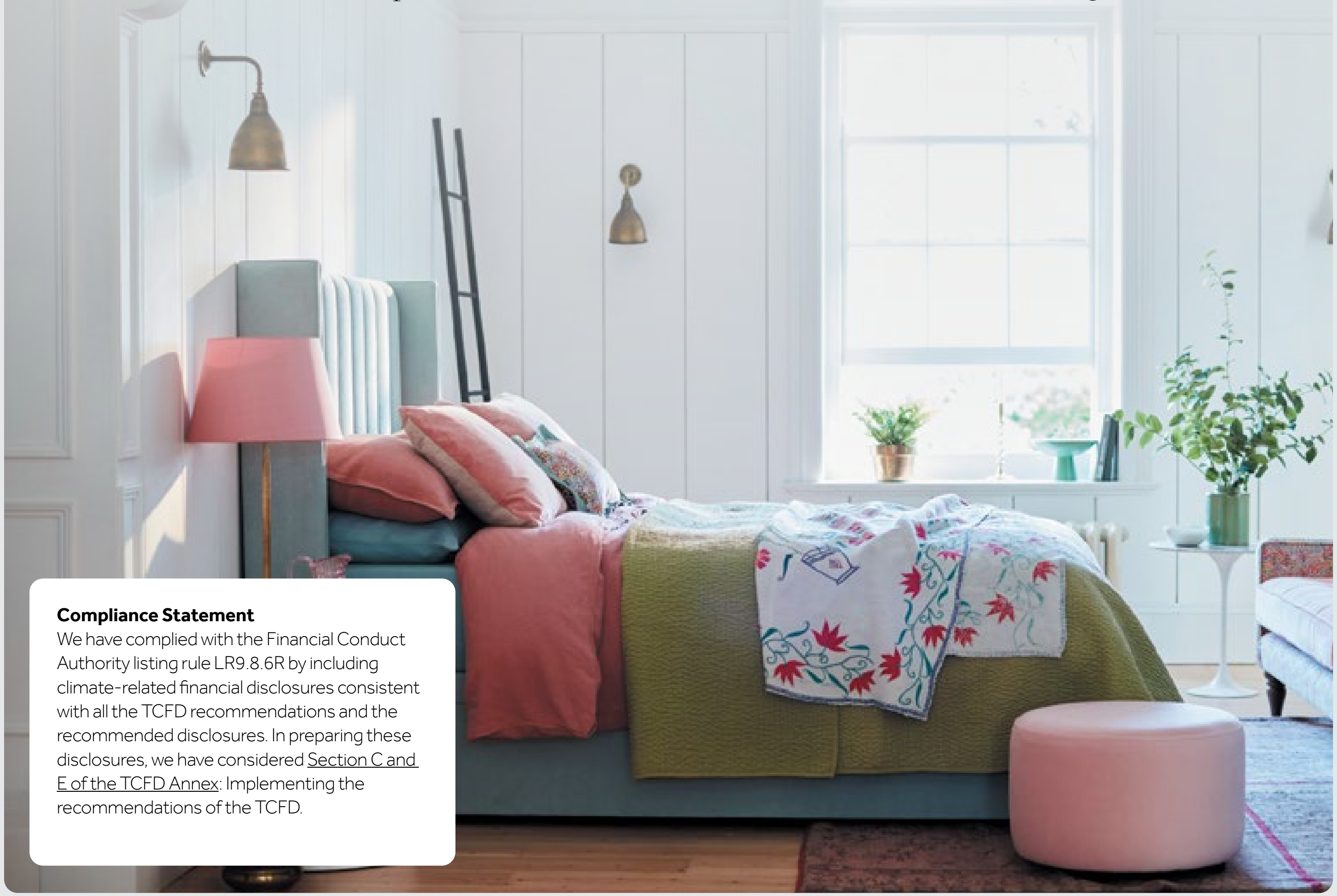
To support Home-Start, Sofology will donate sofas to Home-Start outreach centres, which coordinate the 10,000 specially trained volunteers that support 44,000 children and 22,000 families annually. What's more, colleagues across the UK will take part in various fundraising activities to help give Home-Start the vital financial support they need.

We're passionate about helping to create a real sense of feeling at home – but we also look to make a real difference to those who live in our local communities. Our partnership with Home-Start feels like the perfect fit to enable us to do this. The vital work they do with children and families across the UK is more important than ever, given the cost of living crisis and the rising costs of energy.

In just 6 months Sofology have raised £41,000 through customer donations, gifted 72 sofas to families and completed a renovation for one of the Home-Start Hubs in Trafford, creating a room for families for drop in sessions.

TCFD

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. As climate reporting continues to evolve along with the pressing nature of climate change issues, so does our performance and strategic reporting. To further align with the TCFD framework, we have completed our climate scenario analysis, as described in the Strategy section below.



Compliance Statement

We have complied with the Financial Conduct Authority listing rule LR9.8.6R by including climate-related financial disclosures consistent with all the TCFD recommendations and the recommended disclosures. In preparing these disclosures, we have considered Section C and E of the TCFD Annex: Implementing the recommendations of the TCFD.

Our progress in FY23

1. Climate change topics discussed regularly by the Board, including at its Strategy Day in April 2023.
2. Developed Net Zero transition plan aligned to SBTi. The plan was approved by the RSC in June 2023.
3. Completed scenario analysis for transition and physical risks facing our operation and strategic partners in December 2022.
4. Integrated scenario analysis into our Corporate Risk Management Framework.
5. Improve our scope 3 carbon modelling by increasing supplier engagement. We encouraged our suppliers to develop their own Net Zero strategy aligned to Science-Based Targets.
6. Develop scope 1 emissions reduction plan with detailed investment requirements.

Area of focus in FY24

1. Continue to engage our suppliers to develop their own Net Zero strategy aligned to Science-Based Targets.
2. Develop our own strategy and policy on deforestation and biodiversity.
3. Continue to integrate climate risk consideration into our business strategy.
4. Update our materiality assessment to inform ongoing strategic planning.
5. Establish and agree targets for scope 1 and recycled materials, which are integrated into Group Leadership Team's LTIP.

Governance

Ga) Board oversight of climate-related risks and opportunities

The Board recognises the importance of addressing climate change risks and opportunities in supporting the Group's long-term success. We have a clear governance structure in place for climate change and sustainability related matters, see page 60 for the structure and composition.

The overall responsibility to oversee the progress against our climate-related goals and targets lies with the Board. In doing so, the Board has appointed the RSC to oversee the delivery of our pledges to support Planet, People, Customers and Community and our journey to Net Zero. The Committee's terms of reference are published on the Company's corporate website[1].

The committee meets three times a year to:

- Review the Group's sustainability strategy, governance and performance against agreed targets and objectives.
- Oversee the implementation of the Group's sustainability strategy, as well as stakeholder engagement activities.
- Review and approve all Group policies relating to our four key areas of focus: Our Planet, Our People, Our Customers and Our Community.

Climate change is a prominent agenda in the RSC and Board meeting, as it is a key area in our strategic plan. The Committee Chair reports formally to the Board on its proceedings after each meeting.

In April 2023, the Board and Leadership Team held a two day strategy session which featured a dedicated session on climate change risks and impacts. This ensured subsequent discussions on manufacturing strategy and home category expansions factored the issues and considerations raised in the climate session.

Climate-related risk is monitored by the Audit Committee and the Board through regular meetings. The Audit Committee also provides assurance on non-financial metrics. In FY23, they have conducted an internal audit of environmental data and methodologies.

Gb) Role of management in assessing and managing climate-related risks and opportunities.

In performing its remit, RSC receives regular reports from the Sustainability Steering Committee and Group Leadership Team. Senior management forms part of these forums to ensure they influence and monitor the progress of the climate change objectives. Responsibilities include updating the RSC on climate change and sustainability developments. As well as driving the overall strategy of the business and the day-to-day management of its climate-related risks and opportunities of the business. See page 60 for details of their responsibilities and meeting frequency.

Management is informed about climate-related matters both internally and externally.

- Internally through regular updates from the brand level ESG Committees and sustainability working groups, who ensure a clear voice for matters to be raised and escalated effectively and help to identify areas for improvement, such as the implications of the scenario analysis result to our operation
- Externally through input from sustainability experts, such as James Cameron[2], to ensure our sustainability strategy is relevant and abreast of the continually changing reporting and regulatory landscape.
- Collaborate with the industry bodies and non profit organisations, such as FSC, Leather Working Group, Circular Change Council, Undaunted (Formerly CCCI/Imperial College) to advocate for circularity, deforestation, and decarbonisation across industry.

Looking ahead

As climate-related considerations become more central to our business, we expect them to become 'business as usual' in our strategic and financial planning. Climate-related risks may have an impact on our revenue, therefore we have made provisions in our three-year plan contingency fund. Furthermore, we have considered climate change impact in our viability test, as set out on page 36.

Strategy

Sa&b) climate-related risks and opportunities over short, medium, and long term and its impact to our businesses, strategy, and financial planning.

Climate change will continue to present risks and opportunities for our business in the short, medium, and long term. To understand this impact, we conducted a quantitative and qualitative scenario analysis exercise in December 2022 with the support of Willis Tower Watson.

We define the short, medium and long-term horizon as follows:

Horizon	Years	Rationale
Short	1-3	Aligned with our business strategy and financial forecasting.
Medium	3-10	Aligned to the strategic plan timeframe.
Long	10-30	Aligned with our Net-Zero ambition by 2040

We assessed our risk and opportunity exposure in two scenarios. The assumptions were gathered from the following sources:

- **Intergovernmental Panel on Climate Change (IPCC)** – Shared Pathways (SSP) scenarios of projected global changes are used to derive GHG emissions scenarios associated with different worlds and forecasts on physical climate implications of GHG concentrations.
- **International Energy Agency (IEA) scenarios** – focus on the consequences of different energy policy and investment choices. The Net Zero 2050 Scenario (1.5°C) explores what is needed to ensure global emissions reach net zero by 2050.
- **NGFS (Network for Greening the Financial System) scenarios** – which explore a different set of assumptions for how climate policy, emissions, and temperatures evolve. The Net Zero 2050 limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net zero CO_2 emissions around 2050. The NGFS also considers disorderly scenarios, which explore higher transition risk due to policies being delayed or divergent across countries and sectors.

Low Carbon World scenario (1.5°C)

The scenario assumes that there will be policies and technology supporting circular economies; material efficiency strategies and policies promoting production and use of alternative fuels and technologies such as hydrogen, biogas, biomethane and Carbon Capture Utilisation and Storage across sectors. Hence, global net zero CO_2 emissions will be reached around 2050. We assess our transition risk through this scenario.

Hot House World scenario (4°C)

The scenario assumes current policies promoting sustainability are removed, there is no carbon pricing and there is increasing adoption of resource and energy intensive lifestyles around the world. As a result, economies fail to transition to a low carbon world and the physical impacts of climate change become increasingly severe.

Through this exercise, we identified ten material climate risks and opportunities. Table 1 summarises the transition risks and opportunities.

Sc) Resilience of strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario

Our response to the risk and opportunities identified in the scenario analysis exercise are detailed in Table 1. We are also committed to reducing our GHG emissions within our supply chain to Net Zero by 2040. Please see page 46 for details of our climate change strategy. This gives us with the with the resilience to mitigate and adapt to climate change issues as they evolve.

Our long-term approach to deliver our Net Zero ambition is built upon the Sofa Cycle strategy. We aim to mitigate the environmental impact of each aspect of the product life cycle – from sustainable sourcing through to end-of-life – by developing a circular business model. See page 49 for more detail.

1. https://www.dfscorporate.co.uk/media/55600/Terms-of-reference-RSC-Committee-.pdf (dfscorporate.co.uk)
2. James Cameron is an independent advisor and award-winning authority for climate change.

Risk Management

Ra) Processes for identifying and assessing climate-related risks

Our materiality assessment in 2022 identified scope 3 emissions, deforestation and biodiversity, and material use as important topics for the business and our stakeholders. Further climate-related risks were identified and assessed through the scenario analysis exercise in FY23. We involved various internal stakeholders in the process, and representatives of our wider value chain were consulted on the outcome. We applied a percentage of profit before tax as a benchmark in considering the materiality of the impact of climate change risks and opportunity.

The exercise considered a shift in our stakeholders' values toward more sustainable products and services, existing and emerging regulatory requirements, and technology transition, which is reflected in the five risk types described in table 1.

Rb&c) processes for managing climate-related risks and the integration with our overall risk management framework

Both materiality assessment and scenario analysis were used to inform our climate risk register which we continue to update through our day-to-day operations and regular reviews of our materiality assessments and scenario analysis.

The process for managing climate-related risks has been integrated into our Group's risk management framework. Climate risk identification was informed by both our materiality assessment and scenario analysis. Material climate risks are embedded into the Group's risk register and assessed based on the risk management framework which is determined by the scale of impact (% of PBT) and likelihood and also takes into account the controls in place to mitigate the risks. As part of the risk management process, we assess the risks described in Table 1 periodically (quarterly or bi-annually, depending on the risk rating). The result of the risk assessment at the end of FY23 is indicated in the risk rating column.

Climate change is included in our principal risks (ESG risk). As such, a member of the Group Leadership Team (Group Sustainability Director) owns the risk. Oversight responsibility of principal risks lies with the Board.

We continuously monitor the risk factors and the effectiveness of the controls assigned to the risk. Taking these into account, we have rated climate change as medium risk, which means that the risk, controls likelihood and impact are assessed on a quarterly basis.

See page 28 for a detailed process on managing climate-related risks, including how the decisions to mitigate, transfer, accept, or control the risks are taken.

Metrics and Targets

Ma) Metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process

As the result of the scenario analysis, we have identified a number of metrics used to monitor our climate-risks as described in Table 1 (column Indicators). We continuously quantify and measure those metrics internally.

We consider scope 1 and 2 intensity metrics as our cross-industry metrics, to track our progress in achieving our Net Zero Ambition. Additionally, we are also tracking our scope 3 in our carbon footprint. The performance of these metrics and its trend over time is available on page 48.

Our Net Zero Ambition is a strategic priority. The target for its achievement forms a part of the group bonus. See Directors' remuneration report page 78 to 99 for details.

Mb) Scope 1, scope 2, and, scope 3 greenhouse gas (GHG) emissions

Please see page 48.

Mc) Targets used to manage climate related risks, opportunities and performance

We regard supply chain impacts of materials and reducing carbon footprint as key strategic issues, and they are aligned with the British Retail Consortium's Climate Action Roadmap. We have chosen a set of climate-metrics to assess our impact, and they are intrinsic to our Group target. See our Planet Target on page 41 for details. Some of the sustainable sourcing and carbon reduction targets were included on our sustainably-linked revolving credit facility, externally assured March 23.

Risk type: P Policy and legal · T Technology · M Market · R Reputation · Ph Physical

Scenarios: Transition risks – 1.5° · Physical risks – 4°

Risk rating: High · Medium · Low

Table 1: Summary of our climate risks and opportunities

Short term risk and opportunities

#	Risk	Risk/opportunities description	Indicator	Risk rating	Our response
1	**Mandates and regulation on our products** Risk type: P Transition risks – 1.5°	Increasing regulatory pressure regarding the sustainability of materials used in the manufacturing of our products which may lead to increasing production cost. This includes the possibility of introduction of carbon footprint labelling, plastic tax or bans on single use plastics and zero net deforestation policies.	Production cost	Medium	We regularly review and update our Sustainable Sourcing Policy (three times a year) to keep current with our regulatory obligations. For example, we are aware of the new UK Persistent Organic Pollutants (POPs) regulation that requires old sofas to be incinerated. We are working with our own operation and suppliers to respond to the required changes. Furthermore, we align our supplier contracts with the supplier requirements within the Sustainable Sourcing Policy.
2	**Carbon pricing** Risk type: P Transition risks – 1.5°, Physical risks – 4°	Carbon pricing already exists in some of the jurisdictions that we operate in. Under both scenarios, pricing of GHG emissions is expected to increase, which could impact our direct operating costs.	Direct operating cost	Low	As the climate-related risks may have an impact on our revenue, we have made provision in our three-year plan contingency fund.
3	**Climate change litigation** Risk type: P R Transition risks – 1.5°	Climate-related litigation claims could be brought against DFS by investors, insurers, shareholders, and public interest organisations. Reasons for claims could include failure to adapt to climate change, greenwashing for overstating positive environmental impacts and understating risks and insufficient disclosure on material financial risks.	Compliance cost/non-direct operating cost Brand value	Medium	We continuously monitor the legislative landscape to ensure that we are compliant with the relevant disclosure requirements. This year, we have further improved our TCFD reporting to be consistent with the 11 TCFD recommendations. We are aware that the sustainability reporting landscape is a fast-evolving space. We intend to adopt the upcoming standards, framework, and regulation into our sustainability reporting approach, such as: – Taskforce on Nature-related Financial Disclosure (TNFD) – IFRS S1 and IFRS S2 – Transition Plan Taskforce (TPT)

Risk type: P Policy and legal, T Technology, M Market, R Reputation, Ph Physical

Scenarios: Transition risks – 1.5°, Physical risks – 4°

Risk rating: High, Medium, Low

#	Risk	Risk/opportunities description	Indicator	Risk rating	Our response
4	**Building code requirements** Risk type: P	More stringent building codes and guidelines leads to increasing maintenance costs associated with upgrading stores, distribution centres and manufacturing sites. In the UK, all new buildings are expected to have an EPC rating of B by 2030. DFS leases its sites, and it is uncertain how the regulation could impact lease renewal costs.	Maintenance Cost/ capex/opex		We have considered the cost to meet building code requirements into our capex/opex. We will continue to invest in our estates to be energy efficient. Furthermore, we ensure that the buildings that we lease meet building code standards. This is integrated in our standard practice for new or continuing lease negotiation.
5	**Investment Risk** Risk type: R	Failure to meet publicly stated sustainability targets or failure to meet disclosure requirements poses a risk to our business as customers and investors increasingly expect high levels of sustainability performance from organisations. On the other hand, meeting our sustainability targets potentially opens the opportunity to access lower cost capital, such as sustainability-linked loans.	Cost of capital		We incentivise teams and leadership as part of the employee bonus scheme to meet the publicly stated targets which are derived from our sustainability strategic objectives.

Medium to long term risk and opportunities

#	Risk	Risk/opportunities description	Indicator		Our response
1	**Transition to lower emission technology and maintaining a circular system.** Risk type: T	In line with our Net Zero ambition and our Sofa Cycle strategy, we need to transition our technological capability to support this ambition, which will require increased capex and opex. The technology transition cost would include: – Upgrading manufacturing sites and stores. – Switching to or supplying infrastructure for electric HGV vehicles and sourcing lower emission utilities – particularly for processing recycled materials. – Investing in technology to improve the lifecycle of products.	Capex to increase energy efficiency Capex to increase recycling capability. Capex/opex for transitioning to electric vehicle fleet.		We have developed integrated strategic planning to ensure the introduction of low-carbon technology within our property, manufacturing and logistics aligned to our Net Zero trajectory. This year we have piloted several energy efficiency initiatives, such as: – Trialled infrared panels for heating large spaces, such as distribution centres. – Installed central building management system to monitor and control energy use across our properties. See page 49 for detailed case studies.
2	**Increased cost of raw materials** Risk type: M	As our suppliers bear the effect of carbon pricing and other sustainability-driven impacts, they could pass on the cost to us, hence increasing our cost of raw materials.	Production cost		Phased and adapted pricing and margin structure to accommodate cost changes.

Risk type:

P Policy and legal   T Technology   M Market   R Reputation   Ph Physical

Scenarios:

Transition risks – 1.5°   Physical risks – 4°

Risk rating:

High   Medium   Low

#	Risk	Risk/opportunities description	Indicator	Risk rating	Our response
3	**Shift in customer values** Risk type: M	Our customers may increasingly prefer sustainable product options with lower embedded emissions. Failure to meet these shifting values could cause our retail customers to switch to alternative products or competitors. On the other hand, being ahead of competitors could create an opportunity to widen the customer base, increase revenues, profits and market share.	Revenue		Linked product development with the evolving customer mindset and purchasing criteria. We are currently testing and learning about our customer appetite. In FY23 both DFS and Sofology developed an important, innovative first step to fully circular product ranges with the launch of the Gaia, whilst DFS created an award-winning sprung seat solution for the Grand Designs range. See the case study on page 49 for detail.
4	**Cost of capital** Risk type: M	As credit ratings begin to incorporate climate change considerations, there is a risk that the cost and availability of capital would increase/decrease.	Cost of capital		We support ESG inquiries and disclosures to third-party (e.g., CDP) and credit rating agencies (e.g. MSCI, ISS ESG Corporate Rating).
5	**Physical risk** Risk type: Ph	Damage or loss of value to our facilities due to climate hazards. The climate hazards considered in our scenario analysis are heat stress, flooding, drought, fire weather, and windstorm.	Asset value located in an area of material climate hazard intensity.		All our own facilities are located in the UK, which is not exposed to as many climate hazards as other countries. Therefore, the overall risk to our facility is considered low to moderate within the short to medium-term horizon. Our own facilities including manufacturing and distribution are leased with an average of five years remaining, they are unlikely to see long-term climate changes in 2050 unless renewed.
5	**Physical risk** Risk type: Ph	Disruption in our supply chain due to climate hazards damaging our suppliers' facilities. The climate hazards considered in our scenario analysis are: heat stress, flooding, drought, fire weather, and windstorm.	% of supply from supplier facilities that are in high-risk areas.		Our supplier facilities are spread across the UK, Europe, and Asia. The overall exposure of drought, fire weather and windstorm to our suppliers' facilities is moderate, whilst the exposure of flooding is considered very high in Asia. We have incorporated this finding into the strategic review of our manufacturing partners. Considering the importance of water supply to our textile and leather supply chains, we are aware of the critical issue of water scarcity. We intend to review and address how we can support our suppliers on this issue.

SUSTAINABILITY GOVERNANCE 2023

Oversight

OUR BOARD

The board is responsible for ensuring the Group meet their corporate governance requirements and the ESG strategy is robust and aligned with the Group's strategic objectives.
Nine meetings per annum

Responsible and Sustainable Business Committee (RSC)

The RSC oversees and makes recommendations on the overall ESG strategy and climate-related risks and opportunities, including corporate governance, performance against agreed targets and objectives as well as approving all Group policies relating to our four key areas of ESG focus.
Three meetings per annum

Audit Committee

ESG is considered a principal risk and is therefore reviewed by the Audit Committee with input from the RSC. The Audit Committee provide assurance against non-financial disclosures including TCFD.
Three meetings per annum

Management roles

GROUP LEADERSHIP TEAM (GLT)

The GLT provides the link between the Board, and the Group Steering Committees and Group Sustainability and ESG Meetings. They ensure that ESG is embedded in the day-to-day operations and assess the progress against targets, while ensuring that sufficient oversight, guidance, support and resource are available.
Monthly meetings

Group Steering Committees (inclusion and sustainability)

The Committee set strategy and review progress on strategic objectives and discuss future plans. They monitor and advise on business resilience and agility within the ESG roadmap and ensures that the right level of investment is provided where needed. The Committee is also responsible for reviewing and driving progress on our inclusion strategy.
Quarterly meetings

Group Sustainability and ESG meeting

These meetings comprise of brand and operational leads who report their progress against targets and provide status updates to the GLT. The operational knowledge of these individuals, combined with the guidance of experts in a variety of different fields, facilitates accelerated progress and potential opportunities for strategic innovation.
Monthly meetings

SUSTAINABILITY CHAMPIONS AND INCLUSION COUNCIL

We want to empower our colleagues to drive change and improvements in both environmental and social areas. The goal of these councils is to educate and engage the wider population as well as support business initiatives and generate ideas.
Bi-monthly meetings

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

TCFD CONSISTENCY INDEX

Pillar	Recommended disclosures	Location within this report
Governance	(a) Board oversight of climate-related risks and opportunities	Page 60
	(b) Role of management in assessing and managing climate related risks and opportunities	Page 60
Strategy	(a) Climate-related risks and opportunities	Pages 55 and 57
	(b) Impact on the organisation's business, strategy and financial planning	Pages 55 and 57
	(c) Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Pages 55, 44 and 46
Risk Management	(a) Processes for identifying and assessing climate-related risks	Page 56
	(b) Risk management process	Pages 56 and 28
	(c) Integration into overall risk management	Pages 56 and 28
Metrics and Targets	(a) Metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process	Pages 56 and 48
	(b) Scope 1, scope 2, and, scope 3 GHG emissions	Pages 56 and 48
	(c) Targets used to manage climate related risks, opportunities and performance	Pages 56 and 41

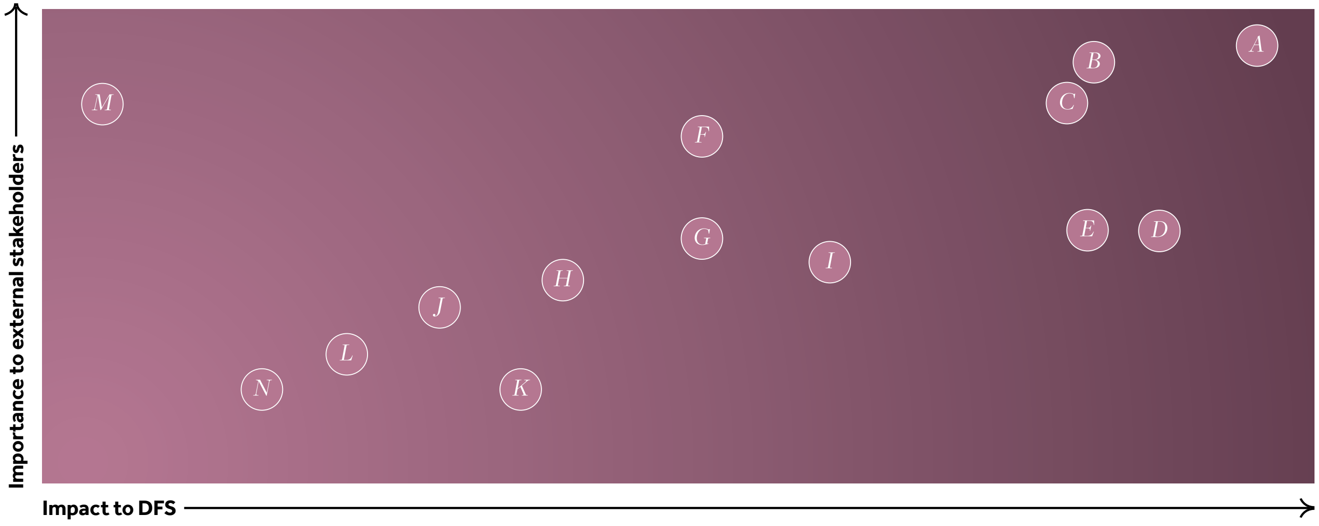
This strategic report was approved by the Board on 21 September 2023.
On behalf of the Board.

TIM STACEY
Chief Executive Officer

JOHN FALLON
Chief Financial Officer

MATERIALITY ASSESSMENT

The materiality assessment involved in-depth meetings with stakeholders from across the various Group operating functions, brands and with senior management as well as incorporating the views of external stakeholders. The results identified several high priority issues including greenhouse gas ('GHG') emissions, deforestation and biodiversity, customer satisfaction and product quality, sustainable sourcing, and material usage.



Area		Definition
A	**GHG emissions (scope 1, 2, 3)**	The amount of GHG produced by the activities and operations of DFS and of the movement of resources in the supply chain.
B	**Deforestation & biodiversity**	Protection and restoration of the forests which have been impacted by the wood use in products and production of leather.
C	**Customer satisfaction & product quality**	The measurement used to determine how satisfied customers are with its products and service.
D	**Material usage**	As resources continue to deplete, companies will be challenged to increase the efficiency in which they use materials in their products and to ensure reuse where possible.
E	**A circular approach**	As resources continue to deplete, developing alternative approaches to manage waste and resources will become ever more important. The circular economy has emerged as a way of thinking to design out waste and pollution, keep products and materials in use, with the ultimate goal of regenerating natural systems.
F	**Sustainable sourcing**	Selecting and working with suppliers to obtain the materials, products, and services DFS requires that are socially and environmentally responsible, while still being economically sound.
G	**Supply chain traceability & transparency**	The reporting and disclosure around upstream operations both internally and externally. There is an increasing expectation from stakeholders for companies to be transparent in their use of suppliers.

Area		Definition
H	**Inclusion & diversity**	Creating an inclusive environment where everyone is welcome, ensuring employees are treated with the respect and have equal opportunities.
I	**Data protection and cyber risk**	Ensuring current regulations on GDPR and the protection of customer data are followed, while continuing to review procedures and systems to reduce the risk and exposure to potential cyber attacks.
J	**Colleague engagement**	Creating a working environment where all colleagues of DFS care about their work, the goals, values and performance of the Group and enhancing colleague wellbeing.
K	**Talent & development**	Ensuring procedures are in place to attract talent and facilitate the continuous development of colleagues' knowledge to create a more skilled and accomplished workforce.
L	**Health, safety & wellbeing**	Programmes, guidelines and procedures in place to protect the safety, welfare and health of any person engaged in work or employment.
M	**Plastics, packaging & waste**	Limiting the waste created in DFS operations, including plastics and packaging, and increasing efficiency of recycling and reuse to minimise environmental impact.
N	**Community engagement & investment**	Investments, charitable donations and volunteering in activities with the aim of bringing about an improvement in quality of life for the local residents.

Governance report

This section introduces our Directors, and details the activities of our Board and Board Committees.

CONTENTS

DIRECTORS AND OFFICERS

STEVE JOHNSON
Non-Executive Chair

R N

Date of joining DFS: December 2018

Experience: Steve has over 25 years' experience in the retail sector, in both public and private equity businesses.

Steve previously served as CEO of Focus Wickes DIY Group and Woolworths, as well as working with several other retailers. Prior to this Steve spent 8 years at ASDA having started his career with Bain & Company.

Steve is an experienced Independent Non-Executive Director, was on the Board of Big Yellow PLC until 2020 and was the Senior Independent Director of Lenta Limited until March 2022. Steve has significant retail and M&A experience. Most recently he held the position of Executive Chairman at the Matalan Group before stepping down in July 2022.

Qualifications:

– BA (Engineering) MEng (University of Cambridge)

External appointments:

– No external appointments

Independent:

– Yes

TIM STACEY
Chief Executive Officer

S

Date of joining DFS: July 2011

Experience: Tim has been with the DFS Group for over 10 years and has an in-depth knowledge of all aspects of the business. Prior to being appointed Group CEO in November 2018, Tim served as the Chief Operating Officer, he was responsible for the showrooms, supply chain and customer service in addition to Online operations and International development.

Tim has significant experience in digital retail having joined DFS as Director of Online and Business Development and having led the multi-channel transformation of DFS. He was previously the Multi-Channel Director for Boots.com and Director for Online and Business Development for Alliance Boots.

Tim also has significant experience in M&A, Operations and Customer Services & Marketing.

Qualifications:

– BA (Hons) Accounting and Finance (Nottingham Trent University)

– Member of the Institute of Chartered Accountants in England and Wales

External appointments:

– No external appointments

Independent:

– Not applicable

JOHN FALLON
Chief Financial Officer

–

Date of joining DFS: November 2022

Experience: Prior to joining DFS, John spent more than 20 years at ASDA, most recently as Group CFO, and played a key role in the recent change of ownership. During his time at ASDA John has gained extensive retail experience across a broad range of roles, including Commercial Finance Director, Group Financial Controller and Internal Audit Director.

Qualifications:

– BA (Hons) in Accounting & Finance (Manchester Metropolitan University)

– Member of the Charted Institute of Management Accountants

External appointments:

– No external appointments

Independent:

– Not applicable

ALISON HUTCHINSON CBE
Senior Independent Non-Executive Director

A R N S

Date of joining DFS: May 2018

Experience: Alison has a background in both digital and retail financial services and was previously Group CEO of Kensington Group PLC. Over the last 12 years Alison, as the CEO of The Pennies Foundation charity has worked with the retail industry to establish the fintech charity the Pennies.

Until March 2022, Alison was a Non-Executive Director of Liverpool Victoria Friendly Society Ltd. She previously held several senior management positions, including Marketing Director, at Barclaycard having started her career at IBM. In 2016, Alison received a CBE for her services to the Economy and Charity.

Qualifications:

– B.Sc. Technology & Business Studies (Strathclyde University)

External appointments:

– Chief Executive of The Pennies Foundation charity

– Vice Chair and Senior Independent Non-Executive Director of Yorkshire Building Society

– Senior Independent Non-Executive Director of Foresight Group Holdings Limited

Independent:

– Yes

Committee membership key

- A Audit Committee Member
- N Nomination Committee Member
- R Remuneration Committee Member
- S Responsibility and Sustainability Committee Member
- Denotes Chair
- – None

DIRECTORS AND OFFICERS

JO BOYDELL
Non-Executive Director

A R N

Date of joining DFS: December 2018

Experience: Jo has been the Chief Executive Officer of Travelodge since May 2022, having previously served as the Chief Financial Officer since 2013 and has broad based finance experience in hospitality, leisure and retail. Prior to joining Travelodge, Jo held senior finance roles across a number of consumer-facing companies including Mothercare, Jessops, Ladbrokes PLC, Hilton Group plc and EMI Group.

Jo has significant experience in M&A and corporate restructuring as well as risk management and corporate governance.

Qualifications:
- BA (Hons) Physics (University of Oxford)
- Associate of the Institute of Chartered Accountants in England and Wales
- ICAEW Business & Finance Professional

External appointments:
- Director and Chief Executive Officer of Thame and London Limited, the parent company of the Travelodge Group and for Travelodge Hotels Limited and Director of other subsidiary companies within the group

Independent:
- Yes

LORAINE MARTINS OBE
Non-Executive Director
Designated Non-Executive Director for Workforce Engagement

A R N S

Date of joining DFS: June 2021

Experience: Loraine is the Global lead for diversity and inclusion at the Nichols Group having previously been the Director of Diversity and Inclusion at Network Rail between 2012 and February 2022. Prior to that Loraine was responsible for Jobs & Skills and Equality and Inclusion in the construction of the Queen Elizabeth Olympic Park for the London 2012 Olympic Games, for which she was awarded an MBE. And In 2021 Loraine was awarded the OBE for her services to diversity and inclusion in the railway.

Loraine is a recognized expert in her field and brings a wealth of experience of organisational transformation, culture change and a strong commitment to responsible business.

Qualifications:
- BA Comparative American Studies (University of Warwick)
- Fellow of Royal Society of Arts

External appointments:
- No external appointments

Independent:
- Yes

GILL BARR
Non-Executive Director

A R N S

Date of joining DFS: March 2023

Experience: Gill was a Non-Executive Director of Morgan Sindall from 2004-2012, McCarthy & Stone from 2019 until it delisted in 2021 and N Brown from 2017–2023. She is an experienced Remuneration Committee Chair (Morgan Sindall, N Brown, and McCarthy & Stone), skilled at reflecting investor perspectives in remuneration plans that motivate growth and shareholder value.

Gill's executive career focus has been on strategy and customer centric business development. She was Group Marketing Director of The Co-operative Group from 2011 to 2014 and was previously Marketing Director of John Lewis. She spent seven years at Kingfisher PLC where she held variety of senior marketing and business development roles.

Qualifications:
- B.Sc. Psychology (Aberdeen University)
- MBA London Business School

External appointments:
- Non-executive director of Wincanton PLC
- Non-executive director of Paypoint PLC

Independent:
- Yes

LIZ MCDONALD
Group General Counsel and Company Secretary

Date of joining DFS: August 2018

Experience: Liz joined DFS in 2018 as the General Counsel & Company Secretary. She is responsible for the Corporate affairs of the Group and leads a team of specialists focused on Legal, Regulatory Compliance, Risk and Health & Safety.

Liz has over 25 years experience as an in-house lawyer and Company Secretary, having started her legal career with Halifax. Liz has held leadership roles at Poundworld, My Dentist, the Peel Airports Group, KCOM Group PLC and Yorkshire Electricity.

Qualifications:
- LLB (Hons) in Law (Manchester Metropolitan University)
- Admitted by the Law Society as a Solicitor in 1996

External appointments:
- No external appointments

Independent:
- Not applicable

Committee membership key

A Audit Committee Member

N Nomination Committee Member

R Remuneration Committee Member

S Responsibility and Sustainability Committee Member

Denotes Chair

– None

CORPORATE GOVERNANCE REPORT

"Ensuring that we are an agile organisation that is able to respond to changing market conditions and stakeholder needs is a key focus of the Board."

STEVE JOHNSON
Chair of the Board
Bio on **page 63**

Board activities in 2023 at a glance

- Assessing the operating and long term financial planning, budgeting and the performance and strategy of the Group, in the context of the challenging trading environment and market expectations
- Designing the new Capital allocation and Distribution policy
- Overseeing stakeholder communications
- Internal Board Evaluation and a review of Board composition and skills
- Overseeing the strategic changes in our manufacturing operations
- The induction of the new Chief Financial Officer, John Fallon, and a new Non-Executive Director, Gill Barr

Welcome to the Governance section of our 2023 annual report. Our governance structure is designed to ensure that the right decisions are taken at the right time and underpins our purpose. This report describes our structure, culture and values and sets out how our Group is run to serve our customers, to look after our colleagues as a responsible employer, to work with our suppliers and to support the communities in which we operate. A key part of being able to deliver on our purpose and our strategy is ensuring that we, as a Board, continue to be effective in how we discharge our duties and to ensure that the Group's activities are underpinned by high standards of corporate governance.

Ensuring that we are an agile organisation that is able to respond to changing market conditions and stakeholder needs is a key focus of the Board. Read more about how we engage with our colleagues and our other stakeholders and respond to their views on pages 36 to 38. Finally, I want to thank my fellow directors for all of their efforts in supporting the Group Leadership team and our strategy for the future. Despite the challenging external backdrop, we are confident that we have the right strategy in place, supported by a robust governance framework, that will deliver value for all of our stakeholders over the long term and allow us to respond with agility in the face of emerging challenges.

Our Board in 2023
There have been a number of changes to the Board during this financial year, both among the executive and non-executive team. In November 2022 Ian Durant stepped down from his role and I transitioned to the role of Chair and am looking forward to building on the strong foundations laid by Ian. John Fallon was appointed as Chief Financial Officer in November 2022, and Gill Barr joined as a Non-executive Director and Chair of the Remuneration Committee in March 2023. Jane Bednall stepped down from the Board on 23 June 2023. Loraine Martins has been appointed our Designated Non-Executive Director, the voice of all our colleagues at the Board. Biographies for John and Gill can be found on pages 63 and 64, demonstrating the wealth of experience they bring to the Group.

Our commitment to good governance
We continue to keep a watching brief on the corporate governance and audit reform and are focused on developing our internal controls to ensure we have a thorough and orderly approach to corporate governance. Additionally, Environmental, Social and Governance ('ESG') remains a key area of focus for our stakeholders and we continue to carefully assess our ESG metrics, targets, and reporting. Full details of how we consider our responsibilities to our wider stakeholders are shown in the Section 172 statement on pages 36 to 38 and the Responsibility and sustainability report on pages 39 to 61.

2023 AGM
This year our AGM will be held on 10 November 2023 at 2:30pm at our Group Support Centre in Doncaster. Full details of the meeting arrangements and the resolutions to be proposed to Shareholders can be found in the Notice of AGM which will be made available on our website: www.dfscorporate.co.uk.

STEVE JOHNSON
Chairman
21 September 2023

Governance at a glance

Governance framework

The Board is responsible for providing leadership to the Group's business, including setting the Group's purpose, strategy and values and promoting its long-term sustainable success. The Board has adopted a formal schedule of matters reserved for its approval.

The terms of reference for each Committee are documented and agreed by the Board. These terms of reference are reviewed annually and are available on our website www.dfscorporate.co.uk.

DFS Furniture plc Board

Audit Committee
Oversees financial reporting, internal controls, risk management, compliance and audit.
See committee report on **pages 71 to 75**

Remuneration Committee
Oversees linking remuneration with strategy and determines the levels of remuneration.
See committee report on **pages 78 to 99**

Nomination Committee
Oversees the composition of the Board and succession planning.
See committee report on **pages 76 to 77**

Responsible & Sustainable Business Committee
Oversees the delivery of our ESG strategy.
See committee report on **pages 39 to 61**

Chief Executive
Responsible for the day-to-day running of the Group's business and performance, the development and implementation of strategy and promoting our culture and standards.

Group Leadership Team
Led by the Chief Executive, the members of the Group Leadership Team are collectively responsible for overseeing and driving the overarching Group financial and operational performance and executing on the strategic initiatives required to deliver the Group's strategy set by the Board.

Governance, Risk & Compliance Committee
Led by the General Counsel & Company Secretary, the Committee is responsible for internal controls relating to Legal & Regulatory risks.

Brand ESG Committees
Led by the CEOs of the brands, the Committees are responsible for overseeing the implementation of the People, Planet, Customer and Communities strategy.

A key element of our business success is having good corporate governance so we have implemented effective frameworks and practices to ensure that high standards of governance, as well as good values and behaviours, are consistently applied throughout the Group.

Role of the Chair and Chief Executive Officer

As Chair, Steve leads the Board, ensuring its effectiveness in all aspects of its role. Tim, the CEO, is responsible for managing the operation of the Group to create value over the long-term. There are clear divisions of accountability and responsibility that have been agreed and documented by the Board.

Role of the Chair

- Leading the Board and ensuring its effectiveness.
- Ensuring the submission to the Board by the Chief Executive Officer of objectives, policies, and strategies for the Group, including the Group business plan and annual budget.
- Ensuring that effective strategic planning for the Group is undertaken.
- Facilitating effective contributions of Non-Executive Directors to the leadership of the Group.
- Ensuring effective communication between the Board and the Company's shareholders; and promoting a culture of openness and debate.
- Acting on the results of the Board's annual review of its Committees' and individual Directors' performance.

Role of the Chief Executive Officer

- Leading the senior management in managing the performance of the Group.
- Planning the Group's strategies effectively.
- Ensuring the effective implementation of the Board's decisions.
- Maintaining an effective framework of internal controls and risk management.
- Leading the climate change and sustainability objectives of the Group.
- Leading, motivating, and monitoring performance of the Group Leadership Team, focusing on succession planning, and making appropriate recommendations as to the team's remuneration to the Remuneration Committee.
- Managing the Group's relations with all of its stakeholders, the public and the media.

Role of the Senior Independent Director ('SID')

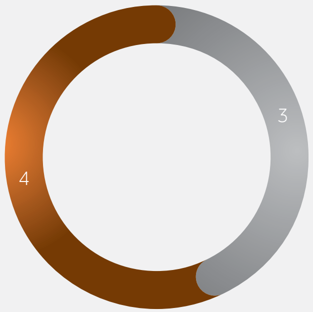
- Acting as a sounding board for the Chair.
- Meeting with the Non-Executive Directors annually, without the Chair being present and collating feedback on the Chair's performance as part of the annual Board evaluation process.
- Meeting with the Company's shareholders to consider matters where it may be inappropriate to have those discussions with the Chair and Executive Directors.

Role of the Company Secretary

- Advising the Board and its Committees on corporate governance policies and procedure and for the management of Board and Committee meetings.
- Managing the provision of timely, accurate and considered information.
- Advising the Board and representing the Company in legal matters.
- Ensuring that the Directors receive accurate, timely and clear information.

Governance at a glance

Gender Diversity

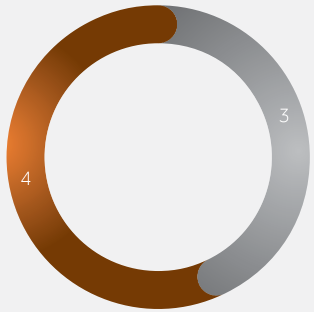


Male
Female

Ethnicity

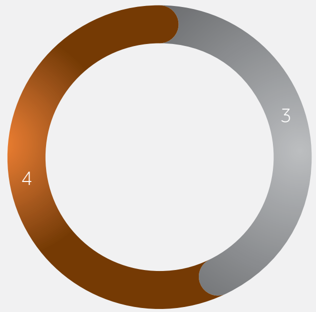
White
B.A.M.E.

Board Tenure



0-2 years
3-5 years

Age



46-55 years
56-65 years

Director' skills matrix

Skills and experience	Retail	Customer Services/ Marketing	People, Diversity & Inclusivity	Operations	International	Governance & Regulatory	Finance	Digital	M&A	Environmental	Logistics	Manufacturing
Steve Johnson	✓	✓	✓	✓		✓		✓	✓		✓	✓
Tim Stacey	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓
John Fallon	✓		✓	✓	✓		✓		✓	✓		
Alison Hutchinson	✓	✓	✓	✓		✓	✓			✓		
Jo Boydell	✓		✓				✓	✓	✓			
Loraine Martins		✓	✓			✓	✓			✓		
Gill Barr	✓	✓	✓			✓	✓	✓		✓	✓	

Appointment, election and re-election
The Board may appoint any person to be a Director, and any Director so appointed shall then be eligible for election by shareholders at the next AGM. Non-Executive Directors' appointments are for an initial period of three years. All Directors stand for annual re-election in compliance with the UK Corporate Governance Code ('the Code'). Neither the Chair nor any Non-Executive Director have been in their position for more than nine years in accordance with the recommendations of the Code.

Independence
The Board reviews the independence of its Non-Executive Directors annually. The Board considers that the Chair was independent on appointment and that all of the Non-Executive Directors are independent. The Company maintains clear records of the terms of service of the Chairman and Non-Executive Directors to ensure that they continue to meet the requirements of the Code. The Non-Executive Directors' appointment letters anticipate a minimum time commitment of two days per month, recognising that there is always the possibility of an additional time commitment and ad hoc matters arising from time to time, particularly when the Company is undergoing a period of increased activity. The Board considers that each of the Non-Executive Directors have sufficient time to devote to their role and that each Director's contribution is important to the long-term sustainable success of the Company. The Directors' biographies can be found on pages 63 and 64.

Directors' skills and experience
The Board regularly reviews the skills matrix to ensure it aligns with the evolution in the strategy. The competencies highlighted in the matrix will be considered in relation to the appointment of any new Directors to the Board.

CORPORATE GOVERNANCE REPORT CONTINUED

Governance at a glance

Name	Meetings attended	Maximum meetings	Independent	Responsibility and role during 21/22	Date of appointment
CHAIRMAN					
Ian Durant **Chairman**	3	3	✓	Leading the Board and ensuring its effectiveness in relation to board governance, performance, and shareholder engagement.	2 May 2017
Steve Johnson **Chairman**	8	8	✓		6 December 2018
EXECUTIVE DIRECTORS – At each Board meeting, the Board receives and discusses reports from each of the Executive Directors.					
Tim Stacey **CEO**	8	8	–	Leading and managing Group performance and strategy to ensure the long-term profitable operation of the Group.	1 November 2018
Mike Schmidt **CFO**	2	2	–	Leading, managing, and maximising Group financial performance, investor relations, legal and risk functions.	11 July 2019
John Fallon **CFO**	4	4	–		14 November 2022
NON-EXECUTIVE DIRECTORS					
Alison Hutchinson **(SID)**	8	8	✓	Overseeing the implementation of the strategy and development of the Group whilst maintaining a system of internal control and risk management. Board Committee members also have further specific responsibilities in relation to reviewing the integrity of financial information, dealing with succession planning and Board diversity, and setting remuneration.	1 May 2018
Jo Boydell	8	8	✓		6 December 2018
Jane Bednall	8	8	✓		1 January 2020
Loraine Martins	8	8	✓		28 June 2021
Gill Barr	3	3	✓		1 March 2023
STANDING ATTENDEES					
Liz McDonald **Company Secretary**	8			Advising the Board on all legal, corporate governance and compliance issues.	30 September 2018
ATTENDED BY INVITATION – Members of the Group Leadership Team are invited to attend Board meetings to present papers and discuss key matters.					
Nick Smith	3			The Group Leadership Team is led by the CEO, and is responsible for executing strategy and the day-to-day management of the business. Their attendance at Board meetings assists the Directors in gaining a clearer insight into the Group's operations. This process also affords the team the opportunity to bring matters to the attention of the Board.	
Matt Nicholls	2				
Emma Dinnis	2				
Alex Salden	2				
Russ Harte	3				
Jo Shawcroft	3				

Board meeting attendance

The Board held eight scheduled meetings during the year, with additional ad hoc meetings held as required. Meetings took place at a number of operational locations to provide an opportunity to promote colleague engagement. During the year the Chair and the Non-Executive Directors met on three occasions without the Executive Directors present, and the Non-Executive Directors met privately with the CEO on two occasions.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet eight times, with additional meetings being held to review important trading periods or strategic matters, as required. All Directors have the right to have their concerns over, or opposition to, any Board decision noted in the minutes. All Directors have access to the Company Secretary and may take independent legal advice.

External appointments

The Executive Directors may accept outside appointments provided that such appointments do not impact their ability to perform their duties as Executive Directors of the Company.

Committee meetings

Name	Audit Committee	Remuneration Committee	Nomination Committee	Responsible & Sustainable Business Committee*
Ian Durant	2	3	3	1
Steve Johnson	3	4	4	3
Tim Stacey	3	4	4	3
Alison Hutchinson	3	4	4	3
Mike Schmidt	2	2	1	2
John Fallon	1	1	1	1
Jo Boydell	3	4	4	2
Jane Bednall	3	4	4	3
Loraine Martins	3	4	4	3
Gill Barr	1	1	1	1

* The Responsible & Sustainable Business Committee comprised Alison Hutchinson, Tim Stacey, Jane Bednall and Loraine Martins.

** All Directors are invited to Audit Committee meetings and the Responsible and Sustainable Business Committee meetings, and the Chair of the Board is invited to attend the Remuneration Committee. The Chief Executive Officer and Chief Financial Officer are invited to attend both the Remuneration and Nomination committee meetings where appropriate to do so.

CORPORATE GOVERNANCE REPORT CONTINUED

How the Board operates
The following section provides an overview of the content and structure of Board meetings. Agenda planning is undertaken in advance of every meeting to ensure there is appropriate allocation of time to strike the right balance between regular standing items, such as reports on current trading, financial performance & budgets, the strategic plan, regulatory and health and safety matters, with two or three detailed 'deep dives' provided by members of the Group Leadership Team. These enable the Board to gain a deeper understanding of the strategic direction of the business, exchange views and robustly debate elements of the Company's performance, specific projects or areas of strategic significance. If any Directors are unable to attend a Board meeting for any reason, they are consulted prior to the meeting and their views are made known to the other Directors. All Board decisions are recorded and any Board decision made outside of a meeting is made by written resolution. All meetings are structured to allow open discussion. The Board has a formal schedule of matters specifically reserved for its decision and approval, a copy of which is available from the Company Secretary, Liz McDonald.

UK Corporate Governance Code 2018
Compliance statement
This Corporate governance report, which incorporates reports from the Audit and Nomination Committees on pages 71 to 77 together with the Strategic Report on pages 1 to 61, the Directors' Remuneration Report on pages 78 to 99 and the Directors' Report on pages 100 to 102, describes and explains how the Company has applied the relevant provisions and principles of the Code, The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations) and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules during the year ended 25 June 2023. A copy of the Code is available on the Financial Reporting Council's website, www.frc.org.uk.

As detailed in the FY22 annual report, in December 2022 the pension provision for the Executive Directors was brought in line with that of the wider workforce to comply with the Code. The Board confirms that all other provisions of the Code were complied with throughout the entire year.

Directors' indemnities and conflicts
As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law, in respect of losses arising out of, or in connection with, the execution of their duties, powers or responsibilities as Directors of the Company. The indemnities do not apply in situations where the relevant Director has been guilty of fraud or wilful misconduct. Under the authority granted to them in the Company's articles of association, the Board has considered carefully any situation declared by any Director pursuant to which they have or might have a conflict of interest and, where it considers it appropriate to do so, has authorised the continuation of that situation.

In exercising their authority, the Directors have had regard to their statutory and other duties to the Company. The duties to avoid potential conflicts and to disclose such situations for authorisation by the Board are the personal responsibility of each Director. All Directors are required to ensure that they keep these duties under review and to inform the Company Secretary on an ongoing basis of any change in their respective positions. The Company maintains a related party register to record any conflicts, which is updated annually. Additionally the Group has purchased Directors' and Officers' liability insurance.

Board Evaluation
As required by the Code, the Board undertakes an annual evaluation of its activities and those of its committees. To perform the effectiveness review this year the Board carried out an internal review based once again on the same questionnaire provided by our external consultant, Gould Consulting, to maintain consistency so that we continue to build upon the work the Board has done.

In April, a three-stage process was followed, as depicted to the right:

Stages of our Board evaluation

Stage 1	Stage 2	Stage 3
Formal online questionnaire provided by Gould Consulting to provide a clear read across from the findings of the FY23 review. One to one session with the SID.	Results collated and shared with all the Directors. SID fed back to the Chairman. Discussion around the key learnings.	Action plan for FY24.

Results overview
The consensus was that the Board, and its Committees, had performed effectively and had addressed those areas previously identified as requiring further attention. The review found that whilst Board dynamics remain strong, given the changes to the composition of the Board, renewed focus should be on developing the relationships between the Directors and how the Board operates collectively. The conclusion overall was that the Board is operating effectively and that all Board members can contribute freely and play an active role in Board meetings.

Board action plan for FY24
– Ensure regular feedback is provided to the Non-Executive Directors on ongoing discussions with management.

– Elevated focus on Risk & Internal Audit reconfiguring how these two functions report regularly into the Board.

– Overseeing the strategic changes and the continued progression and development of each of the Group's brands, with a particular emphasis on The Sofa Delivery Company.

– Further enhance reporting of Strategic KPIs.

The Board will continue to review its procedures, effectiveness, development and composition during the year ahead. The Chair will use the output of the Board evaluation to further develop the performance of the Board during the year ahead.

New Directors induction
Following their appointment to the Board, John Fallon and Gill Barr both went through the Group's formal induction plan. All new Directors undergo a detailed, tailored induction programme. Including meetings with the Company's external advisors and with colleagues from across Group to familiarise the Director with all operations, including those in showrooms, manufacturing sites and distribution centres and our Group Support Centre.

Understand their duties	– One-to-one meeting with the Company Secretary to understand the Governance issues which apply to the business – One-to-one meetings with the rest of the Board, including the Chairman, Executive Directors and other Non-Executive Directors – Review previous Board & Committee papers, Committee terms of reference and Investor presentations etc – Meeting with External Advisors
Meet the colleagues	– One-to-one meetings with the members of Group Leadership Team and the wider workforce – Presentations from key functions within the Group
Visit the business	– Visiting operational locations including showrooms, factories, support offices and customer distribution centres and meeting with our colleagues from these areas

CORPORATE GOVERNANCE REPORT CONTINUED

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

The Chairman and Senior Independent Non-Executive Director also make themselves available to shareholders so that any issues and concerns can be communicated to the Board. In addition to the extensive engagement carried out by the CEO and CFO, the Chairman, and other members of the Board met with major shareholders several times throughout the year. Following any engagement with investors, details of the discussions are provided to the Board. Following the half-year and full-year results, more detailed feedback sessions were held with the Board to discuss shareholder views on the results and the Company's strategy.

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

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

External auditor
Our external auditor is KPMG LLP and our engagement partner is Frances Simpson. Our auditor was appointed following a comprehensive tender process, and we continually assess the independence and expertise of KPMG LLP. Our non-audit services policy can be found on our website and further details on page 125.

Internal audit
Further details relating to the internal audit function are contained within the Audit Committee report on pages 71 to 75.

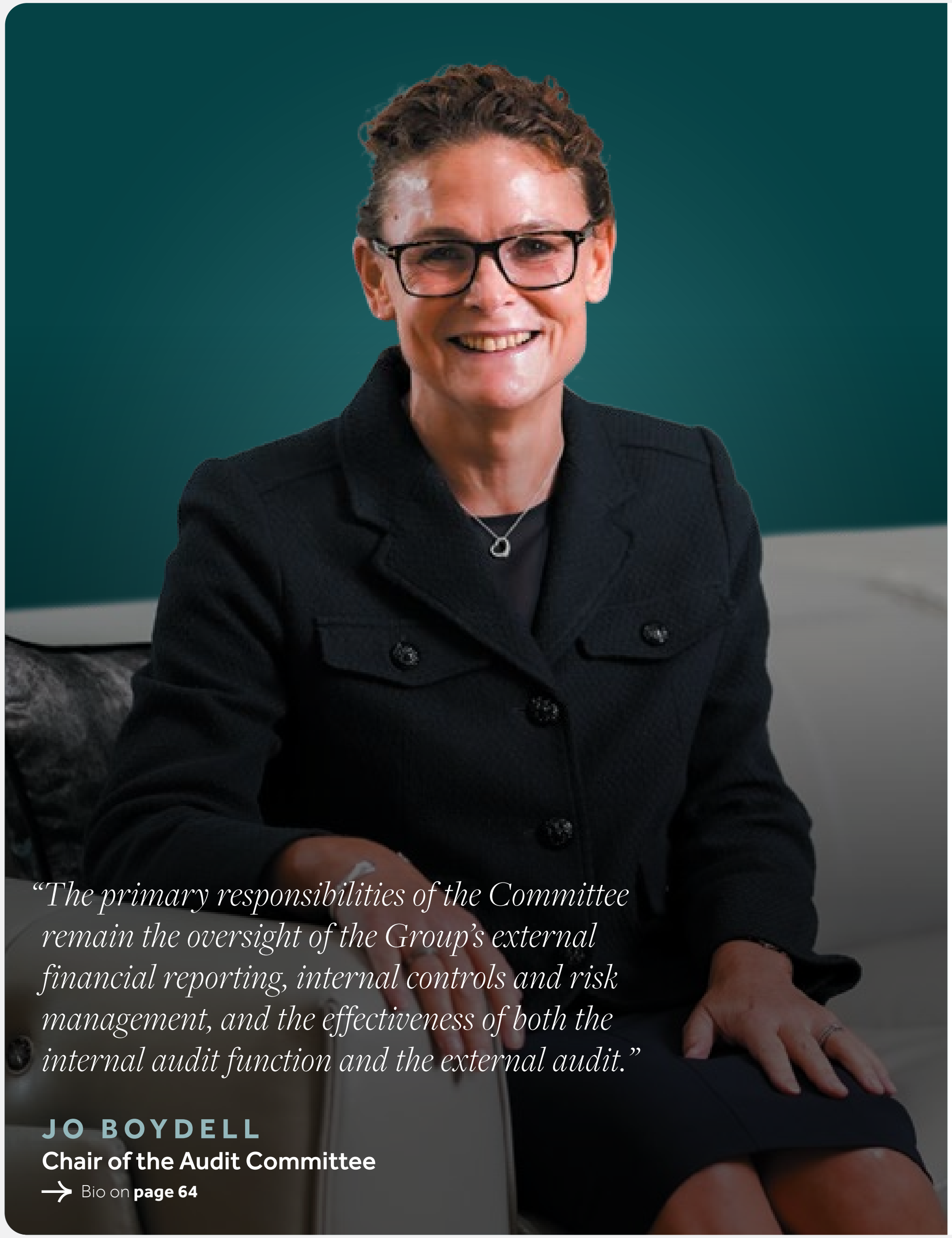
Remuneration
The remuneration policy is designed to support strategy and promote the long-term success of the Company. Details of the procedures used to determine remuneration, including separate performance-related elements, in relation to the Board and wider workforce are contained in the Remuneration Committee report on pages 78 to 99.

DTR Disclosure
The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee Reports, except for information required under DTR 7.2.6 which is contained in the Directors' Report on pages 100 to 102.

Signed on behalf of the Board of Directors.

ELIZABETH MCDONALD
General Counsel & Company Secretary
21 September 2023

AUDIT COMMITTEE REPORT



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

JO BOYDELL
Chair of the Audit Committee

→ Bio on **page 64**

On behalf of the Board I am pleased to present this year's Audit Committee report.

As we move beyond the more direct disruption of the Covid-19 pandemic, our internal audit programme has focused on higher risk operational areas and targeted risk control reviews, drawing out key themes and risk findings.

Our internal audit team continues to embed the new risk management technology platform implemented last year, including consideration of ESG impacts.

The Committee has overseen progression of the Group's approach to the UK's audit and corporate governance reform and this will continue to be an area of focus throughout FY24 as further guidance emerges.

The Committee continues to conduct regular assessments of the effectiveness of the external audit process, which was this year supplemented by a satisfactory Audit Quality Review of the Group's audit by the FRC.

While no significant new financial reporting matters arose in FY23, viability reporting and goodwill impairment assessments have continued to be important focus areas given the impact of rising interest rates and other pressures on the macroeconomic environment.

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

Key activities during FY23

- Embedding of new risk management technology introduced in FY22
- Continued focus on the Group's approach to UK audit and corporate governance reform

Composition

The Audit Committee continues to be chaired by Jo Boydell, who was appointed to the role in April 2019. Other current Committee members who served during the year are Alison Hutchinson, Loraine Martins and Gill Barr. Steve Johnson stepped down from the Audit Committee upon his appointment as Chairman in November 2022, and Jane Bednall stepped down from the Committee and the Board in June 2023.

The UK Corporate Governance Code ('the Code') recommends that all members of the Audit Committee are Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience. The Board considers that, by virtue of her current and recent executive roles, details of which are set out on page 64, Jo Boydell has recent and relevant financial experience and the Company complies with the requirements of the Code in this respect.

All Committee members are Independent Non-Executive Directors and have extensive relevant commercial and operational experience in large retail/customer-facing organisations which both benefit the Committee and collectively illustrate its competence relevant to the sector in which the Group operates.

Biographies of the Independent Non-Executive Directors are included on pages 63 and 64 and a summary of their principal skills and experience is shown on page 67.

The Chief Executive Officer, Chief Financial Officer and Chair of the Board attend meetings of the Audit Committee by invitation, as do KPMG LLP's Audit Partner and members of the Executive Board and senior management as appropriate. The Group Audit & Risk Director provides comprehensive updates at each meeting. The Company Secretary also attends by invitation in order to maintain a record of the meetings.

AUDIT COMMITTEE REPORT CONTINUED

Performance evaluation
The evaluation of the performance of the Audit Committee was carried out as part of the wider review of Board effectiveness, further details of which can be found in the Corporate Governance report on page 69. There were no significant concerns raised from this review and the Committee was deemed to be operating effectively.

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

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

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

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

Activities of the Audit Committee
The Audit Committee met three times during the year and attendance at those meetings is shown on page 68. At each meeting, standing agenda items relating to risk, internal audit results, whistleblowing and litigation issues were reviewed in addition to specific financial reporting or other topics.

Financial Reporting
Financial Statements
The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Committee reviews the content of the annual report and accounts and advises the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy. This review includes an assessment of the adequacy of the disclosure with respect to going concern and viability reporting and due consideration to laws and regulations, the Task Force on Climate-related Financial Disclosures ('TCFD'), the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

In addition to existing requirements, the Committee monitors and considers future corporate reporting developments in order to develop the Group's approach to meet any new requirements. During the year the Group has continued to monitor developments and to work towards anticipated requirements on UK corporate governance reform and this will be an ongoing area of focus for FY24.

Viability
The Committee reviewed the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans and supporting assumptions as well as sensitivity analysis and concluded that the Group's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis. As explained in further detail below, the Committee also reviewed the Group's longer term viability statement.

Fair, balanced and understandable
In reviewing the Annual report for the 52 weeks ended 25 June 2023, the Committee considered the balance of the strategic report with respect to proportional focus on positive and negative results and events, adequate disclosure of risks and the consistency of reporting of financial and other measures. The Committee also considered the extent and prominence of Alternative Performance Measures presented. This additional review by the Audit Committee, supplemented by advice received from external advisors during the drafting process, assisted the Board in determining that the report was fair, balanced and understandable at the time that it was approved.

Significant issues considered in relation to the financial statements
The Committee considered the following significant matters in relation to the financial statements and how these were addressed. This included reviewing papers prepared by management detailing the basis of and rationale for the treatments adopted. The Committee also received reports from and held discussions with the external auditor to ensure that a robust level of challenge had been made to management's assessments and to confirm that there were no significant differences of opinion between management and auditors.

AUDIT COMMITTEE REPORT CONTINUED

Impairment of goodwill	Note 10
As a result of business acquisitions, the Group has recognised significant balances for goodwill. Goodwill must be tested annually for impairment; other intangible assets are tested when there are indicators that they may be impaired. The assessment of potential impairment requires a number of judgements and estimates to be made in determining the relevant future cash flows and the discount rate to be applied.	The Committee reviewed and challenged the approach taken by management to impairment testing, and assessed the reasonableness of the underlying assumptions and financial forecasts used. The Committee considered the appropriateness of the conclusions reached, and also reviewed KPMG LLP's report and discussed their observations and findings in this area. The Committee will continue to review the carrying value of intangible assets at least annually, or in the event of any significant changes to the structure or circumstances of the Group.
Going concern and viability reporting	Page 35
In addition to the statement on going concern, the Group is required to make an assessment of its longer term viability. This requires the application of a number of judgements and estimates, particularly given the continuing macroeconomic uncertainty.	The Committee, along with the Group's external auditor, has reviewed management's assessment of the prospects of the Group for the three years from 25 June 2023, being a reasonable period for the assessment of key risks for a retail business given continuing political and economic uncertainties. This review included challenging underlying assumptions and stress-testing the scenario modelling, including the potential impacts of high inflation, rising interest rates and a weak market environment, and concluded that the going concern assumption remains appropriate and the Board is able to make the viability statement on page 35 of the Strategic Report.
Parent company investments	Note 2 to the Company financial statements
The ultimate parent company of the Group, DFS Furniture plc, holds a significant value of investments in subsidiary companies in the Group. The carrying value of these investments and related intragroup borrowings is supported by the enterprise values of the underlying trading entities. Assessment of these enterprise values requires a number of judgements and estimates to be applied.	The Committee reviewed management's assessment of the recoverability of the parent company investments, including the underlying judgements and estimates, and considered the consistency of these with the assessment of the impairment of intangible assets as noted above. The Committee considered the appropriateness of the conclusions reached, and also reviewed KPMG LLP's report and discussed their observations and findings in this area. The Committee will continue to review the carrying value of the parent company investments at least annually, or in the event of any significant changes to the structure or circumstances of the Group.

External Audit

Assessment of effectiveness of the external audit process

The Audit Committee oversees the relationship with the external auditor and considers the re-appointment of the Group's auditor, before making a recommendation to the Board to be put to shareholders.

As part of this responsibility to assess the effectiveness of the external auditors, the Committee approved the audit plan for the 52 weeks ended 25 June 2023 and reviewed the auditor's findings and management representation letters.

In addition to consideration of the audit process, responses to questions from the Committee and the audit findings reported to the Committee, a structured feedback exercise was again undertaken during the year. This exercise collated feedback on a wide range of factors from Non-Executive Directors, senior managers and relevant colleagues from the Finance, Audit and Risk, Legal and Compliance teams. The results of this feedback identified key strengths in regard to objectivity and robustness of challenge, alongside opportunities for enhancing communication flows and seeking efficiencies on fees. These results supported the Committee in its conclusion that KPMG LLP continues to be effective in its role as external auditor.

In performing this assessment, the Committee has already incorporated a number of the considerations noted in the FRC's Audit Committees and the External Audit: Minimum Standard, published in May 2023. During the course of FY24 the Committee will seek to enhance its processes where required to address all elements of the guidance.

During the year, the audit of the Group's FY22 annual report was selected by the FRC for an Audit Quality Review as part of their routine review process. The Committee discussed the outcome of this review with the auditors, with no significant findings noted.

Appointment of the external auditor

The Group's external auditors were appointed in FY22 following a tender process as detailed in previous annual reports. Under current UK corporate governance requirements the external audit provision will be subject to another tender no more than ten years later, ahead of the start of the FY32 audit.

Safeguarding objectivity and independence relative to non-audit services

The Committee regularly reviews the Group's policy on non-audit services, which governs the provision of non-audit services provided by the auditor and, in summary, categorises the types of non-audit services as:

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

In any event, within each of the Group's legal entities, the cumulative total of non-audit fees paid to the external auditors within each financial year must not exceed 70% of the average audit fee for the last three financial years. The above policy has been adhered to throughout the financial year ended 25 June 2023, during which the only non-audit services provided by the Group's external auditor were an interim review, which is closely related to the audit, and a comfort letter in connection with an investment circular for the Company's EGM held on 4 November 2022, which constituted permissible assurance work under the policy.

Independence assessment by the Audit Committee

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

AUDIT COMMITTEE REPORT CONTINUED

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

Internal Audit
At its July 2022 meeting, the Committee reviewed and approved the Group's internal audit plan for FY23 which was organised across the following categories:

- Regulatory;
- Company Risk, including cyber and ESG;
- Group Retail Estate;
- Sofa Delivery Company (CDC's);
- Manufacturing; and
- Central Operations.

Within these categories, specific topics and sites were selected based on review of principal and strategic risks, response to stakeholder focus areas and changes in business operations. The audit plan also provided for additional activity in support of group initiatives and specific-scope reviews of emerging risk areas. The Committee also considered the areas not included in the FY23 audit plan in order to confirm the rationale for their exclusion.

Internal audit services continue to be delivered through a combination of traditional full audits and lighter touch assurance reviews. This is supplemented by engagement with third party specialists in key areas such as cyber, ESG and regulatory compliance. Data analytics also plays a key role in the identification and tracking of risk areas, including live metrics on key assurance areas for operational sites. This allows the internal audit team to conduct more focused sample testing and data analysis to identify potential non-compliance or fraud.

While some modifications to the original plan were made during the year, due to changes in business organisation or to facilitate additional requests from the business for advice or investigation, the Committee retained oversight of these modifications to ensure that a broad-range of coverage was maintained. Areas covered by the plan in FY23 included:

- Retail audits, including omnichannel/online sales;
- Stock management;
- Regulatory compliance monitoring programmes for retail brands;
- Site audits for The Sofa Delivery Company;
- ESG;
- Foreign exchange hedging;
- Customer services;
- Recruitment; and
- Colleague expenses.

In addition, Internal Audit performed a number of specific risk control reviews to particular business activities, including reviews of foreign exchange and customer refunds, as well as providing support and advisory work for process improvement in retail and supply chain operations.

The scope of internal audit work for manufacturing as well as other operational areas also includes key elements of health and safety compliance with both internal requirements and external regulations.

During the year the Group also enhanced its methodology for internal audit reporting to create clearer linkage to related risk documentation in order to directly highlight the effectiveness assessment of controls within the area being audited. Consideration of ESG related impacts remains a central part of the internal audit process, and was supplemented in FY23 by a review of the quality of ESG KPI data provided by suppliers.

The management of cyber risk remains a high priority for the Group. A programme of rigorous self-assessment covering all key threat areas is followed in order to identify potential enhancements to the Group's processes and systems. Further information on activities and developments in this are discussed in the Risks and Uncertainties section on page 31.

Summarised reporting of internal audit results is provided to the Governance Risk and Compliance committee on a monthly basis and also at each Audit Committee meeting, together with summaries of themes emerging from the results and the overall risk profile across the business. Common themes emerging from internal audit work are also fed back to operational leadership teams to support controls and process improvements.

The effectiveness of the internal audit team, and its level of resource, is reviewed by the Committee at least annually. This assessment includes the ongoing review of the:

- Audit agenda and operational plans (including resource requirements);
- Results of the audit fieldwork and any significant issues highlighted; and
- Management of any corrective actions implemented.

Internal control and risk management
As detailed in its terms of reference the Committee bears delegated responsibility from the Board for the overall system of internal controls for the Group and for reviewing its effectiveness. In accordance with FRC guidance, it carries out such a review at least annually, covering all material controls including financial, operational and compliance controls and risk management systems.

The Committee receives an update at each meeting, highlighting new and emerging risks, and progress and changes in rating of principal risks. Horizon scanning for emerging macro and internal risks is updated on a quarterly basis, with prioritisation based on likely severity and timing of the risks identified. During FY23 the Group undertook a benchmarking exercise of its principal risks against the broader UK retail sector and was satisfied that all critical areas had been appropriately addressed. The Group has also continued to develop and embed the new specialist risk management tool introduced last year.

The Committee also maintains oversight of key process and controls developments in the Group. During FY23 inventory master data and reporting has continued to be an area of focus, alongside the analysis and reconciliation of the freight component of standard costs. The Committee received regular updates to support appropriate challenge and review of progress.

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

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

Sub-committees for each brand comprise senior and middle management responsible for the 'day to day' management of the controls to ensure the Group remains both compliant and proactively reviews its processes, risks and forthcoming changes to ensure it plans in a timely, structured and sustainable way.

The Governance and Risk committee places emphasis on key metrics and management information designed to provide oversight of performance and highlight any potential detriment or risk to the Group while seeking to achieve the very best customer outcomes and provide a safe environment for staff, customers and data alike.

The Audit Committee and Board also receive recommendations from the Responsible and Sustainable Business Committee with regard to climate-related risk assessments.

The Board is ultimately responsible for the Group's system of internal controls and risk management and discharges its duties in this area by:

- Holding regular Board meetings to consider the matters reserved for its consideration;
- Receiving regular management reports which provide an assessment of key risks and controls;
- Scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;

AUDIT COMMITTEE REPORT CONTINUED

- Ensuring there is a clear organisational structure with defined responsibilities and levels of authority, including defined delegations of responsibility in the terms of reference for Board committees;
- Ensuring there are documented policies and procedures in place; and
- Scheduling regular Board reviews of financial budgets and forecasts with performance reported to the Board monthly.

In reviewing the effectiveness of the system of internal controls, the Audit Committee will continue to:

- Review the risk register compiled and maintained by senior managers within the Group at least bi-annually and question and challenge where necessary;
- Regularly review the system of financial and accounting controls; and
- Report to the Board on the risk and control culture within the Group.

In respect of the Group's financial reporting, the Finance Department is responsible for preparing the Group financial statements using a well-established process and ensuring that accounting policies are i

n accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee and the Board.

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

All identified risks are assessed for ESG impacts and linked to a specific ESG risk register within the Group's risk management system, ensuring strong focus on key ESG risks while embedding them within the Group's broader risk management framework.

The Committee has continued to consider the Group's response to developments in UK audit and corporate governance reform. Following the financial reporting risk assessment undertaken last year, a programme of work was initiated during FY23 to review and enhance the Group's documentation and testing of its financial reporting controls in anticipation of the new requirements. During FY24 this programme will be developed as further guidance and draft legislation emerges following the recent publication of the draft revised Code. The Group's goal remains a thorough and orderly approach to compliance.

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal controls and risk management is in place which enables the Group to identify, evaluate and manage key risks and which accords with the guidance published by the FRC. These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 28 to 34.

Whistleblowing

The Group is committed to the highest standards of openness, honesty, integrity and accountability and, as a result, has a whistleblowing policy in place. This policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. Examples include fraud, breakdown in internal controls, misleading customers, bribery, modern slavery, dishonesty, corruption and breaches of data protection or health and safety.

During FY23 the Group has continued to report and analyse whistleblowing incidents, including trends and highlights reviewed at the monthly Group Governance, Risk and Compliance Committee and shared with the Audit Committee.

During the year, there were 29 (FY22: 23) reports received through the whistleblowing process, all of which were fully investigated and addressed in accordance with the policy.

Business ethics

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

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

The Group is authorised and regulated by the Financial Conduct Authority in connection with the provision of interest-free credit to its customers, including requirements under the Senior Managers Certification Regime. An established governance framework is in place to implement and monitor appropriate processes, controls and training in support of the Group's regulatory compliance. The Group also commissions reviews by independent third party compliance experts to assess the controls in place and advise on best practice.

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

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

The Group updates its Tax Strategy Statement each year, again published on the Group's website, in compliance with its duty under the Finance Act 2016, which sets out details of the Group's attitude to tax planning and tax risk.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Group and the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on pages 103 and 111. As set out in the Directors' report, the Directors consider the Group's business to be a going concern. The Group's viability statement can be found on page 35.

JO BOYDELL
Chair of the Audit Committee
21 September 2023

NOMINATION COMMITTEE REPORT

"This year, the Nomination Committee focused on the appointment of the new CFO, and strengthening the Board with the appointment of an additional Non-Executive to continue to support the long term strategy of the Group."

STEVE JOHNSON
Chair of the Nomination Committee
→ Bio on **page 63**

Welcome to the report from the Nomination Committee.

This is my first report as Nomination Committee Chair. It has been a remarkably busy year for the Committee with the focus primarily on the appointment of a new Chair, CFO, and an additional Non-Executive Director. Appointments to the Board, as with other positions within the Group, are made on merit according to the balance of skills, experience, diversity, and inclusion offered by prospective candidates.

Chair Succession

The Senior Independent Non-Executive Director, Alison Hutchinson, led the appointment sub-committee to conduct the search for a new Chair to take over from Ian Durant who stepped down at the end of the AGM in November 2022. The appointment sub-committee along with the external executive search and talent recruitment firm MBS Group worked to identify the blend of skills and experience required to lead the Group. The sub-committee drew up a role specification for approval by the Nomination Committee after consultation across the wider Board. A shortlist of external candidates was prepared and after a rigorous process I was delighted to be invited to become the Chair of the Board of Directors. I would like to thank Alison, and the other Committee members for their work on this and on the other Board appointments throughout the year.

Key activities during FY23

- Conducted the search for, consideration of, and recommendation to the Board of the appointment of the new Chair
- Recommending the appointment of the Chief Financial Officer
- Recommending the appointment of the new Non-Executive Director and Chair of the Remuneration Committee
- Recommending the appointment of Loraine Martins as the Designated Non-Executive Director
- Reviewing the pipeline of talent within the Group Leadership Team and assessing their development needs

CFO Succession

Mike Schmidt advised the Committee in July 2022 that he intended to step down from the Board, to take up a new opportunity. Mike made a significant contribution as CFO during his tenure, and on behalf of the Board I thank him, and we wish him well in his new role. We started the search for Mike's successor immediately and I was incredibly pleased that in November we were able to announce that John Fallon would join us as CFO. John is an accomplished finance leader who brings a wealth of retail experience having previously been the CFO at ASDA. John is already making a significant contribution to the Group; he successfully led the refinancing of the Group over the summer and is working with the Group's Leadership Team to manage the Group's cost base and build back margin.

NED Appointment

Gill Barr joined the Board in March 2023 as a new Independent Non-Executive Director, and Chair of the Remuneration Committee, bringing significant retail and logistics expertise as well as being a seasoned Remuneration Chair. Following the decision by Jane Bednall to step down from her role as a Non-Executive Director, the Committee asked Loraine Martins to fulfil the role of Designated Non-Executive Director representing colleagues on the Board. Loraine has considerable experience in Equality, Inclusivity and Diversity and will represent the 'Colleague Voice' at the Board.

New Board members are always welcomed into the business through a comprehensive induction, co-ordinated by the Company Secretary.

NOMINATION COMMITTEE REPORT CONTINUED

Composition
During the year, the Committee was chaired by Ian Durant until November 2022 and then subsequently by me following my appointment as Chair of the Board of Directors. Each of the Non-Executive Directors is a member of the Nomination Committee. The Board considers that each of the Non-Executive Directors are independent and the Chair was independent upon appointment. The Code required that Committee members should be independent in character and judgement and free from any relationship or circumstance which, could or would be likely to affect their judgement and as such the membership of the Committee complies with the UK Corporate Governance Code. The Committee's terms of reference are available on the Company's corporate website at www.dfscorporate.co.uk. Although only members of the Committee have the right to attend Committee meetings, the Chief Executive Officer and the Chief Financial Officer are invited to attend meetings where appropriate. The Nomination Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least twice a year.

Principle Duties
The purpose of the Committee is to assist the Board by keeping the composition of the Board under review; to make recommendations to the Board, on the appointment of Executive and Non-Executive Directors ensuring the Board is sufficiently diverse and has the blend of skills, knowledge and experience to support the Company; to oversee the succession plans for the Board and senior management; and to ensure that there are processes in place to secure a diverse pipeline of potential candidates for succession to key management positions and to the Board. The Nomination Committee regularly updates a matrix of the skills brought to the Board by all Directors, both Executive and Non-Executive. The current matrix is shown on page 67.

'Everyone Welcome'
DFS is a Group that lives its values and is committed to having a diverse and inclusive workforce and culture throughout the organisation. Our objective of driving the benefits of a diverse Board, senior management team and wider workforce is underpinned by our Board Equity, Diversity & Inclusion Policy, which can be viewed on our corporate website. The Board and Group Leadership Team believe a diverse and inclusive workforce and a culture where everyone is welcome, is crucial to the long-term success of the Group. I can report we currently have four female directors out of our Board of seven directors. The biographies of the Board of Directors can be found at page 63 and 64 of the report. The Committee continues to take an active interest in the quality and development of talent and capabilities of the Group Leadership Team ensuring that appropriate opportunities are in place to develop high-performing individuals within the Group Leadership Forum and to build diversity and inclusivity in senior roles across the business.

Board Evaluation
As required by the Code, the Board undertakes an annual evaluation of its activities and those of its committees. This year the Board carried out an internal review of its effectiveness. Between March and May 2023, a three-stage process was followed. More information on the process and outcomes is detailed at page 69 of this Corporate Governance report.
The performance of the Nomination Committee was reviewed as part of the evaluation process, and I am pleased to report that the evaluation concluded that the Committee continues to operate effectively.

What we will do in 2024
- Continue to assess the Board skills and composition of the Board.
- Carry out an externally led review of the Board's performance.
- Review the frequency and terms of reference of the Committee.
- Group Leadership Team succession planning and talent management update will be provided to the Committee.
- Oversee the external Board Evaluation in accordance with the principles of the UK Corporate Governance Code.
- Conduct a review of the composition of the Board, based on the skills, knowledge, experience and diversity of the Board, the needs of our strategy and the requirements of our stakeholders.

STEVE JOHNSON
Chair of the Nomination Committee
21 September 2023

DIRECTORS' REMUNERATION REPORT

"The Committee seeks to ensure a clear link between Executive Directors' pay, the delivery of our strategy and enhancement of shareholder value."

GILL BARR
Chair of the Remuneration Committee
Bio on **page 64**

Contents of this report

Key activities during FY23

- Approving the recruitment arrangements for our new Chief Financial Officer, John Fallon, and the termination arrangements of his predecessor
- Determining outturns for incentives in respect of FY23, taking into consideration the experience of key stakeholders over the period
- Assessing the competitiveness of executive director remuneration arrangements
- Setting performance targets for FY24 incentives
- Consideration of market trends and governance updates
- Consideration of pay and conditions across the wider workforce

Part A: Annual statement by the Remuneration Committee Chair

On behalf of the Board, I am pleased to present the Remuneration Committee report for the financial year ended 25 June 2023, my first as Chair of the Remuneration Committee having joined the Board and the Committee in March 2023. I would like to thank my predecessor, Steve Johnson, for his guidance and support as I transitioned into the role.

The Remuneration Report provides a comprehensive picture of the structure of our remuneration framework, its implementation and its alignment with the business strategy. In addition, we explain the impact on the rest of the workforce, and the decisions made by the Committee as a result of the Group's performance in FY23. Finally, we share the intended arrangements for FY24.

As this was not a policy renewal year, we have included a summarised version of directors' remuneration policy. The full report as approved by shareholders at the 2021 AGM can be accessed online: https://www.dfscorporate.co.uk/investors/annual-report-2021.

Remuneration in context

The Committee were delighted by the positive voting outcome for the annual report on remuneration at the 2022 AGM which received 91.8% votes in favour. We would like to thank our shareholders for their continued support, and we look forward to engaging with our shareholders during FY24 as part of the triennial review of directors' remuneration policy ahead of it being put to vote at the 2024 AGM.

FY23 has been another challenging year. The well-publicised global macroeconomic challenges impacted overall market volumes, which were down c.15% compared to pre-pandemic levels, but the Group achieved record market share of 38%. The Group benefited from the its leading brands, significant scale and compelling retail propositions. Those strengths were the result of the hard work of our people led by our Chief Executive Officer and his Group Leadership Team. The Group delivered underlying profit before tax in line with guidance with an improved gross margin.

The Remuneration Committee carefully considered the experiences of all key stakeholders, as well as overall Group performance, when making decisions on executive remuneration. We have outlined below the key drivers of our decisions

Group performance

- Group profit before tax (PBT) from continuing operations for the year of £29.7m (FY22: £58.5m) in line with guidance set at the interims.
- Despite market volumes reducing c.15% by volume, Group Revenue from continuing operations for FY23 was only 5.3% below prior year at £1,088.9m (FY22: £1,149.8m)
- Gross Margin continued to improve, supported by freight costs returning to pre-pandemic levels and effective cost control by management.

Shareholder experience

An interim dividend of 1.5p was paid to shareholders in May and the Board is recommending a final dividend of 3.0p giving a total ordinary dividend for FY23 of 4.5p (FY22: 7.4p). In September 2022 the Company announced its intention to buyback a further £10.0m of shares, which was completed in January 2023.

Colleague experience

The Committee is extremely mindful of the current cost-of-living challenge and its impact on the financial and emotional wellbeing of our employees. The Committee was pleased to note that during the year the Group decided to increase the average workforce salary by 5% across the Group. In December 2022 all colleagues were also awarded a £100 'Thank You' voucher for their continued hard work and commitment.

Throughout the year the Group continued its strategy of supporting its people through the introduction of several new employee benefits:

- the SmartTech programme, a scheme to help with the cost of living by giving colleagues the opportunity to purchase new technology whilst spreading the cost over 12 months directly from their net pay, interest free.
- a Health Cash Plan, which benefits colleagues at entry to intermediate management grades who are not eligible for private medical/health cash plan as part of their remuneration package.
- a Holiday Buying (salary sacrifice) scheme giving colleagues the opportunity to purchase up to 5 days additional holiday.
- the final part of our partnership with Peppy, which provides wide support for colleagues. Baby & Fertility group launched in October 2022 joining Men's Health and Menopause support.

In addition, I am pleased to announce that the FY23 management bonus scheme will provide a median payment to participants of 33.5% of maximum.

Pay outcomes in FY23

Base salary increases in FY23

In FY23 there was no increase in base salary for the Executive Directors or the wider work force with the exception of increases in the National Living Wage. During the year the Committee did agree that the Executive Directors should receive an increase of 4.5% (below that of the wider workforce), effective from 1 July 2023 (FY24).

Annual Bonus in FY23

The bonus for FY23 was based on 30% Profit before tax, 20% Revenue, 20% Cash Flow, and 15% 'ESC' made up of 5% Environmental, 5% Social and 5% Established Customer NPS and 15% on Personal Objectives. Payment of any bonus for the Executive Directors was subject to achievement of a Group PBTa[1] threshold of £30.3m. The stretching Cash Flow threshold was not met and so no bonus was paid in respect of this portion. Despite market volumes reducing c.15% across FY23, Group revenues of £1,088.9m were close to budget and so 41.1% of this element paid out and Group underlying PBTa[1] of £30.6m was just above threshold resulting in 2.8% of this element paying out.

Each Executive Director also performed well against their balanced scorecard of personal objectives which included developing a credible carbon reduction roadmap that was subsequently submitted to SBTI and strong progress improving the Customer NPS score. Under the formulaic assessment, the bonus delivered 31.1% of the maximum opportunity for the Chief Executive and Chief Financial Officer. The Committee considered this a fair reflection of management performance during the year. The bonus for John Fallon will be pro-rated to reflect that he joined the Group during FY23. In addition, 25% of the bonus for both Executive Directors will be paid in shares subject to a two-year holding period.

LTIP vesting in respect of FY23

The 2020 LTIP award was based 50% on Adjusted EPS[2] and 50% on relative TSR growth against two peer groups, the FTSE 250 Index (excluding investment trusts) and the FTSE 350 General Retailers Index. Adjusted EPS[2] for FY23 was 9.6p versus a thresh old level of 18.7p and so this element did not vest. The relative TSR performance against both peer groups was also below the threshold and therefore the entirety 2020 LTIP award did not vest.

Committee consideration of incentive outturns in the context of stakeholder experiences and overall Group performance

The Committee considered whether the bonus and LTIP outcome should be adjusted in light of overarching business performance and the experience of shareholders. After due consideration the Committee is of the view that the formulaic outcomes are fair and appropriate. No discretion was exercised in relation to these awards.

Base salary for FY24

As noted above, base salaries for the wider workforce and the Executive Directors were increased by 5% and 4.5% respectively effective 1 July 2023.

In the five years since his appointment, the Committee believes the Chief Executive Officer has provided exceptional leadership during what has been, and continues to be, an extremely challenging trading environment. Under his leadership, DFS has achieved record market share. The Board is aware that DFS is operating in a highly competitive market for capable senior leaders. This was recently highlighted by the departure of the previous Chief Financial Officer to another retail organisation who could offer a significantly larger remuneration package. The Board considers the Chief Executive Officer critical to DFS being able to deliver its transformational agenda.

1. Refer to pages 25 to 27 for definitions of Alternative Performance Measures.
2. Underlying basic earnings per share from continuing operations.

DIRECTORS' REMUNERATION REPORT CONTINUED

In light of these issues, the base salaries of the Executive Directors were reviewed during 2023 along with those of the wider workforce. During this review the Committee noted that the Chief Executive Officer's base salary was below the level paid to Chief Executive Officers in companies with similar revenues, market capitalisation and number of employees, particularly retailers who are also constituents of the FTSE SmallCap.

Given this context, the Committee increased the Chief Executive Officer's base salary by 10.3% from £453,200 to £500,000 effective 1 September 2023. This increase included the annual increase of 4.5% which is below the workforce average of 5%, plus an additional 5.8%. The Committee is mindful that the total salary increase is above the wider workforce average but believes the increase is fair and necessary to motivate and retain our Chief Executive Officer who is critical to the delivery of the transformation.

Annual Bonus for FY24

The bonus opportunity for the Chief Executive Officer will remain at 120% of salary and for the Chief Finance Officer 110% of salary. For FY24, bonus performance will be based 70% on financial measures (50% Profit Before Tax, 20% Cash flow) and 30% on strategic non-financial measures: 10% Environmental; 10% Social – Inclusivity; 10% Customer NPS.

Revenue will not feature as a separate measure on the basis that it is an input to PBT and there will also be no personal objectives. The precise targets applying to the awards are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP awards for FY24

The operation of the LTIP for FY24 will be in line with the remuneration policy. The maximum LTIP award level will remain at 175% of salary for the Chief Executive Officer and 140% of salary for the Chief Finance Officer, the Committee having considered share price since the FY22 LTIP award was made.

Performance targets will remain majority weighted on EPS and relative TSR although the weighting of each will reduce to 45% to accommodate a new ESG target weighted 10%. During the course of the year the Committee reviewed and agreed that, in line with growing market practice, performance measures for the FY24 grant would include ESG targets aligned to the Group's ESG strategy. In this first year, the Committee have approved two targets with equal weighting: 1) Scope 1 Carbon Intensity Reduction, aligned to the Net Zero Roadmap and 2) Reduction in the use of virgin content in plastic packaging used by the Group.

More details can be found on page 81.

Management changes

As announced in July 2022, and described in the report last year, Mike Schmidt, the previous Chief Financial Officer stepped down from the Board effective 14 October 2022 and between serving notice and departure received only salary, pension allowance and contractual benefits. Under the rules of the LTIP and Deferred Bonus Plan, and in line with remuneration policy, Mike's 2020 and 2021 LTIP awards and 2021 deferred bonus award lapsed and Mike was not eligible to receive a bonus for any period served during FY22 or FY23.

We were delighted to welcome John Fallon as Executive Director and Chief Financial Officer of the Group on 14 November 2022 on a salary of £380,000 reflecting his twenty years' experience from ASDA, where he most recently served as Group Chief Finance Officer and his strong retail experience. To enable John to join the business at the earliest opportunity, the Committee agreed an additional payment of £26,559 which was the equivalent of 26 days salary from his previous employment.

Looking ahead

In line with the normal three-year cycle, our Directors' Remuneration Policy will be subject to shareholder vote at the 2024 AGM. In advance of this, the Committee will spend significant time rigorously reviewing the remuneration policy to ensure that it is effective in motivating delivery of the strategy and that it remains fit for purpose as DFS looks to the future. This review will consider DFS's strategic aims and the views and expectations of our shareholders and other stakeholders. I look forward to engaging with you as part of the consultation process.

GILL BARR
Chair of the Remuneration Committee
21 September 2023

Part B: Remuneration at a glance

Overview of remuneration policy

Element	Policy
Pension	4% of salary
Post-cessation shareholding	2-year post-cessation of 200% of salary
Annual bonus opportunity and deferral	CEO: 120% of salary CFO: 110% of salary 25% of bonus deferred for 2 years
LTIP opportunity and timeframes	CEO: 175% of salary CFO: 140% of salary 3-year performance period with 2-year hold
Shareholding guidelines	200% of salary

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

Key Element of the 2018 Code	How is this considered within DFS's remuneration framework?
Five-year period between the date of grant and realisation for equity incentives	The LTIP has a five-year period including the performance and holding period.
Phased release of equity awards	The LTIP ensures the phased release of equity awards through rolling annual grants
Discretion to override formulaic outcomes for bonus and LTIP awards	The Policy contains the ability to override formulaic outcomes and apply discretion where deemed necessary.
Post-cessation shareholding requirement	Post-cessation shareholding requirement of 2 years
Pension alignment	Pension contributions for new Executive Directors are aligned to the wider workforce. Pensions for incumbent Executive Directors were aligned to the workforce from the end of December 2022
Extended malus and clawback provisions	The current malus and clawback provisions reflect requirements of the Code and best practice.
Effective engagement with workforce	We have appointed a Designated Non-Executive Director (Loraine Martins) who will attend the Employee Voice Forums and engage with the workforce. Loraine succeeded Jane Bednall in this role following Jane's decision to step down from the Board at the end of FY23

Key implementation decisions for FY23

Neither the CEO nor the CFO received any salary increases during FY23, in line with the wider workforce.

Annual bonus

Performance measure	Weighting	Achievement (% max)
Group Revenue	20%	41.1%
Group PBTa[1]	30%	2.8%
Group free cash flow	20%	0%
Environmental	5%	100%
Social -Inclusion	5%	3.0%
Customer – Average NPS	5%	100%
Personal objectives	15%	80% for both EDs

Payment of the FY23 bonus was subject to the achievement of threshold Group PBTa[1]; as this was achieved a bonus was payable for FY23 at 31.1% of maximum.

FY23 Bonus opportunity for the CEO: 120% of salary and for the CFO:110% of salary

LTIP

Performance measure	Weighting	Achievement
TSR vs FTSE 250	15%	0%
TSR vs FTSE 350 Retailers	35%	0%
EPS growth	50%	0%

FY20 LTIP award opportunity: CEO: 150% of salary

No discretion was used in determining the incentive plan outturns.

Implementation of policy for FY24

Element	Implementation
Base salary	CEO and CFO: 4.5% increase from 1 July 2023 In addition, CEO: further 5.8% increase from 1 September 2023
Pension	CEO: 4% of salary, CFO: 4% of salary
Annual bonus maximum	CEO: 120% of salary. CFO: 110% of salary
Annual Bonus metrics	– 70% Financial (Profit before tax: 50%, Free Cash Flow: 20%) – 30% Non-Financial Strategic 'ESC' objectives (Environmental: 10%, Social – Inclusion: 10%, Customer – Average NPS: 10%)
LTIP maximum	CEO: 175% of salary, CFO: 140% of salary
LTIP metrics	– ESG (10%) – EPS (underlying) (45%) – TSR relative to FTSE 250 excl. investment trusts (13.5%) – TSR relative to FTSE 350 General Retailers Index (31.5%)

1. Refer to pages 25 to 27 for definitions of Alternative Performance Measures.

Part C: Our Remuneration Philosophy and Workforce Reward

Our remuneration philosophy & Principles

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

THINK CUSTOMER

BE REAL

AIM HIGH

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

Fair, market competitive pay and benefits	Aligned to our business strategy and culture	Supports a high-performance sales and service culture
To pay a market competitive rate to reflect the role and skills of each employee. To operate a pay and reward system that is free from discrimination. To enable all employees to share in success by encouraging widespread equity ownership amongst the Group.	We strive to create an inclusive and diverse working environment and promote the right behaviours through fairness, equity of treatment and in doing the right things in the right way. Our incentive plans are designed to reward and promote delivery of the Group's business plan and key strategic goals, within the risk appetite of the Group.	Our pay and reward programmes are designed to encourage and support a high level of performance and positive customer experiences. We provide access to development opportunities enabling growth and success within function and cross-functionally.

Remuneration in the wider context

The Group employs approximately 5,300 people across the UK and Republic of Ireland. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our people across all parts of the Group. The various factors which make up our 'Your Deal' proposition are set out below.

Fair, market competitive pay	– We aim to be the market median payer of remuneration for good individual performance, believing that this approach balances fairness to the employee as well as responsible use of shareholders' funds. – We regularly review our pay arrangements for fairness and market competitiveness. – Employees in the UK can participate in the Sharesave scheme.
Aligned to our business strategy and culture	– Employees can share in our success via bonus schemes. – Company-wide groups generate positive engagement more broadly with activities such as the Employee Assistance Programme (EAP) which provides a free and confidential support network designed to help our colleagues and their families with any issues that could be affecting their home life or work life, health, and general wellbeing. – We have a wellbeing offering that supports our inclusion agenda. We launched the final part of our partnership with Peppy: Baby & Fertility group-wide support for colleagues in October 2022 (started with Menopause support in July 2021 and Men's health in June 2022). – The 'Your Deal' Portal provides employees with access to savings across a large number of retailers and we continually review our benefit offering to ensure we're supporting our employees in a variety of ways. In the last year we have introduced three new benefits that will help our employees time and/or money go further: (1) SmartTech programme giving employees the opportunity to purchase technology whilst spreading the cost over twelve months directly from their net pay, interest free, (2) a Health Cash Plan (giving employees access to a 7-day a week private GP and the ability to reclaim certain health costs (this benefits our colleagues at entry to intermediate management grades who are not eligible for private healthcare as part of their remuneration package), and (3) a Holiday Buying (salary sacrifice) scheme giving employees the opportunity to buy up to five days additional holiday per annum.
Supports a high- performance sales and service culture	– We have delivered more than 9,000 training hours focused on sales and service skills within our Sofology brand, and delivered over 200 virtual training sessions focusing on sales and service across DFS. – 40 of our Retail team are currently completing Retail Apprenticeships to develop their skills further. – Around 40 more colleagues are undertaking other apprenticeships across different parts of the business. – We have supported our leaders extensively with over 2,000 hours of learning completed by 'middle' managers across the Group.

Cascade of remuneration across the group

The table below illustrates the remuneration framework across the Group:

Level	Employee numbers	Fixed remuneration	Annual bonus or incentive / commission plans	Restricted share plan	Long-term incentive plan	All employee HMRC plans
Group Leadership Team	5	✓	✓	✓	✓	✓
Heads of divisions and functions	94	✓	✓	✓		✓
Managers	377	✓	✓	✓		✓
All employees	4,808	✓	✓			✓

The table below explains how the remuneration framework operates across the Group:

	Base salary	Pension & benefits	Annual bonus and recognition awards	LTIP, RSP & SAYE
Group Leadership Team	Base salary is set by reference to the wider workforce and market practice.	Taxable benefits include car, private medical insurance, and reimbursement of business-related expenses. Pension policy aligned to workforce rate of 4% of salary.	The annual bonus for our management population is based on a combination of financial and non-financial objectives. Where possible we seek to ensure that Group based measures and targets are consistent.	Our Group Leadership Team are eligible to participate in the LTIP which rewards achievement of stretching strategic goals which align their interests with investors over the long-term.
Heads of divisions and functions				The next level of management is eligible to participate in the RSP.
Managers				All employees in the UK may participate in the Group's Sharesave plan.
All employees		Average employer pension contribution is 4% of salary.	Colleagues in operational areas across the Group (in retail showrooms, manufacturing sites and in the Sofa Delivery Company) have access to variable pay and bonuses based on a combination of individual and team performance.	

Part D: Remuneration Policy

The following section sets out a summary of the Directors' Remuneration Policy for the Board which was approved by binding shareholder vote at the AGM in November 2021, taking effect from the date of approval.

The Remuneration Policy has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the current Code and the Listing Rules.

Remuneration principles

The Committee concluded that the Company's remuneration principles remain appropriate and that the proposed Remuneration Policy is in line with the relevant principles.

The remuneration principles are set out below:

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

Executive Remuneration Policy Table

Base salary

To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.

Operation

Salaries are reviewed annually, and any change will generally take effect from 1 April.
When determining the salary of the Executives the Committee takes into consideration:

- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities;
- pay and conditions throughout the Group, including the level of salary increases awarded to other employees; and
- the levels of base salary for similar positions with comparable status, responsibility, and skills, in organisations of broadly similar size and complexity.

Maximum opportunity

- Annual percentage increases are generally consistent with the range awarded across the Group.
- Percentage increases in salary above this level may be made in certain circumstances, such as a change in responsibility or a significant increase in the role's scale or the Group's size and complexity.
- Individuals who are recruited or promoted to the Board may have their salaries set below the targeted Policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general increase for employees until the target positioning is achieved.

Performance measures/assessment and recovery provisions

- A broad assessment of individual and business performance is used as part of the salary review.
- No recovery provisions apply.

Benefits

To provide competitive benefits and to attract and retain high calibre employees.

Operation

Reviewed periodically to ensure benefits remain market competitive.

Benefits currently include but are not limited to:

- Car and fuel allowance;
- Life insurance;
- Directors' & Officers' liability insurance;
- Private medical insurance (including cover for spouses and dependents);
- Professional subscriptions;
- Critical illness cover;
- Staff discounts; and
- Other minor benefits as provided from time to time, including seasonal gifts.

Maximum opportunity

- Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits.

Performance measures/assessment and recovery provisions

- No performance or recovery provisions apply.

Pension

To provide a competitive Company contribution that enables effective retirement planning

Operation

- Pension is provided by way of a contribution to a personal pension scheme or cash allowance in lieu of pension benefits.
- The Committee may review pension contributions for new joiners to the Board to ensure the approach is aligned with corporate governance best practice/market practice.

Maximum opportunity

- Pension contributions for Executive Directors are aligned to the pension provision for the wider workforce which is currently 4% of base salary.
- Where pension contribution is taken as a salary supplement the amount will be reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the Company from this alternative

Performance measures/assessment and recovery provisions

- No performance or recovery provisions apply.

Annual bonus

Incentivises the achievement of annual objectives which support the Group's short-term performance goals.

Operation

- Bonus awards are granted annually following the signing of the Report and Accounts, usually in October.
- Performance period is one financial year with pay-out determined by the Committee following the year end, based on achievement against a range of financial and non-financial targets.
- 25% of any bonus earned is granted as a deferred award under the Deferred Bonus Plan.
- The deferred award shall ordinarily have a vesting period of 2 years and its vesting is conditional on the participants continued employment with the Group at the end of the deferral period unless they are a 'good leaver'.
- The Committee may award dividend equivalents on shares subject to a deferred award.

Maximum opportunity

- The maximum Annual Bonus opportunity is 120% of salary.
- There will be no payment made for threshold performance. 65% of maximum will be paid for achievement of on-target budgeted performance. 100% of maximum will be paid for stretch performance.

Performance measures/assessment and recovery provisions

- Performance measures will be selected by the Committee annually and may include financial, strategic, and personal objectives. Financial targets will account for no less than 50% of the weighting.
- The Committee will determine the performance targets and measurement weightings annually to ensure that they support the business strategy and objectives for the relevant year.
- Malus and clawback provisions apply to Annual Bonus awards at the discretion of the Committee where the Committee considers such action is reasonable and appropriate. See notes below table for further details.

Long-term incentive plan

The DFS Furniture plc 2015 Long-Term Incentive Plan (LTIP) incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders.

Operation

- Under the LTIP, the Committee may award annual grants of performance share awards in the form of nil-cost options or conditional shares (LTIP Awards) on an annual basis.
- LTIP Awards under the plan will vest after a three-year performance period subject to the achievement of the performance measures.
- A two-year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors. Upon vesting, sufficient shares can be sold to pay tax.
- Participants may be entitled to dividend equivalents representing the dividends paid during the performance period on LTIP awards that have vested.

Maximum opportunity

- Maximum LTIP awards are equal to 175% of base salary.
- In exceptional circumstances the Committee retains discretion to increase this to 230% of salary.
- Targets are typically structured as a challenging sliding scale, with no more than 20% of the maximum award vesting for achieving the threshold performance level through to full vesting for substantial out-performance of the threshold.

Performance measures/assessment and recovery provisions

- Awards vest based on performance against challenging targets, aligned with the delivery of the Company's long-term strategy.
- The Committee will review performance measures, targets, and weightings annually to ensure that they continue to align to the Group's strategy.
- In accordance with the rules of the LTIP, malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate. See notes below table for further details.

Minimum shareholding requirements

To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.

Operation

- Executive Directors are required to build or maintain (as relevant) a minimum shareholding in the Company. Shares included in this calculation are those held beneficially by the Executive Director and their spouse/life partners. This includes vested LTIP shares subject to the two-year post-vesting holding period and deferred bonus shares net of tax.

Maximum opportunity

- 200% of salary to be built up over five years from the date of appointment as an Executive Director.
- Executive Directors are not required to purchase shares to satisfy this requirement.

Performance measures/assessment and recovery provisions

- No performance or recovery provisions apply.

DIRECTORS' REMUNERATION REPORT CONTINUED

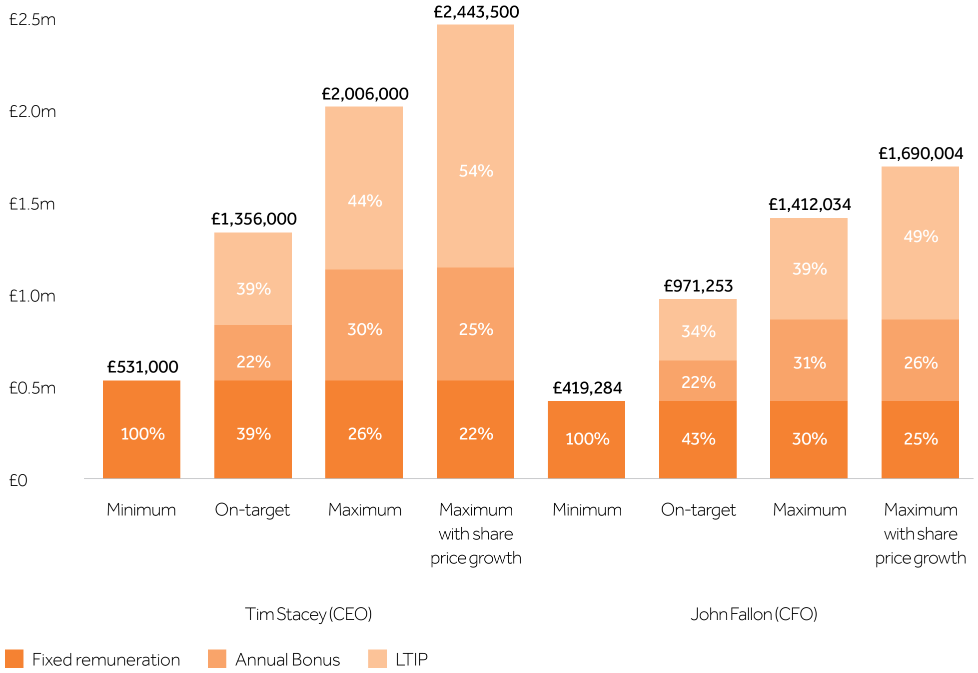
All-employee incentives
Encourages all employees to become shareholders and thereby align interests with shareholders.

Operation
– Eligible employees may participate in the SAYE and Share Incentive Plan or country equivalent.
– Executive Directors will be entitled to participate on the same terms.

Maximum opportunity
– Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.

Performance measures/assessment and recovery provisions
– Not applicable.

Illustrations of application of Policy
The charts below seek to demonstrate how pay varies with performance for the Executive Directors based on the stated remuneration Policy. The charts show an estimate of the remuneration that could be received by Executives Directors under the Policy set out in this report. Each of the bars is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP. The charts indicate that a significant proportion of both target and maximum pay is performance related. In line with changes to the Directors' Remuneration Reporting Regulations, scenarios including share price growth of 50% over the period of the Policy are shown.



Assumptions used in determining the level of pay-out under given scenarios are as follows:

Element	Minimum	On-target	Maximum
Base salary (fixed)	CEO = £500,000 CFO = £397,100		
Pension (fixed)	4% of salary		
Benefits (fixed)	Estimate based on FY23 figures		
Annual bonus	Nil	50% of maximum	CEO: 120% of salary CFO: 110% of salary
LTIP	Nil	60% of maximum	CEO: 175% of salary CFO: 140% of salary

Approach to recruitment and promotions

The Committee aims to pay no more than is necessary to attract appropriately skilled and experienced individuals. The ongoing remuneration package for any new Executive Director would be in line with that set out in the remuneration Policy table.

For a new Executive Director who is an internal appointment, the Company may also continue to honour contractual commitments made prior to appointment to the Board even if those commitments are otherwise inconsistent with the Policy in force when the commitments are satisfied. Any relevant incentive plan participation may either continue on its original terms or the performance targets and/or measures may be amended to reflect the individual's new role, as the Committee considers appropriate.

Element	Policy description
Base salary and benefits	– The salary level will be set taking into account a number of factors including market factors, the individual's experience and responsibilities, the individual's previous salary and remuneration package, the salary Policy for the wider Group, the salary for the previous incumbent and for existing Executive Directors. – This may mean that the Executive Director is recruited on a salary below the market rate with a view that it would be increased (potentially by above workforce level increases) over a number of years, subject to performance. – Benefits may be provided in line with DFS's benefits Policy as set out in the remuneration Policy table.
Pension	– An Executive Director will be able to receive either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits in line with DFS's Policy as set out in the remuneration Policy table.
Annual bonus	– An Executive Director will be eligible to participate in the Annual Bonus as set out in the remuneration Policy table. – Bonus will be pro-rated from the date of employment. – Awards may be granted up to the maximum opportunity allowable in the remuneration Policy table at the Committee's discretion.
LTIP	– An Executive Director will be eligible to participate in the Long-Term Incentive Plan as set out in the remuneration Policy table. – Awards may be granted up to the maximum opportunity allowable under scheme rules at the Committee's discretion.
Maximum variable remuneration	– The maximum annual variable remuneration that an Executive Director can receive upon recruitment is up to 350% of salary (i.e. Annual Bonus and exceptional LTIP Award limit).
Share buy-outs/replacement awards	– The Company may, where appropriate, compensate a new Executive Director for variable or share based remuneration that has been forfeited as a result of accepting the appointment with the Company. Where the Company compensates a new Executive Director in this way, it will seek to do so under the terms of the Company's existing variable remuneration arrangements but may compensate on terms that are more bespoke than the existing arrangements where the Committee considers that to be appropriate. The Committee may, if necessary, rely on Listing Rule 9.4.2 to facilitate the making of awards. – In such instances, the Company will disclose a full explanation of the detail and rationale for such recruitment related compensation. In making such awards the Committee will seek to consider the nature (including whether awards are cash or share-based), vesting period and performance measures and/or conditions for any remuneration forfeited by the individual when leaving a previous employer. Where such awards had outstanding performance or service conditions (which are not significantly completed) the Company will generally impose equivalent conditions. The Committee's preference is to buy-out forfeited awards using deferred share awards or performance-based share awards, however, cash may be used. – The value of the buy-out awards will broadly be the equivalent of, or less than, the value of the award being bought out.
Relocation policies	– In instances where the new Executive is relocated from one work location to another, the Company will provide compensation to reflect the cost of relocation for the Executive in cases where they are expected to spend significant time away from their home location in accordance with its normal relocation package for employees. – The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences; housing allowance; and schooling in accordance with the Company's normal relocation package for employees.

DIRECTORS' REMUNERATION REPORT CONTINUED

Executive Director service contracts

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

	Date of contract	Notice period
Tim Stacey	24 May 2022	6 months (Executive) or 12 months (Company)
John Fallon[1]	14 November 2022	6 months (Executive) or 6 months (Company)

1. After one year's service, both Executive and Company notice periods for John Fallon increase to 12 months.

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

Payments for loss of office

When determining any loss of office payment for a departing director the Committee will always seek to minimise cost to the Company whilst complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Executives will generally receive base salary for the duration of their contractual notice period, or in lieu of notice, except for certain circumstances such as termination for gross misconduct.

Executive Directors may at the Committee's discretion be eligible for an annual bonus for the financial year of cessation. Any annual bonus awarded would be based on performance during the year as determined by the Committee and pro-rated for time.

For good leavers (in accordance with the definition in the plan rules), outstanding Deferred Award Bonus Plan awards will generally continue and vest at the normal date. The Committee may determine to time pro-rate the number of shares to vest however it is the Remuneration Committee's normal policy is that it will not pro-rate awards for time. If a participant ceases employment for any other reason, their awards will lapse in full on the date of such cessation.

For good leavers (in accordance with the definition in the plan rules), outstanding LTIP awards will generally continue and vest at the normal vesting date, subject to the Committee's assessment of performance against targets, with awards pro-rated for time in office. However, the Committee retains discretion to allow vesting on cessation and to not pro-rate awards for time if it considers the circumstances warrant this action. If a participant ceases employment for any other reason, awards will lapse in full on the date of cessation. Unless otherwise determined by the Committee and except in the event of the participant's death, any applicable post-vesting holding period will continue to apply post cessation of employment.

Any vested annual bonus and LTIP shares that are subject to the post-cessation shareholding will be held for two years after cessation.

In exceptional circumstances and if it is considered in the best interest of the Group, arrangements may be made to facilitate the cessation of employment of an individual, any such arrangements would seek to minimise cost to the Group.

In a change of control. Unless otherwise determined by the Board, outstanding Deferred Award Bonus Plan awards and LTIP awards will vest. Unless otherwise determined by the board, LTIP award vesting will be subject to an assessment of achievement of the performance conditions to date and subject to time pro-rating. However, the Committee retains discretion to not pro-rate awards for time or take into account performance conditions if it considers the circumstances warrant this action.

Consideration of employee remuneration and shareholders

Consideration of shareholder views

The Committee takes the views of the shareholders seriously and these views are considered in shaping the Policy and practice. Shareholder views are considered when evaluating and setting remuneration strategy and the Committee welcomes an open dialogue with its shareholders on all aspects of remuneration.

The Committee will continue to maintain an open and constructive dialogue with its major shareholders and the representative bodies and where appropriate, will always seek to consult

Consideration of employee views and employment conditions elsewhere in the Group

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

Formal consultation on the remuneration of Executive Directors is not undertaken with employees. However, currently a survey on employee engagement is undertaken annually and includes discussion on parts of the Group's remuneration approach. The Committee is looking at ways that practice in this area can evolve.

The Policy described above applies specifically to Executive Directors of the Company. The Committee believes that the structure of management and employee reward at DFS should be linked to DFS's strategy and performance.

DIRECTORS' REMUNERATION REPORT CONTINUED

Non-executive Director Remuneration Policy

Remuneration Policy table

The Chairman and the Executive Directors of the Board are responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman whose remuneration is determined by the Committee and recommended to the Board.

The table below sets out the key elements of the Policy for Non-Executive Directors:

Purpose
– To provide compensation that attracts high calibre individuals and reflects their experience and knowledge.

Operation
– Fee levels are reviewed periodically taking into account independent advice and the time commitment required of Non-Executive Directors.
– The fees paid to the Chairman and the fees of the other Non-Executive Directors aim to be competitive with other fully listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity.
– Non-Executive Directors may receive a base fee and additional fees for the role of Senior Independent Director or membership and/or Chairmanship of certain committees.
– Non-Executive Directors also receive reimbursement of reasonable expenses (and any tax thereon) incurred undertaking their duties and or Company business.
– Non-Executive Directors do not receive any variable remuneration element.
– Non-Executive Directors are entitled to staff discount on Group merchandise on the same basis as other employees and may also receive seasonal gifts.

Maximum opportunity
– Any increase in Non-Executive Director fees may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities.
– The Company will pay reasonable expenses incurred by the Chairman and Non-Executive Directors.

Performance measures/assessment and recovery provisions
– Non-Executive Director fees are not performance related.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the Policy which applies to current Non-Executive Directors. The current fee structure and levels are set out below:

Chairman fee	£201,500
Senior Independent Director fee	£66,720
Chair of Board Committee fee	£66,000
Basic Non-Executive Director fee	£56,000

The figures in the table above reflect an increase in Non-Executive Director fees (including the Chair's) of 4.5%, effective 1 July 2023, which is slightly below that of the wider workforce (5.0%). Non-Executive Director fees will be kept under review and to the extent there are any increases to fees these will generally be in line with those awarded to the wider workforce. Fees for the non-Executive Directors are paid via payroll and are subject to PAYE.

Non-executives do not participate in any incentive plans and do not receive any benefits except health insurance benefits provided to the Chair.

Letters of appointment

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

The table below sets out the dates that each Non-Executive Director was first appointed as a Group Director.

	Date of appointment
Ian Durant	2 May 2017
Steve Johnson	6 December 2018
Alison Hutchinson	1 May 2018
Jo Boydell	6 December 2018
Gill Barr	1 March 2023
Loraine Martins	28 June 2021
Jane Bednall	1 January 2020

Ian Durant and Jane Bednall stepped down from the board effective 4 November 2022 and 23 June 2023 respectively.

Part E: Annual Report on Remuneration for the Financial Year ended 25 June 2023

Single total figure of remuneration for Executive Directors – audited

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

Name	Year	Base salary	Taxable Benefits[1]	Bonus	LTIP[2]	Pension[3]	Other[4]	Total Fixed	Total Variable	Total
Tim Stacey	**2023**	**453**	**11**	**170**	**–**	**30**	**1**	**495**	**170**	**665**
	2022	443	7	–	–	44	2	496	–	496
John Fallon	**2023**	**240**	**–**	**80**	**–**	**8**	**38**	**286**	**80**	**366**
	2022	–	–	–	–	–	–	–	–	–
Mike Schmidt	**2023**	**110**	**6**	**–**	**–**	**7**	**1**	**124**	**–**	**124**
	2022	332	14	–	–	26	4	376	–	376

Notes:
1. Taxable benefits comprise car, private medical insurance (including cover for spouses and dependents), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses – the value of which has been included in the Taxable Benefits column.
2. The LTIP awards due to vest in respect of FY23, being the FY21 (2020) Plan lapsed based on performance to the end of FY23.
3. Where pension contribution is taken as a salary supplement the amount is reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the company from this alternative.
4. Represents a fuel card payment for Tim Stacey and a car allowance supplement for Mike Schmidt. In respect of John Fallon, a payment of £26,559 was made which was the equivalent of 26 days of employment at his previous employer which was agreed as part of John's joining arrangements. The remaining £10,719 is a car allowance supplement.

Annual Bonus outturn for FY23 – Audited

As disclosed in last year's report, the FY23 bonus was based 70% on financial measures: 20% Revenue, 30% Profit before tax, 20% Cash Flow and 30% on non-financial measures: 15% Strategic 'ESC' objectives (Environmental 5%, Social – Inclusion 5%, Customer – Average NPS 5%) and 15% Personal.

The profit threshold for FY23 was achieved, as a result, the bonus awarded to Tim Stacey is £169,750 (31.1% of maximum opportunity) and John Fallon is £79,713 (31.1% of maximum opportunity).

Performance against objectives

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% of max)
Group revenue	20%	£951.0m	£1,118.9m	£1,286.7m	41.1%
Group profit before tax and brand amortisation	30%	£30.3m	£35.7m	£41.1m	2.8%
Group free cash flow (net cash flow before dividends and RCF movement)	20%	£13.1m	£15.4m	£17.7m	0%
Environmental	5%	Create a roadmap and targets			100%
Social (inclusion) – Increase the number of females in management positions in the Group	5%	36.0%	37.5%	39.0%	3.0%
Customer – Group Customer Average Established Net Promoter Score (DFS/Sofology)	2.5%	55%	55%	75%	100%
	2.5%	55%	65%	75%	100%
Personal objectives	15%	See notes below			
				Tim Stacey	80%
				John Fallon	80%
Bonus outcome (% maximum)				Tim Stacey	31.1%
				John Fallon	31.1%
Total bonus outcome (£)				Tim Stacey	£169,750
				John Fallon	£79,713

DIRECTORS' REMUNERATION REPORT CONTINUED

Detail of performance against personal objectives

Performance against the personal objectives and the Committee's assessment of performance for the CEO and CFO is set out in the tables below.

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

Director	Performance area	Measures of achievement	Level achieved
CEO – Tim Stacey	– Develop the Group strategy focused on the medium term sourcing and manufacturing platform, the Home growth pillar in the context of the wider sustainability ambition to get to Net Zero by 2040.	– Significant progress made on the medium term sourcing and manufacturing strategy over the last 12 months. ESG targets achieved and a clear roadmap setting out the Group's journey to net zero approved. LTIP targets for FY24 to include ESG targets.	– Achieved
	– To improve operational efficiency and effectiveness, materially reducing the operational inefficiencies and costs experienced post Covid. Improve operational grip and reduce customer and supply chain disruption.	– Lead times for customers at pre-pandemic levels and customer NPS scores have improved across the Group. Detailed review of the Group's cost base carried out; cost management is strong and operational efficiencies have been achieved, evidenced by improvements in gross margin.	– Achieved
	– Lead the culture change in our Group and continue to grow and become a more responsible and sustainable organisation for our people, our planet, our customers, and our communities.	– The Group continues to make significant progress on its People, Planet, Customer and Communities strategy as detailed in the Responsibility and Sustainability report. Tim is a member of the RSC Committee and leads the Group's Diversity and Inclusivity Council.	– Achieved

Director	Performance area	Measures of achievement	Level achieved
CFO – John Fallon	– Develop the Group's strategic finance agenda, targeting sustainable growth including a full review of the Group's cost base.	– New 4 year financial plan and strategy approved by the Board, supported by improvements in gross margin, externally supported review of cost base leading to establishment of cost efficiency programmes to lower our cost to operate, and strategic growth initiatives that enhance return on capital.	– Achieved
	– Improve the efficiency and effectiveness of the Group's finance operating model.	– Finance transformation plans developed and underway with full engagement. Specific changes scoped and on track. Recruited external finance leader to lead change.	– Achieved
	– Continue to strengthen the Group's risk management and controls framework, alongside developing our sustainability plans and reporting to get to Net Zero by 2040.	– Risk management process improving and embedded across the business, Clear action plans and targets in place to deliver efficient and effective responses to new Corporate Governance code requirements and SBTI targets.	– Achieved

DIRECTORS' REMUNERATION REPORT CONTINUED

LTIP awards vesting in relation to performance in FY23 – audited

The 2020 award was granted on 6 October 2020 and was assessed against the performance targets at the end of FY23.

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Actual performance	Vesting %
2020 LTIP	EPS	50%	Reporting underlying EPS	18.7p	24.7p	9.6p	0%
	TSR	15%	TSR (FTSE 250 excl Investment Trusts)	Index	Index + 10% p.a.	Below Index	0%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	Below Index	0%
	Total vesting						**0%**

For threshold performance 20% of awards vest. For Maximum performance 100% of awards vest. Vesting is on a straight-line basis between these points.

The final level of vesting of these awards was 0%. No discretion was exercised in respect of award vesting levels.

Scheme interests awarded in FY23 (2022 awards) – audited

Details of LTIP awards granted during FY23 are set out in the table below. No Deferred Bonus Awards were granted during FY23.

Director	Scheme	Type of award	Number of shares awarded	Value of award at date of grant (£)	Value of award as % of salary
CEO – Tim Stacey	LTIP[1]	Nil cost option	733,446	792,122	175%
CFO – John Fallon	LTIP[2]	Nil cost option	348,689	516,060	135%

1. The number of shares granted was based on a share price of £1.08. This was the average of the closing share price on the three days prior to the date of grant (12 October 2022). Award will vest on 12 October 2025.
2. LTIP grant date was 14 December 2023 and the award will vest on 12 October 2025. The number of shares granted was based on a share price of £1.48 which was the average of the closing share price on the three days prior to the grant. The award was prorated to reflect John Fallon being in the role for 35 months out of the 36 month vesting period.

Performance conditions for FY23 (2022 award) LTIP

Adjusted EPS (50%)

Percentage of this portion of the Award vesting

Nil	20%	100%	Between 20% and 100% on a straight-line basis
Less than 17.7p	17.7p	23.7p or more	Between 17.7p and 23.7p

Relative TSR (50%)

Percentage of this portion of the Award vesting

Weighting	Nil	20%	100%	Between 0% and 100% on a straight- line basis
15% (FTSE 250 Index) Excluding Investment Trusts	Below FTSE 250 Index	Equal to FTSE 250 Index	10% p.a. above the FTSE 250 Index	Between FTSE 250 Index return and 10% p.a.
35% (FTSE 350 General Retailers Index)	Below FTSE 350 General Retailers Index	Equal to FTSE 350 General Retailers Index	10% p.a. above the FTSE 350 General Retailers Index	Between FTSE 350 General Retailers Index return and 10% p.a.

SAYE awards – audited

No Directors were granted SAYE options during FY23.

Details of LTIP award performance conditions (where not disclosed elsewhere in report)

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Target performance	Max performance	Threshold level vesting	Target vesting	Maximum vesting
2021 LTIP	EPS	50%	Reporting underlying EPS	24.8p	26.1p	28.7p	20%	60%	100%
	TSR	15%	Relative TSR (FTSE 250 Index)	Index	–	Index + 10% p.a.	20%	–	100%
		35%	Relative TSR (FTSE 350 General Retailers)	Index	–	Index + 10% p.a.	20%	–	100%

Dilution

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

Payment to past directors – audited

None

Payment for loss of office – audited

None

Single figure remuneration table for Non-Executive Directors – audited

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

Director		Fees	Other	Total
Gill Barr[1]	**2023**	**21**	**–**	**21**
	2022	–	–	–
Ian Durant[2]	**2023**	**96**	**1**	**97**
	2022	190	1	191
Alison Hutchinson	**2023**	**74**	**–**	**74**
	2022	65	–	65
Jo Boydell	**2023**	**64**	**–**	**64**
	2022	60	–	60
Steve Johnson[3]	**2023**	**148**	**–**	**148**
	2022	60	–	60
Jane Bednall[4]	**2023**	**54**	**–**	**54**
	2022	52	–	52
Loraine Martins	**2023**	**54**	**–**	**54**
	2022	52	–	52

Notes:
1. Gill Barr was appointed to the Board on 1 March 2023.
2. Ian Durant other remuneration relates to health insurance benefit in kind. Ian stepped down from the Board on 4 November 2022
3. Steve Johnson was appointed as Chair of the Board on 4 November 2022.
4. Jane Bednall stepped down from the Board on 23 June 2023.

Shareholding and other interests at 25 June 2023 – audited

Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain (as relevant) a personal shareholding which for FY23 was equal to 200% of their base salary in the Company (for existing Executive Directors only) over a five-year period from appointment.

Director	Number of beneficially owned shares[1]	Number of shares under the Deferred Bonus Plan[2]	% of salary held[3]	Shareholding requirement met[3]	Subject to conditions[4]	Not subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 25 June 2023
Tim Stacey	684,173	35,961	165%	No	1,024,523	–	–	–	1,744,657
John Fallon	–	–	0%	No	348,689	–	–	–	348,689
Mike Schmidt[5]	68,077	–	–	–	–	–	–	–	68,077
Steve Johnson	52,666	–	–	–	–	–	–	–	52,666
Ian Durant[5]	44,666	–	–	–	–	–	–	–	44,666
Gill Barr	15,557	–	–	–	–	–	–	–	15,557
Jane Bednall[5]	13,333	–	–	–	–	–	–	–	13,333
Jo Boydell	13,333	–	–	–	–	–	–	–	13,333
Alison Hutchinson	48,056	–	–	–	–	–	–	–	48,056
Loraine Martins	6,023	–	–	–	–	–	–	–	6,023
Total	**945,884**	**35,961**	**–**	**–**	**1,373,212**	**–**	**–**	**–**	**2,355,057**

Notes:
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Deferred shares and dividend equivalents are subject to a 47% tax rate.
3. Shareholding requirement calculation (Executive Directors only) is based on the share price at the end of the year (£1.09 at 25 June 2023).
4. Shareholdings subject to conditions relate to the outstanding share awards under the 2021 and 2022 LTIP awards (excludes the 2020 LTIP award due which lapsed due to threshold performance not being achieved).
5. Mike Schmidt, Ian Durant and Jane Bednall are no longer directors, having stepped down from the Board on 3 October 2022, 7 November 2022 and 25 June 2023 respectively. Reported shareholdings for these former directors reflects information available independently to the Group.

At 21 September 2023 there had been no movement in Directors' shareholdings and share interests from 25 June 2023.

Outstanding share awards

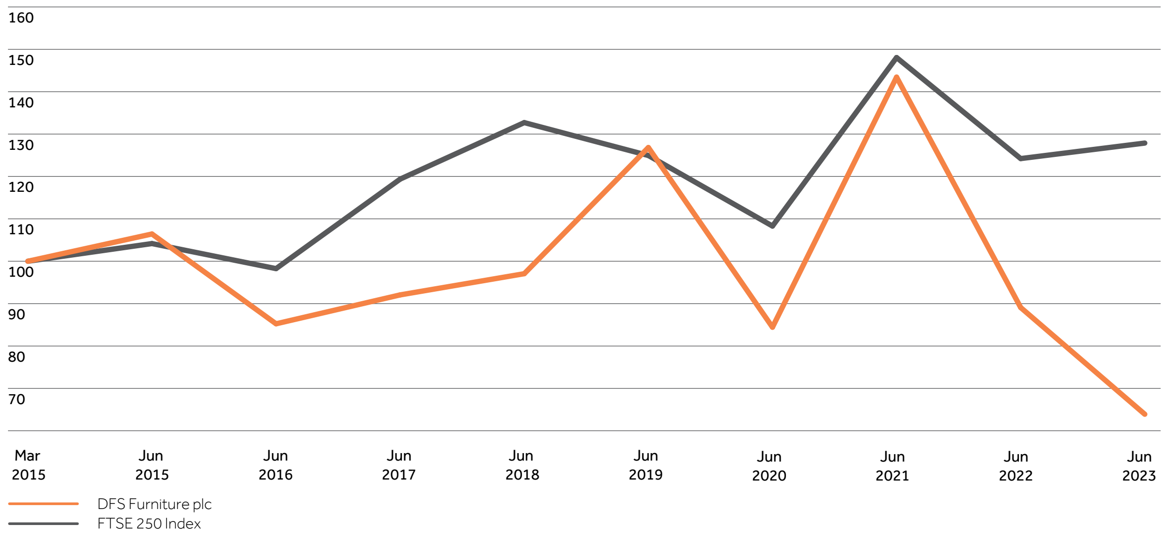
The following share awards remain outstanding as at 25 June 2023 for the Executive Directors:

Director	Type of award	Date of grant	Number of awards	Award vested	Awards lapsed	Outstanding awards	Market price on date of grant[1]	Normal vesting date
Tim Stacey	2021 LTIP	11/10/21	251,908	–	–	251,908	£2.62	11/10/24
	2021 LTIP	12/11/21	39,169	–	–	39,169	£2.81	12/11/24
	2022 LTIP	12/10/22	733,446	–	–	733,446	£1.08	12/10/25
	2021 DBP	21/10/21	31,911	–	–	31,911	£2.69	21/10/24
	2021 DBP	20/12/21	28,300	–	–	28,300	£2.69	21/12/24
John Fallon	2022 LTIP	14/12/22	348,689	–	–	348,689	£1.48	12/10/25

1. The share price for calculation is the average of the closing share price on the three days prior to the grant.
2. Figures exclude the 2020 LTIP award due which lapsed due to threshold performance not being achieved.

Remuneration of CEO role versus wider company performance since IPO

The chart below illustrates the Group's Total Shareholder Return performance against the FTSE250 Index and FTSE 350 General Retailers Index since 5 March 2015, the date of IPO, to the end of FY23 (25 June 2023). The peer groups here represent the Company's key markets for investment capital.



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

	FY 23	FY22	FY21	FY20	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	Tim Stacey	Tim Stacey	Tim Stacey	Tim Stacey[1]	Ian Filby	Ian Filby	Ian Filby	Ian Filby	Ian Filby
Single Figure	**665**	496	1,999	568[3]	464	374	673	666	804	790
Annual Bonus (% of max)	**31.1%**	0%	100%	0%[2]	26.2%	32.2%	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**0%**	0%	100%	0%	28.6%	28.6%	0%	0%	n/a	n/a

Notes:

1. Tim Stacey became CEO and Executive Director on 1 November 2018.
2. The Committee applied downward discretion to override the formulaic outcome of the FY20 annual bonus to zero.
3. Tim Stacey's single figure for FY20 includes an award under the DFS Restricted Share Plan which was made to the CEO prior to his appointment as an Executive Director. The award had a value of £97.7k and vested on 16 November 2019.

Percentage change in the Directors' remuneration

The table below compares the percentage increase in Directors' pay with the wider employee population. The Company considers DFS employees other than those whose remuneration includes piecework or commission, and excluding the Executive Directors, to be an appropriate comparator group.

		FY19–FY20			FY20–FY21			FY21–FY22			FY22–FY23		
Annual % change		**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus[1]**
CEO	Tim Stacey	2%	41%	-100%	10%	-6%	100%	3%	-82%	-100%	0%	61%	100%
CFO	John Fallon[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-Executive Directors	Gill Barr[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0%	n/a	n/a
	Alison Hutchinson	17%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Jo Boydell	81%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Steve Johnson	79%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Jane Bednall	n/a	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
	Loraine Martins	n/a	n/a	n/a	n/a	n/a	n/a	3%	n/a	n/a	0%	n/a	n/a
Employee pay		0%	n/a	n/a	2%	n/a	n/a	3%	n/a	-100%	0%	n/a	100%

In line with the regulations, this analysis will be extended up to a five year period. Notes on the percentage change in remuneration for previous years are provided in prior years' annual reports.

1. Annual bonus was paid to Executive Directors and wider employee population for FY23.
2. John Fallon and Gill Barr were appointed to the Board on 14 November 2022 and 1 March 2023 respectively.

DIRECTORS' REMUNERATION REPORT CONTINUED

Relative Importance of spend on pay

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

Significant distributions	2023	2022	% change
Employee remuneration	**£202.5m**	£206.5m	-1.9%
Distributions to shareholders (dividends and share buybacks)	**£43.0m**	£58.2m	-26.1%

The above figures are taken from notes 4, 21 and 22 to the financial statements.

Statement of implementation of remuneration policy in FY24

Base salary

During FY23 the Committee approved a base salary increase for Executive Directors of 4.5% effective 1 July 2023 taking the CEO and CFO salaries to £473,600 and £397,100 respectively. The increase was slightly lower than the 5.0% increase awarded to the wider workforce. In addition, as noted in the Committee Chair's statement on pages 78 to 80, an additional increase of 5.8% was approved for the CEO effective 1 September 2023, taking his salary to £500,000 from that date.

Pension and benefits

The company pension contribution for Executive Directors be the same as the rate available to the wider workforce of 4%.

Benefits provided will be in line with the policy.

Annual bonus

The bonus opportunity for the CEO will be 120% of salary and for the CFO 110% of salary. For FY24, bonus performance will be based 70% on financial measures (50% Profit Before Tax, 20% Cash flow): and 30% on strategic non-financial measures: 10% Environmental; 10% Social – Inclusivity and 10% Customer NPS. Revenue will not feature as a separate measure on the basis that it is an input to PBT and there will be no personal objectives. The precise targets applying to the awards are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP

The operation of the LTIP for FY24 will be in line with the remuneration policy. The maximum LTIP award level will be 175% of salary for the CEO and 140% of salary for the CFO. Performance targets and weightings are set out to the right.

ESG (10% of the award)

During the course of the year the Committee reviewed and agreed that in line with growing market practice the FY24 LTIP grant should include material and quantifiable ESG performance metrics aligned to the Group's ESG strategy. In this first year, the Committee have approved the following targets with a 5% weighting each:

		Percentage of this portion of the Award vesting			
Measure	**Weighting**	**Nil**	**20%**	**100%**	**Between 20% and 100% on a straight line basis**
Scope 1 Carbon intensity reduction, aligned to the Net Zero Roadmap -infrastructure and investment (intensity per £m Gross sales)	5%	More than 7.5	7.5	7 or less	Between 7.5 and 7
Reduction in use of virgin content in plastic packaging (supplier engagement)	5%	Less than 30%	30%	50%	Between 30% and 50%

Underlying EPS (45% of the award)

For the EPS component of the LTIP award, performance will be measured by reference to the reported Underlying EPS figure for the Financial Year ending in 2026. EPS targets will be set on an absolute basis to provide a clear line of sight for management and shareholders with targets aligned to our strategic plan and analyst consensus.

In line with the approved remuneration policy, in response to the inherent uncertainty in the market and past volatility in performance, the Committee has widened the target range for FY24. This includes the adoption of a more stretching maximum target compared to historical practice, in addition to reduction in the threshold vesting percentage from 20% to zero. The Committee believes that the wider target range, combined with the reduction in threshold vesting, ensures that the plan remains motivating for participants and the later ensures that participants are not rewarded materially until the legacy threshold performance has been achieved.

	Percentage of this portion of the Award vesting						
Measure	**Nil**	**20%**	**60%**	**100%**	**Above Nil and up to 20% on a straight-line basis**	**Between 20% and 60% on a straight-line basis**	**Between 60% and 100% on a straight-line basis**
Underlying EPS	17.8p	19.2p	22.2p	26.7p or more	Between 17.9p and 19.1p	Between 19.2p and 22.1p	Between 22.2p and 26.7p

Relative TSR (45%)

Percentage of this portion of the Award vesting

Measure and weighting	Nil	20%	100%	Between 20% and 100% on a straight -line basis
13.5% (FTSE 250 Index)	Below FTSE 250 Index	Equal to FTSE 250 Index	10% p.a. above the FTSE 250 Index return	Between FTSE 250 Index return and 10% p.a.
31.5% (FTSE 350 General Retailers Index)	Below FTSE 350 General Retailers Index	Equal to FTSE 350 General Retailers Index	10% p.a. above the FTSE 350 General Retailers Index return	Between FTSE 350 General Retailers Index return and 10% p.a.

DIRECTORS' REMUNERATION REPORT CONTINUED

Non-Executive Director fees

Non-Executive Directors' fees including the Chair fee were increased by 4.5% in July 2023 which is below the average base salary increase for the wider workforce (5%).

Gender pay gap reporting and diversity and inclusiveness initiatives

Gender pay gap reporting

The UK Government Equalities Office legislation requires employers with more than 250 employees to disclose information on their gender pay gap annually. The Group is confident our male and female employees receive equal pay for equivalent jobs. We published our gender Pay Gap Reporting for 2022 in April 2023 and it is available online at dfscorporate.co.uk.

Our analysis for 2022 shows Group level reductions in both the mean and median gender pay gap figures. The mean gender pay gap was 6.8%, a fall of 1.4% against last year's figure; the median gender pay gap was 5.1%, a reduction of 2.0% against the 2021 number. This in part reflects improvements made in female representation across our leadership positions. As we continue to address this imbalance, we believe this will further reduce our gender pay gap.

The Group's employee base has an approximate two-thirds male, one-third female split driven mainly by the fact that historically our manufacturing, supply chain and retail business areas have, for various reasons, attracted a predominantly male workforce.

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

Further information can be found in the Responsibility and sustainability report on pages 39 to 61 of this Annual Report.

Inclusivity and diversity

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

- We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. Wherever practicable we offer training and make adjustments to ensure disabled employees are not disadvantaged in the workplace.
- We are actively working to improve female representation in key business areas with a traditional skew towards men.
- We are offering recruitment development workshops for hiring managers with a dedicated section on unconscious bias training.
- We are building assessment criteria into our online recruitment processes that remove gender bias.
- We have introduced Group wide family friendly policies and increased time off for parents.
- We have introduced flexible working and are creating the tools, mechanisms, and environment to offer this to all employees.
- An equal split between male and female colleagues on Apprenticeships and Management Training programs.
- The Board is kept aware of progress and initiatives with regards to inclusivity and diversity.

CEO pay ratio

This is the fourth year that we have disclosed the Group's CEO pay ratio.

As in prior years, the Company has adopted Option B: Gender Pay Gap data, this approach was considered to remain appropriate due to data availability and to allow consistency with prior year comparison. The Committee will continue to determine the most appropriate methodology (Option A, B or C) to be used each year, by considering the robustness of the calculation methodology as well as the availability of data and operational time constraints.

The relevant employees at each quartile for each year were identified in April (2023 and 2022) using our Gender Pay Gap data. The pay and benefits data for the relevant 25th, 50th and 75th percentile employees is taken from the 12-month period ending in June 2022 (financial year FY22) and June 2023 (Financial year FY23). The pay and benefits figure includes:

- all earnings paid through the payroll, e.g. salary, bonus, long term incentives
- the value of the employer pension contributions
- any other taxable benefits, e.g. private medical, company car etc
- no elements of pay were omitted and there was no departure from the single figure methodology.

Pay and benefits for the relevant employees have been calculated on a full-time equivalent basis and there was no reliance on estimates.

The lower quartile, median and upper quartile employees were identified from the gender pay gap data where the hourly pay for employees was ranked. A sample of 10 employees' pay and benefits either side of the initially identified employees was reviewed to ensure that the appropriate representative employees are selected.

The table below compares the single total figure of remuneration for the CEO with that of employees who are paid at the 25th, 50th and 75th percentile of the employee population.

CEO Pay Ratio Data

Year	Method	Measure	CEO	25th percentile	50th percentile	75th percentile
2023	**Option B**	**Pay Ratio**		**27:1**	**18:1**	**18:1**
		Salary	**£453,200**	**£22,907**	**£32,606**	**£33,032**
		Total pay and benefits	**£665,037**	**£24,377**	**£36,407**	**£37,032**
2022	Option B	Pay Ratio		20:1	15:1	12:1
		Salary	£443,300	£22,467	£30,830	£39,307
		Total pay and benefits	£495,432	£24,203	£32,704	£40,345
2021	Option B	Pay Ratio		76:1	66:1	61:1
		Salary	£410,000	£23,864	£28,470	£31,000
		Total pay and benefits	£2,027,809	£26,691	£30,905	£33,110
2020	Option B	Pay Ratio		24:1	20:1	16:1
		Salary	£386,667	£21,850	£25,648	£30,367
		Total pay and benefits	£568,399	£23,644	£28,740	£35,048

The change in pay ratio is primarily due to 31.1% of maximum vesting outcome on the FY23 annual bonus.

In line with the regulations, this analysis will be extended up to ten years in the future. The Committee considers pay ratios as one of many reference points when considering remuneration. Throughout DFS, pay is positioned to be fair and market competitive in the context of the relevant talent market for each role.

DIRECTORS' REMUNERATION REPORT CONTINUED

Matters covered during the Committee's meetings in FY23
As at 25 June 2023, the Committee consisted of the following members:

- Gill Barr (Chair)
- Alison Hutchinson
- Jo Boydell
- Loraine Martins

The key matters covered by the Committee during the year are summarised below.

Matter	July 2022	Sep 2022	Oct 2022	Mar 2023
FY22 Bonus Update	•			
FY23 Bonus Construct	•			
2022 Directors' Remuneration Report	•	•		
2022 Equity Awards Outturn		•		
FY22 Bonus Outturn		•		
Remuneration Committee Terms of Reference			•	
2023 Remuneration Committee calendar of approval			•	
FY23 Bonus Targets Sign off			•	
FY22 Workforce Report	•			
Inflight LTIP Awards – TSR performance updates	•			•
2022 Gender Pay Gap				•
FY23 Annual Pay Review				•

Note:
Details of meeting attendance by Committee members can be found on page 68 of this Annual Report.

Internal and external support for the Committee
The Chairman, the CEO and the CFO attend meetings at the invitation of the committee but are not present when their own remuneration is being discussed. The Company Secretary acts as Secretary to the Committee. The Committee is supported by the Group People Director, Finance and Company Secretarial functions.

The Committee received external advice during FY23 from Willis Towers Watson, the Committee's independent advisors. Willis Towers Watson is considered by the Committee to be objective and independent, is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee reviewed the nature of all the services provided during the year by Willis Towers Watson and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to Willis Towers Watson in respect of services to the Committee during the year were £71,610. All fees were determined based on the scope and nature of the projects undertaken for the Committee.

GILL BARR
Chair of the Remuneration Committee
21 September 2023

DIRECTORS' REPORT

The Directors' Report includes information required to be disclosed under the Companies Act 2006 ('the Act'), the UK Corporate Governance Code ('the Code'), the Financial Conduct Authorities Listing Rules ('Listing Rules') and the Disclosure and Transparency Rules ('dtrs').

DFS Furniture PLC ('the Company') is the holding company of the DFS Group of companies ('the Group'). The Company has no overseas subsidiaries but operates branches in the Republic of Ireland.

The Directors present their Annual Report and audited financial statements for the 52 weeks ended 25 June 2023, in accordance with section 415 of the Companies Act 2006. Both the Strategic report and the Directors' report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by such law. The Strategic report and this Directors' report together with sections of the Corporate governance report incorporated by reference, together form the Management report for the purpose of DTR 4.1.8R.

The Directors' report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R.

The table below makes reference to the relevant sections of the Annual Report:

Annual General Meeting ('AGM')

The Company's next AGM will take place on 10 November 2023 at the DFS Group Support Centre, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA at 2:30pm. The Annual Report and Accounts and Notice of the AGM, including the resolutions to be proposed, will be sent to shareholders at least 21 clear days prior to the date of the meeting. Shareholders are invited to submit questions prior to the meeting by emailing the Company Secretary Liz McDonald liz.mcdonald@dfs.co.uk.

Shareholder and voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. Voting on all resolutions at the 2023 AGM will be by way of a poll. On a poll, every member present in person or by proxy has one vote for every ordinary share held or represented. The Notice of Meeting specifies the deadlines for exercising voting rights. To encourage shareholders to participate in the AGM process, the Company offers electronic proxy voting through the CREST service and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights. There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods) and requirements of internal rules and procedures whereby directors and certain employees of the Company require prior approval to deal in the Company's securities. The Company's Articles may only be amended by a special resolution at a General Meeting.

Directors

The membership of the Board and biographical details of the Directors are provided on pages 63 and 64. Details of Directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 94.

Director	Position	Service in the year ended 25 June 2023
Steve Johnson[1]	Chair	Served throughout the year
Ian Durant	Chair	Resigned 7 November 2022
Tim Stacey	Chief Executive Officer	Served throughout the year
John Fallon	Chief Financial Officer	Appointed 14 November 2022
Mike Schmidt	Chief Financial Officer	Resigned 3 October 2022
Alison Hutchinson	Senior Independent Non-Executive Director	Served throughout the year
Jo Boydell	Independent Non-Executive Director	Served throughout the year
Jane Bednall	Independent Non-Executive Director	Resigned 23 June 2023
Loraine Martins	Independent Non-Executive Director	Served throughout the year
Gill Barr	Independent Non-Executive Director	Appointed 1 March 2023

1. Served as a Director throughout the year, appointed as Chair 4 November 2022

DIRECTORS' REPORT CONTINUED

Articles of Association

Directors are appointed or replaced in accordance with the Company's Articles of Association (the 'Articles'), the Act and the Code. The Articles provide that a director may be appointed by an ordinary resolution of the shareholders or by the existing Directors either to fill a vacancy or as an additional Director. Under the Articles, Directors retire and may offer themselves for re-election at a general meeting at least every three years. However, in line with the provisions of the UK Corporate Governance Code, all directors stand for re-election annually. The Articles set out the powers of the Directors. The business of the Company is to be managed by the Directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or the Articles required to be exercised or done by the Company in general meeting, subject to the provisions of any relevant statutes and the Articles and to such regulations as may be prescribed by the Company by special resolution. The Articles can only be amended by special resolution at a general meeting of the shareholders.

Directors' service contracts

The Executive Directors serve under rolling contracts, details of which are set out on page 88 of the Directors' remuneration report. Non-Executive Directors have letters of appointment. The letter of appointment is for an initial period of a three-year term with a provision for termination on three months' notice from either party, or six months' notice from either party in the case of the Chairman. Thereafter, the letter of appointment may be extended for a further three year period and then annually by agreement.

The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM. The Directors' service contracts are available for inspection by shareholders at the Company's registered office and will be available for inspection at the Company's AGM. Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and able to devote sufficient time to discharge their responsibilities.

Directors' indemnities and insurance

In accordance with the Companies Act 2006 and the Articles, the Company has purchased and has maintained throughout the year, directors' and officers' liability insurance cover. This cover has been renewed during the period and remains in force at the date of this report. Each Director and Officer also has the benefit of a qualifying indemnity, as defined by the Act, and as permitted by the Articles, providing cover for any liabilities incurred in the performance of their duties. Neither arrangement provides cover should it be proven that the Director acted fraudulently or dishonestly. No amount was paid under these arrangements in the period other than the applicable insurance premiums.

Conflicts of interest

The Company has robust procedures in place to identify, authorise and manage potential or actual conflicts of interest, and these procedures have operated effectively during the year. Where potential conflicts arise, they are reviewed, and if appropriate, approved by the Board. Processes for managing such conflicts are put in place to ensure no conflicted Director is involved in any decision related to his or her conflict.

Dividends

On 16 March 2023 the Board announced its FY23 interim results and an interim dividend of 1.5p. The Board proposes a final dividend payment of 3.0p to be paid in respect of the 52 weeks ended 25 June 2023. The dividend is subject to approval by shareholders at the AGM on 10 November 2023. The final dividend will be paid on 29 December 2023 to all shareholders on the register at 1 December 2023. The Company's shares will trade ex-dividend from 30 November 2023.

1.5p interim dividend	(last year 3.7 per share)
No special dividend	(last year 10.0p per share)
3.0p proposed final dividend	(last year 3.7p per share)
Total dividend of 4.5p per share for FY23	(last year 17.4p per share)

Substantial Shareholders

As at 15 September 2023, the Company has been notified of the following holdings of voting rights in its shares under Rule 5 of The Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. The information provided below was correct at the date of notification. These holdings are likely to have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed.

Investor	Number of Ordinary Shares	% voting rights	Date of notification
J O Hambro Capital Management Limited	23,745,591	10.14	31 October 2022
Adriana S.A.	21,960,922	9.38	15 September 2022
Janus Henderson Group plc	13,579,229	5.80	9 December 2022
ABRDN plc	12,245,559	5.23	6 February 2023
Stadium Capital Management LLC	12,004,028	5.13	6 June 2023
Pelham Capital Ltd	11,665,096	4.98	2 May 2023
Allianz Global Investors GMBH	11,523,797	4.92	16 January 2022

Takeover directive information

Following the implementation of the European Directive on Takeover Bids by certain provisions of the Companies Act 2006, the Company is required to disclose certain additional information in the Directors' Report. This information is set out below:

Shares

The Company has only one class of shares, Ordinary Shares of £0.10 pence each. The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 52 weeks ended 25 June 2023. The Company has an issued share capital of 240,678,120 ordinary shares of £0.10p each. On 25 June 2023, the Company held 6,533,700 Ordinary Shares in treasury (2022: 2,775,840). As at 15 September 2023 the Company held 6,533,700 shares in Treasury. The rights and obligations attached to these shares are governed by Companies Act 2006 and the Articles. Holders of Ordinary Shares of the Company are entitled to participate in authorised dividends and to receive notice and to attend and speak at general meetings.

Under the Company's Share Dealing code, persons discharging managerial responsibilities and other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company. The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Details of the Company's share capital are set out in note 22 to the consolidated financial statements.

Share Buyback

On 15 September 2022, together with the FY22 Preliminary Results, the Company announced an extension to its share buyback programme. The programme, to purchase for cancellation up to a maximum value of £10m Ordinary Shares (within the limits of approval given by Shareholders at the 2022 AGM), was completed in January 2023. All shares bought through the programme are currently held in the Company's treasury with no voting or dividend rights. Further details on the Company's share capital are set out in note 22 to the financial statements.

Authority to purchase own shares

At the last AGM of the Company on 4 November 2022, the Company was authorised to purchase a maximum of 10% of the Company's issued share capital. This authority will expire at the close of the next AGM on 10 November 2023 unless revoked, varied, or renewed prior to that meeting.

Authority to allot shares

At the last AGM of the Company on 4 November 2022, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £8,111,739.87 (or up to £16,223,479.73 in connection with an offer by way

DIRECTORS' REPORT CONTINUED

of a rights issue). The Company did not allot any further shares during the year. (2022: nil). A resolution will be proposed at the 2023 AGM to renew this authority.

Change of control
The Company is not a party to any significant agreements which take effect, alter, or terminate, solely upon the event of a change of control in the Company following a takeover bid. However, in the event of a change of control of the Company, the Company is obliged to give written notice to its lenders. Each individual lender then has the right to give written notice to the Company to demand early repayment of its outstanding loans to that lender and to cancel that lender's commitments in full.

The Company's share option plans, and its Long-Term Incentive Plan, contain Change of control provisions, outstanding options and awards may vest on a change of control.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Significant relationships
The Company does not have any contractual or other relationships with any single party which are essential to the business of the Group and, therefore, no such relationships have been disclosed.

Donations
The Group does not make donations to political organisations or independent election candidates.

Public Policy
We are members of the British Retail Consortium and support relevant campaigning activity by that body. During the year we have not taken part in any direct lobbying or public policy activity.

Treasury and risk management
The Company's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Risks and Uncertainties section on page 30 and note 24 to the annual financial statements.

Independent auditors
In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit and Risk Committee, a resolution is to be proposed at the AGM for the reappointment of KPMG LLP as auditor of the Group. The Directors who held office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each such Director has taken all the reasonable steps that they ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Subsequent events
On 1 September 2023 we completed the refinancing of our debt facilities. The new facility consists of £200m from our established banking syndicate which runs to September 2027 (with a 16 month extension option) and £50m from the addition of US private placement notes with redemption dates split equally between September 2028 and September 2030.

On 11 September 2023 a consultation process was commenced on the potential closure of the smallest of the Group's UK factories.

There have been no other important events affecting the Company or any subsidiary since 25 June 2023.

Disclaimer
This Directors' Report, Strategic Report and the financial statements contain certain forward-looking statements with respect to the financial condition, results, operations, and business of DFS Furniture plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Nothing in this Directors' Report and Strategic Report or in these financial statements should be construed as a profit forecast. This document also contains non-financial information and data. While reasonable steps have been taken to ensure that this is correct, it has not been externally audited or verified unless specifically stated in this document.

Going concern
On 1 September 2023 the Group refinanced its borrowing facilities, replacing the previous £215.0m facility with a combination of a new £200.0m revolving credit facility with a consortium of lending banks maturing in September 2027 and £50.0m of private placement debt, £25.0m of which matures in September 2028 and £25.0m in September 2030. At 18 September 2022, £65.2m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £2.4m.

On the basis of their assessment of the Group's financial position, forecasts and projections, the Company's Directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence as detailed in the Viability Statement on page 35. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors' Report was approved by the Board of Directors on 21 September 2023 and signed on its behalf by:

ELIZABETH MCDONALD
Group General Counsel & Company Secretary
21 September 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable, relevant, reliable and prudent;
– for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
– for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
– assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
– use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

– the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
– the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

TIM STACEY
Chief Executive Officer

JOHN FALLON
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF DFS FURNITURE PLC

1. Our opinion is unmodified

We have audited the financial statements of DFS Furniture plc ('the Company' and 'the Group') for the 52 week period ended 25 June 2023 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1 to both the Group and the parent Company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 25 June 2023 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 27 April 2010, prior to the Company becoming a public interest entity. The period of total uninterrupted engagement is for the 9 financial periods ended 25 June 2023 as a public interest entity and 13 financial periods in total. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: group financial statements as a whole	£2.5m (2022:£2.5m) 3.8% of profit before tax from continuing operations normalised to exclude non-underlying items and averaged over a period of three years (2022: 4.2% of profit before tax from continuing operations excluding non-underlying items)	
Coverage	98% of group profit before tax from continuing operations excluding non-underlying items (2022: 92% of Group profit before tax from continuing operations excluding non underlying items)	
Key audit matters		vs 2022
Recurring risks	Impairment of Goodwill	↑
	Going Concern	↑
	Recoverability of the parent's investment in subsidiaries and receivables from other group companies	↔

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Impairment of goodwill	**Forecast-based assessment**	
£508.3 million; 2022: £508.3 million Refer to page 73 (Audit Committee Report), page 120 (accounting policy) and page 135 (financial disclosures).	There is a risk that the business may not meet expected growth projections in order to support the carrying value of goodwill held relating to the DFS Trading and Sofology cash generating units ('CGUs'). Goodwill is significant and at risk of irrecoverability due to continuing weak demand in the furniture retail market. The directors considered the recoverability of the goodwill balance through a value in use calculation that had underlying assumptions of varying sensitivities. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, we concluded that reasonably possible changes to the value in use would not be expected to result in material impairment.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Historical comparisons:** Compared the previous forecasts for each CGU against actual outcomes to assess the historical reliability of the forecasting; – **Benchmarking assumptions:** Compared each CGU's trading forecasts against current trading performance and anticipated growth in the furniture retail sector and applied our knowledge of the Group and retail sector, investigating any significant deviations in order to challenge assumptions included in the forecasts; – **Sensitivity analysis:** Performed sensitivity analysis over revenue, profit margins, terminal growth rate and discount factor in order to determine their impact on the value in use calculations; – **Our sector experience:** Engaged our internal valuation specialists to assess and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculations, benchmarking against our own expectations, and comparing the overall rate to an expected range based on our own benchmarks; – **Comparing valuations:** Compared the sum of the discounted cash flows for all CGUs to the Group's debt adjusted market capitalisation to assess the reasonableness of those cashflows and the reasonableness of the carrying value of those assets; and – **Assessing transparency:** Considered the adequacy of the Group's disclosures around the carrying value of goodwill and the impairment analysis. **Our results** We found the Group's conclusion that there is no impairment of goodwill to be acceptable (2022 result: acceptable).

INDEPENDENT AUDITOR'S REPORT CONTINUED

	The risk	Our response
Going Concern	**Disclosure quality**	
Refer to page 32 (Principal Risks), page 35 (Viability Reporting), page 73 (Audit Committee Report), page 102 (Director's report) and pages 118 and 153 (accounting policies).	The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. The judgement is based on evaluation of the inherent risks to the Group's and the parent Company's business model and how those risks might affect the Group's and parent Company's financial resources or ability to continue to operate over a period of at least a year from the date of the approval of the financial statements. The risks most likely to adversely affect the Group's and parent Company's available financial resources over this period are: – The current macro-economic climate impacting the demand for the Group's products including reduced customer demand for furniture, increases in the cost of living and rising inflation; The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then the fact would have been required to be disclosed.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's and parent Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures included: – **Funding assessment:** Assessed the committed level of finance, and its expiry, to determine the level of finance available to the Group and its associated covenants. Considered covenant compliance, both in the financial period, in the going concern forecast period and the history of covenant compliance in prior periods; – **Historical comparisons:** Critically assessed historical results in order to consider the directors' track record of forecast accuracy against actual cash flows achieved in the current financial period and previously; – **Benchmarking assumptions:** Benchmarked the key assumptions behind the cash flow forecasts to third party evidence, including analyst reports and market data where available; – **Sensitivity analysis:** Considered sensitivity of the level of available financial resources, including associated covenant compliance, indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. This included evaluating management's plausible downside scenarios, a combination of those scenarios and stress tests; – **Evaluation of directors' intent:** Evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, including reductions in non-essential capital expenditure, variable cost savings including reduced marketing costs, reductions in dividends and reductions in bonuses; and – **Assessing transparency:** Considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities. Assessed the completeness and accuracy of the matters covered in the going concern disclosure through our specific entity understanding, industry and market analysis and through cumulative audit knowledge. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2022: acceptable).

INDEPENDENT AUDITOR'S REPORT CONTINUED

	The risk	Our response
Recoverability of the parent's investment in subsidiaries and receivables from other group companies Parent Company's investment in subsidiaries: £254.5 million; 2022: £252.7 million. Parent Company's receivables: £275.0 million; 2022: £205.1 million. Refer to page 73 (Audit Committee Report), page 153 (accounting policy) and page 154 (financial disclosures).	**Low risk, high value** The carrying amount of the parent Company's investments in subsidiaries and the intra-group receivables balance represents 48% (2022: 55%) and 52% (2022: 45%) of the Parent Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Tests of detail:** Compared the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessed whether those subsidiaries have historically been profit-making. – Compared the debt adjusted market capitalisation to the investment and intra-group receivables balance to assess impairment indicators. – Assessed 100% of the total group debtors balance to identify, with reference to the relevant debtors' draft balance sheets, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. – **Assessing subsidiary audits:** Assessed the work performed by the subsidiary audit teams of those subsidiaries and considered the results of that work, on those subsidiaries' profits and net assets. Assessed the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results** We found the Company's conclusion that there is no impairment of the investments in subsidiaries and the intra-group receivables balance to be acceptable (2022: acceptable).

We continue to perform procedures over the presentation of discontinued operations. However, following the progress of the discontinued operations, we have not assessed this as one of the most significant risks in our current period audit and, therefore, it is not separately identified in our report this year.

INDEPENDENT AUDITOR'S REPORT CONTINUED

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £2.5m, (2022: £2.5m), determined with reference to a benchmark of Group profit before tax from continuing operations normalised to exclude non-underlying items and averaged over a period of three years, of which it represents 3.8% (2022:4.2% of profit before tax from continuing operations excluding non-underlying items).

Materiality for the parent Company financial statements as a whole was set at £1.6m (2022: £1.6m), determined with reference to a benchmark of Company total assets, of which it represents 0.30% (2022: 0.35%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2022: 75%) of materiality for the financial statements as a whole, which equates to £1.88m (2022: £1.88m) for the Group and £1.2m (2022: £1.2m) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.125m (2022: £0.125m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2022: 9) reporting components, we subjected 4 (2022: 3) to full scope audits for group purposes. We conducted reviews of financial information (including enquiry) at a further 5 (2022: 6) non-significant components.

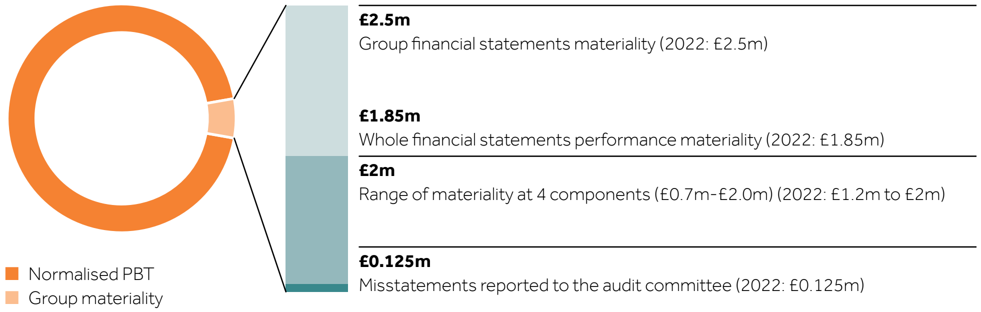
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 1% (2022: 1%) of Group revenue from continuing operations, 2% (2022: 8%) of Group profit before tax from continuing operations excluding non-underlying items and 9% (2022: 6%) of total Group assets is represented by 5 (2022: 6) of reporting components, none of which individually represented more than 4% (2022: 4%) of any of total Group revenue, Group profit before tax or total Group assets. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

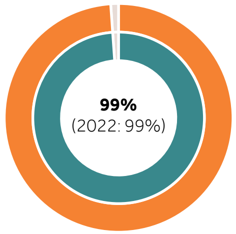
The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

Normalised Group profit before tax
£29.2m (2022: £58.9m)

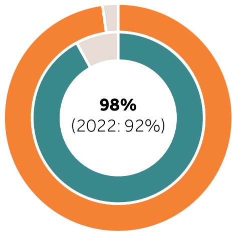
Group materiality
£2.5m (2022: £2.5m)



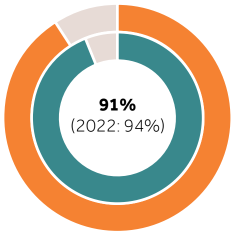
Group revenue from continuing operations



Group profit before tax from continuing operations excluding non-underlying items



Group total assets from continuing operations



- Full scope for group audit purposes 2023
- Full scope for group audit purposes 2022
- Residual components

4. Going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least 12 months from the date of approval of the financial statements ('the going concern period').

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:
– we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
– we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
– we have nothing material to add or draw attention to in relation to the directors' statement in note 1.1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1.1 to be acceptable; and
– the related statement under the Listing Rules set out on page 102 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:
– Enquiring of directors, the audit committee, internal audit, general counsel and company secretary as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
– Reading Board and its sub-committee minutes.
– Considering the Long Term Inventive Plan, Deferred Bonus Scheme, Restricted Share Plan and Save As You Earn remuneration incentive schemes and performance targets for management.
– Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

– the risk that Group and component management may be in a position to make inappropriate accounting entries;
– the risk of bias in accounting estimates such as impairment assumptions and provisions assumptions; and
– the risk that revenue is misstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

– Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unexpected accounts combinations; unusual cash journals; manual journal entries posted by users with less than five postings in the period; manual entries posted in period thirteen; round sum provision and accruals postings within period twelve; and unusual postings to borrowings.
– Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements, in particular the current regulatory focus on Consumer Duty with regards to the provision of interest-free credit and product aftercare insurance.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any.

Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT CONTINUED

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Reporting on page 35 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risks and Uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Reporting of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Reporting, set out on page 35 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT CONTINUED

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 103, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

FRANCES SIMPSON
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
Leeds
LS1 4DA
21 September 2023

Financial statements

This section presents details of the Group's and the Company's financial performance and position as at 25 June 2023.

CONTENTS

CONSOLIDATED INCOME STATEMENT *FOR 52 WEEKS ENDED 25 JUNE 2023 (52 WEEKS ENDED 26 JUNE 2022)*

		52 weeks to 25 June 2023			52 weeks to 26 June 2022		
	Note	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Gross sales[1]	1, 2	**1,423.6**		**1,423.6**	1,474.6	–	1,474.6
Revenue	2	**1,088.9**	**–**	**1,088.9**	1,149.8	–	1,149.8
Cost of sales		**(496.7)**	**–**	**(496.7)**	(543.9)	–	(543.9)
Gross profit		**592.2**	**–**	**592.2**	605.9	–	605.9
Selling and distribution costs		**(364.6)**	**–**	**(364.6)**	(368.0)	–	(368.0)
Administrative expenses		**(70.2)**	**0.5**	**(69.7)**	(62.0)	(0.4)	(62.4)
Operating profit/(loss) before depreciation, amortisation and impairment	3	**157.4**	**0.5**	**157.9**	175.9	(0.4)	175.5
Depreciation		**(80.5)**	**–**	**(80.5)**	(77.7)	–	(77.7)
Amortisation		**(11.6)**	**–**	**(11.6)**	(10.5)	–	(10.5)
Impairment		**(2.0)**	**–**	**(2.0)**	–	–	–
Operating profit/(loss)	2, 3	**63.3**	**0.5**	**63.8**	87.7	(0.4)	87.3
Finance income	5	**0.2**	**–**	**0.2**	–	–	–
Finance expenses	5	**(34.3)**	**–**	**(34.3)**	(28.8)	–	(28.8)
Profit/(loss) before tax		**29.2**	**0.5**	**29.7**	58.9	(0.4)	58.5
Taxation	6	**(6.6)**	**(0.1)**	**(6.7)**	(14.3)	–	(14.3)
Profit/(loss) for the period from continuing operations		**22.6**	**0.4**	**23.0**	44.6	(0.4)	44.2
Profit/(loss) for the period from discontinued operations	29	**(0.3)**	**3.5**	**3.2**	(1.5)	(11.3)	(12.8)
Profit/(loss) for the period		**22.3**	**3.9**	**26.2**	43.1	(11.7)	31.4
Earnings per share							
Basic	7						
– from continuing operations		**9.6p**	**0.2p**	**9.8p**	17.5p	(0.2)p	17.3p
– from discontinued operations		**(0.2)p**	**1.5p**	**1.3p**	(0.6)p	(4.4)p	(5.0)p
Total		**9.4p**	**1.7p**	**11.1p**	16.9p	(4.6)p	12.3p
Diluted	7						
– from continuing operations		**9.5p**	**0.2p**	**9.7p**	17.4p	(0.2)p	17.2p
– from discontinued operations		**(0.2)p**	**1.5p**	**1.3p**	(0.6)p	(4.4)p	(5.0)p
Total		**9.3p**	**1.7p**	**11.0p**	16.8p	(4.6)p	12.2p

1. Refer to pages 25 to 27 for APM definitions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *FOR 52 WEEKS ENDED 25 JUNE 2023 (52 WEEKS ENDED 26 JUNE 2022)*

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Profit for the period	**26.2**	31.4
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**(8.7)**	23.6
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**(13.7)**	1.9
Income tax on items that are or may be reclassified subsequently to profit or loss	**5.9**	(6.4)
Other comprehensive income/(expense) for the period, net of income tax	**(16.5)**	19.1
Total comprehensive income for the period	**9.7**	50.5
Total comprehensive income for the period attributable to owners of the parent		
– from continuing operations	**6.5**	63.3
– from discontinued operations	**3.2**	(12.8)
	9.7	50.5

CONSOLIDATED BALANCE SHEET *AT 25 JUNE 2023 (26 JUNE 2022)*

	Note	25 June 2023 £m	26 June 2022 £m
Non-current assets			
Property, plant and equipment	8	**97.4**	105.9
Right of use assets	8, 9	**312.6**	338.0
Intangible assets	10	**536.7**	533.8
Other financial assets	12	**–**	4.8
Deferred tax assets	13	**15.5**	10.8
		962.2	993.3
Current assets			
Inventories	14	**55.8**	64.4
Other financial assets	12	**0.7**	12.8
Trade and other receivables	15	**11.1**	24.3
Current tax assets		**2.7**	7.8
Cash and cash equivalents (excluding bank overdrafts)		**26.7**	17.3
		97.0	126.6
Total assets		**1,059.2**	1,119.9
Current liabilities			
Bank overdraft		**–**	(12.3)
Trade payables and other liabilities	16	**(224.9)**	(280.7)
Lease liabilities	9	**(84.1)**	(89.0)
Provisions	20	**(6.2)**	(12.8)
Other financial liabilities	17	**(6.7)**	–
		(321.9)	(394.8)
Non-current liabilities			
Interest bearing loans and borrowings	18	**(165.8)**	(93.5)
Lease liabilities	9	**(327.3)**	(356.4)
Provisions	20	**(6.9)**	(6.3)
Other financial liabilities	17	**(0.2)**	–
		(500.2)	(456.2)
Total liabilities		**(822.1)**	(851.0)
Net assets		**237.1**	268.9
Equity attributable to owners of the Company			
Share capital	22	**24.1**	25.9
Share premium	22	**40.4**	40.4
Merger reserve	22	**18.6**	18.6
Capital redemption reserve	22	**359.6**	357.8
Treasury shares	22	**(10.1)**	(4.9)
Employee Benefit Trust shares	22	**(6.6)**	(6.9)
Cash flow hedging reserve	22	**(4.9)**	17.5
Retained earnings		**(184.0)**	(179.5)
Total equity		**237.1**	268.9

These financial statements were approved by the board of directors on 21 September 2023 and were signed on its behalf by:

Tim Stacey
Chief Executive Officer

John Fallon
Chief Financial Officer

Company registered number: 07236769

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Treasury shares £m	Employee Benefit Trust shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 27 June 2021	**25.9**	**40.4**	**18.6**	**357.8**	**(0.7)**	**(0.2)**	**(8.0)**	**(149.3)**	**284.5**
Profit for the year	–	–	–	–	–	–	–	31.4	31.4
Other comprehensive income/(expense)	–	–	–	–	–	–	25.5	(6.4)	19.1
Total comprehensive income for the year	–	–	–	–	–	–	25.5	25.0	50.5
Dividends	–	–	–	–	–	–	–	(53.8)	(53.8)
Purchase of own shares	–	–	–	–	(4.4)	–	–	–	(4.4)
Treasury shares issued	–	–	–	–	0.2	–	–	(0.2)	–
Purchase of shares by Employee Benefit Trust	–	–	–	–	–	(8.1)	–	–	(8.1)
Employee Benefit Trust shares issued	–	–	–	–	–	1.4	–	(1.0)	0.4
Settlement of share based payments	–	–	–	–	–	–	–	(2.7)	(2.7)
Share based payments	–	–	–	–	–	–	–	2.6	2.6
Tax recognised directly in equity	–	–	–	–	–	–	–	(0.1)	(0.1)
Balance at 26 June 2022	**25.9**	**40.4**	**18.6**	**357.8**	**(4.9)**	**(6.9)**	**17.5**	**(179.5)**	**268.9**
Profit for the year	–	–	–	–	–	–	–	26.2	26.2
Other comprehensive income/(expense)	–	–	–	–	–	–	(22.4)	5.9	(16.5)
Total comprehensive income for the year	–	–	–	–	–	–	(22.4)	32.1	9.7
Dividends	–	–	–	–	–	–	–	(12.1)	(12.1)
Purchase of own shares	–	–	–	–	(30.9)	–	–	–	(30.9)
Employee Benefit Trust shares issued	–	–	–	–	–	0.3	–	(0.3)	–
Settlement of share based payments	–	–	–	–	–	–	–	(0.3)	(0.3)
Share based payments	–	–	–	–	–	–	–	1.8	1.8
Cancellation of treasury shares	(1.8)	–	–	1.8	25.7	–	–	(25.7)	–
Balance at 25 June 2023	**24.1**	**40.4**	**18.6**	**359.6**	**(10.1)**	**(6.6)**	**(4.9)**	**(184.0)**	**237.1**

CONSOLIDATED CASH FLOW STATEMENT *FOR 52 WEEKS ENDED 25 JUNE 2023 (52 WEEKS ENDED 26 JUNE 2022)*

	Note	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m
Net cash from operating activities	26	**121.7**	132.9
Investing activities			
Proceeds from sale of property, plant and equipment		**1.3**	1.8
Interest received		**0.2**	–
Acquisition of property, plant and equipment	8	**(20.4)**	(36.8)
Acquisition of other intangible assets	10	**(14.5)**	(10.6)
Net cash used in investing activities		**(33.4)**	(45.6)
Financing activities			
Interest paid		**(10.5)**	(3.8)
Interest paid on lease liabilities	9	**(23.5)**	(25.0)
Payment of lease liabilities	9	**(61.6)**	(63.5)
Drawdown/(repayment) of borrowings	27	**72.0**	70.0
Purchase of own shares		**–**	(8.2)
Proceeds from sale of own shares		**–**	0.4
Purchase of treasury shares		**(30.9)**	(4.4)
Ordinary dividends paid		**(12.1)**	(28.4)
Special dividends paid		**–**	(25.4)
Net cash used in financing activities		**(66.6)**	(88.3)
Net increase/(decrease) in cash and cash equivalents	27	**21.7**	(1.0)
Cash and cash equivalents at beginning of period	27	**5.0**	6.0
Cash and cash equivalents (including bank overdraft) at end of period	27	**26.7**	5.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 25 JUNE 2023

1 Accounting policies
DFS Furniture plc ('the Company') is a company incorporated and domiciled in England, in the United Kingdom (Company number: 07236769). The address of the registered office is 1 Rockingham Way, Redhouse Interchange, Adwick-Le-Street, Doncaster, South Yorkshire, DN6 7NA.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as 'the Group'). The parent company financial statements present information about the Company as a separate entity and not about its group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.20.

1.1 Basis of preparation
The consolidated financial statements have been prepared and approved by the directors in accordance with international accounting standards in accordance with UK-adopted international accounting standards ('UK-adopted IFRS'). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 25 June 2023 (last year 52 weeks to 26 June 2022).

The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ('FRS 101'); these are presented on pages 151 to 155.

Going concern
The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The Company heads a group which at 25 June 2023 had a £215.0m revolving credit facility maturing in December 2025. On 1 September 2023 the Group refinanced its borrowing facilities, replacing the previous £215.0m facility with a combination of a new £200.0m revolving credit facility with a consortium of lending banks maturing in September 2027 and £50.0m of private placement debt, £25.0m of which matures in September 2028 and £25.0m in September 2030. At 18 September 2022, £65.2m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £2.4m.

Covenants applicable to both the new revolving credit facility and the private placement debt are unchanged from the previous facility, being: 3.0x Net Debt / EBITDA and 1.5x Fixed Charge Cover, and are assessed on a six-monthly basis at June and December.

The Directors have prepared cash flow forecasts and performed a going concern assessment for the Group covering a period of at least twelve months from the date of approval of these financial statements (the 'going concern assessment period'), which indicate that the Group will be in compliance with these covenants. These forecasts include a number of assumptions in relation to: market size and the Group's order intake volumes; inflationary impacts on gross margin and other costs; further increases in UK interest rates; sector-wide manufacturing and supply chain capacities; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same going concern assessment period as the base case. These scenarios included: significantly reduced customer spending; impacts on gross margin and other costs from inflationary cost pressures; increases in interest rates, and a combination of these scenarios. The Directors have also performed reverse stress testing analysis to confirm that circumstances resulting in a covenant breach were beyond those considered plausible.

As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. Should these severe but plausible scenarios occur, the Directors could implement these actions to help reduce the impact on the Group. These mitigating actions include reducing discretionary advertising and other expenditure, retail price increases, a pause on expansionary capital investment, a reduction or pause in dividend payments, and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group to operate within the committed facilities and to comply with all relevant banking covenants during the going concern assessment period.

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the current economic and political environment, and are confident that the Group has adequate resources to continue to meet all liabilities as and when they fall due for at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

1.2 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Group is exposed to or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date that control commences until the date that control ceases. The acquisition method is used to account for the acquisition of subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

1.3 Climate change
As noted in the Responsibility and sustainability report the Group is committed to addressing climate-related risks and is focused on reducing its environmental impact.

The potential impact of climate change has been considered in the preparation of these financial statements, including in the carrying values of goodwill and tangible assets, the measurement of financial instruments, and in relation to the Group's going concern and viability assessments. No material impact was noted on the consolidated financial statements in relation to climate change. The potential impact will continue to be assessed on an ongoing basis.

1.4 Gross sales and revenue
Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods to external customers, being the total amount payable by the customer ('gross sales') less: value added and other sales taxes, the costs of obtaining interest free credit on behalf of customers and the amounts payable to third parties relating to products for which the Group acts as an agent. For products where the Group acts as an agent, the amount recognised in revenue is the net fee receivable by the Group.

Many of the Group's customers choose to take advantage of the interest-free credit that the Group makes available. This credit is provided by external finance houses, who pay the Group the gross sales value of the customer order on delivery, less a fee for taking responsibility for payment collection and bearing the full credit risk for any future default by the customer. The fee due to the finance house varies depending on the amount borrowed by the customer, the length of the repayment term and the applicable SONIA rate at the time of the transaction.

In calculating reported revenue in accordance with IFRS the Group is required to deduct these fees from the value of the customer order. Reported revenue will therefore vary depending on the proportion of customers who choose to take up the interest free credit offer, the average duration of the interest free loan period and the prevailing interest rates.

For the purposes of managing its business the Group focuses on gross sales, which is defined as the total amount payable by customers, inclusive of VAT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

1 Accounting policies continued

1.4 Gross sales and revenue continued

and other sales taxes and prior to any accounting adjustments for interest-free credit fees or aftercare product costs. The directors believe gross sales is a more transparent measure of the activity levels and performance of its stores and online channels as it is not affected by customer preferences on payment options. Accordingly gross sales is presented in this annual report in addition to statutory revenue, with a reconciliation between the two measures provided in note 2 to the financial statements.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised when goods have been delivered to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured. Receipt of goods by the customer represents the completion of the Group's performance obligation under the sales contract and payment is received prior to or immediately after delivery. Expected future costs of satisfying the Group's obligations under long-term product guarantees offered to customers are determined at the time of the sale, provided for separately (note 20) and charged to cost of sales.

1.5 Government grants

Government grants are recognised where there is reasonable assurance that the Group will comply with all attached conditions and that the grant will be received.

When the grant relates to an expense item, it is recognised as a deduction from the related expense within the period it becomes receivable.

1.6 Expenses

Non-underlying items

Items that are material in size, unusual or non-recurring in nature are disclosed separately in the income statement in order to provide an indication of the Group's underlying business performance. The principal items which may be included as non-underlying are:

- significant profit or loss on the disposal of non-current assets
- significant impairment charges
- significant non-recurring tax charges or credits
- costs associated with significant corporate, financial or operating restructuring, including acquisitions
- initial costs of establishing operations in new geographical territories

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

Royalty payments

Royalties payable to brand partners on sales of branded products are charged to cost of sales when the related product is delivered to the customer.

Finance income and expenses

Finance expenses comprise interest payable, finance charges on lease liabilities recognised in profit or loss using the effective interest method and unwinding of the discount on provisions and other liabilities measured at present value. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains and losses.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

1.7 Employee benefits

Defined contribution plans

Payments to defined contribution pension plans are recognised as an expense in the income statement as they fall due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Share based payments

The fair value of equity settled share based payments is recognised as an expense over the vesting period of the related awards, with a corresponding increase in equity. Fair values are calculated using option pricing models appropriate to the terms and conditions of the awards. The amount charged as an expense is regularly reviewed and adjusted to reflect the achievement of service and non-market based performance conditions.

1.8 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

At interim reporting periods the tax charge is calculated in accordance with IAS 34, adjusted for material non-taxable items.

A deferred tax asset is recognised on deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.9 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for effective differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

1.10 Business combinations

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions prior to 31 July 2011 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group and Company elected not to restate business combinations that took place prior to 31 July 2011. In respect of acquisitions prior to transition, goodwill is included at 31 July 2011 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that goodwill was amortised. On transition, amortisation of goodwill ceased as required by IFRS 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

1 Accounting policies continued

1.11 Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

– buildings	50 years
– plant and equipment	3 to 10 years
– motor vehicles	4 years
– leasehold improvements	the period of the lease, or useful life if shorter

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.12 Leases
At the inception of a contract, the Group assesses whether a contract is, or contains, a lease under IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liability – initial recognition
The Group recognises right of use assets and lease liabilities at the lease commencement date. The lease liabilities are recognised at the present value of future lease payments discounted at the incremental borrowing rate applicable to the lease.

Lease payments included in the measurement of the lease liability comprise the following:
– fixed payments, including in-substance fixed payments; and
– amounts expected to be payable under a residual value guarantee

Lease liability – subsequent measurement
The lease liability is subsequently increased by the interest cost arising from the unwind of the discount, and decreased by the cash lease payments made.

Lease liability – remeasurement
The lease liability is remeasured if:
– there is a change in either the lease term or the assessment of an option to purchase the underlying asset. In these circumstances, the lease liability is remeasured using a revised discount rate; or
– there is a change in the amounts expected to be payable under a residual guarantee or if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments. In these circumstances, the discount rate remains unchanged, unless the change in lease payments results from a change in floating interest rates.

In both scenarios, the carrying value of the right of use asset will generally be adjusted by the amount of the remeasurement of the lease liability, to the extent that the right of use asset will be reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

Right of use asset – initial recognition
IFRS 16 defines a right of use asset as an asset which represents a lessee's right to use an underlying asset for the lease term. Generally, right of use assets are initially measured at an amount equal to the lease liability.

Right of use asset – subsequent measurement
Right of use assets are subsequently measured at initial carrying value:
– less any accumulated depreciation and any accumulated impairments losses: and
– adjusted for any remeasurement of the lease liability.

The right of use asset is subsequently depreciated on a straight line basis from the commencement date to the end of the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Practical expedients and exemptions used
The Group has opted to apply the following practical expedients and exemptions:
– use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
– recognising lease payments on short term (less than 12 months) leases and low value leases as an expense;

1.13 Intangible assets and goodwill
Goodwill
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Other intangible assets
Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Implementation costs associated with software and cloud computing arrangements are only capitalised where they relate to an identifiable asset under the control of the Group.

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Estimated useful lives are as follows:

– computer software and website costs	3 years
– acquired brand names	10 to 20 years

1.14 Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of finished goods manufactured by the Group includes direct materials, direct labour and appropriate overhead expenditure.

1.15 Impairment
The carrying amounts of the Group's tangible and intangible assets other than goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.16 Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Details of provisions recognised are in note 20 and the related significant estimates and judgements in note 1.20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

1 Accounting policies continued

1.17 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1.18 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

On adoption of IFRS 9, the Group made the election to continue to apply the hedge accounting requirements of IAS 39 to all of its hedging relationships. Therefore, where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented within the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For other cash flow hedges the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.19 Profit or loss from discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, abandoned, or is classified as held for sale. A discontinued operation represents a separate major line of the business or geographical area of operation. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell of the disposal group(s) constituting the discontinued operation (see also note 29). When an operation is classified as a discontinued operation, the comparative Consolidated Income Statement is restated as if the operation had been discontinued from the start of the comparative period.

1.20 Significant areas of estimation and judgement

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, but may differ from actual results. No significant areas of judgement or estimation arose in the current financial statements.

In the period ended 26 June 2022 the presentation of discontinued operations was considered to be an area of significant judgement requiring consideration of the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as to whether the terminated operations represented a major separate line of business or geographical area of operations, were part of a single coordinated disposal plan or represented a subsidiary acquired exclusively with a view to resale. The Directors judged that these operations represented a major geographical area business and the closure was part of a single coordinated disposal plan and were therefore satisfied that the criteria under IFRS 5 were met and presentation as discontinued operations was appropriate. Accordingly, the results of these operations were presented as discontinued operations in the consolidated income statement in that period and in the current period.

The following are other areas of important estimates and judgements relating to material balances in the Group's financial statements, but which do not meet the IFRS-defined criteria of a significant estimate:

Going concern

In making the assessment of going concern for the Group and the Company, the Directors consider a number of assumptions and estimates relating to the future performance of the Group, as detailed in note 1.1. The Directors are satisfied that no reasonably possible change in these estimates would result in a change in the going concern assessment of the Group or the Company and therefore it is not considered a significant estimate as at 25 June 2023.

Goodwill impairment

Goodwill is tested annually for impairment by comparing its carrying value to a calculation of the value in use of the relevant cash-generating units. This exercise requires estimates to be made of future cash flows arising from each cash-generating unit and the appropriate discount rate to apply. Further details of the key assumptions underlying the calculation are provided in note 10. The Directors are satisfied that no reasonably possible change in these estimates would result in the recognition of an impairment within the next twelve months and accordingly the carrying value of goodwill is not considered a significant estimate as at 25 June 2023.

Customer guarantees

The Group maintains a provision for its obligations under long term product guarantees offered to its customers. In determining the value of this provision estimates are made of the number of future claims that will be received and the cost of satisfying those claims. Further details are provided in note 20. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 25 June 2023.

Net realisable value of inventories

As detailed in note 14, the Group makes estimates of applicable selling prices to determine the net realisable value of inventories. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 25 June 2023.

1.21 New accounting standards

There are no new standards, amendments to existing standards or interpretations that are effective for the first time in the period ended 25 June 2023 that have a material impact on the Group's results.

A number of new, but not yet effective, standards, amendments to existing standards, and interpretations have been published by the IASB. None of these have been adopted early and therefore have not been applied by the Group in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

2 Segmental Analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Group Leadership Team. Segment performance is assessed based upon brand contribution. Brand contribution is defined as underlying EBITDA (being earnings before interest, tax, depreciation, amortisation and non-underlying items) excluding property costs and central administration costs.

The Group reviews and manages the performance of its operations on a retail brand basis, and the identified reportable segments and the nature of their business activities are as follows:

DFS: the retailing of upholstered furniture and related products through DFS and Dwell branded stores and websites.

Sofology: the retailing of upholstered furniture and related products through Sofology branded stores and website.

Other segments comprises the manufacture of upholstered furniture and the supply of contract logistics.

Segment revenue and profit – continuing operations

	External gross sales		Inter-segment sales		Total gross sales	
	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m
DFS	**1,125.5**	1,169.1	**–**	–	**1,125.5**	1,169.1
Sofology	**298.1**	304.9	**–**	–	**298.1**	304.9
Other segments	**–**	0.6	**215.6**	187.9	**215.6**	188.5
Eliminations	**–**	–	**(215.6)**	(187.9)	**(215.6)**	(187.9)
Gross sales	**1,423.6**	1,474.6	**–**	–	**1,423.6**	1,474.6

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Total segments gross sales	**1,423.6**	1,474.6
Less: value added and other sales taxes	**(226.2)**	(233.8)
Less: costs of interest free credit and aftercare products	**(108.5)**	(91.0)
Revenue	**1,088.9**	1,149.8
Of which:		
Furniture sales	**1,033.3**	1,096.8
Sales of aftercare products	**55.6**	53.0
Revenue	**1,088.9**	1,149.8

52 weeks to 25 June 2023 – continuing operations

	DFS £m	Sofology £m	Other Segments £m	Eliminations £m	Total £m
Revenue	**858.5**	**230.4**	**215.6**	**(215.6)**	**1,088.9**
Cost of sales	**(424.8)**	**(106.8)**	**(61.6)**	**96.5**	**(496.7)**
Gross profit	**433.7**	**123.6**	**154.0**	**(119.1)**	**592.2**
Selling & distribution costs (excluding property costs)	**(229.0)**	**(64.5)**	**(129.3)**	**88.4**	**(334.4)**
Brand contribution (segment profit)	**204.7**	**59.1**	**24.7**	**(30.7)**	**257.8**
Property costs					**(30.2)**
Underlying administrative expenses					**(70.2)**
Underlying EBITDA					**157.4**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

2 Segmental Analysis continued

52 weeks to 26 June 2022 – continuing operations

	DFS £m	Sofology £m	Other Segments £m	Eliminations £m	Total £m
Revenue	906.3	242.9	188.5	(187.9)	1,149.8
Cost of sales	(452.9)	(121.6)	(59.8)	90.4	(543.9)
Gross profit	453.4	121.3	128.7	(97.5)	605.9
Selling & distribution costs (excluding property costs)	(210.1)	(65.9)	(137.1)	74.7	(338.4)
Brand contribution (segment profit)	243.3	55.4	(8.4)	(22.8)	267.5
Property costs					(29.6)
Underlying administrative expenses					(62.0)
Underlying EBITDA					175.9

	Note	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m
Underlying EBITDA		**157.4**	175.9
Non-underlying items	3	**0.5**	(0.4)
Depreciation, amortisation and impairments		**(94.1)**	(88.2)
Operating profit		**63.8**	87.3
Finance income		**0.2**	–
Finance expenses		**(34.3)**	(28.8)
Profit before tax		**29.7**	58.5

A geographical analysis of revenue is presented below:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
United Kingdom	**1,067.7**	1,129.3
Republic of Ireland	**21.2**	20.5
Total revenue	**1,088.9**	1,149.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

2 Segmental Analysis continued

Segment assets and liabilities

	Assets		Liabilities	
	25 June 2023 £m	26 June 2022 £m	**25 June 2023 £m**	26 June 2022 £m
DFS	**942.9**	948.4	**(537.3)**	(625.0)
Sofology	**146.0**	167.6	**(135.3)**	(142.6)
Other segments	**26.4**	30.0	**(51.8)**	(52.2)
Total segments	**1,115.3**	1,146.0	**(724.4)**	(819.8)
Loans and financing	**–**	–	**(165.8)**	(93.5)
Financial assets/(liabilities)	**0.7**	17.6	**(6.9)**	–
Current tax	**2.7**	7.8	**–**	–
Deferred tax	**15.5**	10.8	**–**	–
Eliminations	**(75.0)**	(62.3)	**75.0**	62.3
Total Group	**1,059.2**	1,119.9	**822.1**	(851.0)

Segment assets comprise tangible and intangible non-current assets including goodwill and brand names, inventories, trade and other receivables, cash and cash equivalents. Segment liabilities comprise trade payables and current and non-current other liabilities and provisions.

	Additions to non-current assets		Depreciation, amortisation and impairment	
	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m
DFS	**42.7**	72.0	**70.1**	66.0
Sofology	**11.4**	14.8	**17.6**	17.3
Other segments	**6.0**	12.5	**6.4**	4.9
Total Group	**60.1**	99.3	**94.1**	88.2

Additions to non-current assets include both tangible and intangible non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

3 Operating profit – continuing operations

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

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Depreciation on tangible assets (including depreciation on right of use assets)	**80.5**	77.7
Amortisation of intangible assets	**11.6**	10.5
Impairments	**2.0**	–
Net gain on disposal of property, plant and equipment	**(0.8)**	(1.1)
Net loss/(gain) on disposal of right of use assets	**(1.2)**	0.1
Cost of inventories recognised as an expense	**509.1**	548.1
Write down of inventories to net realisable value	**2.0**	4.6
Other costs of sales	**(14.4)**	(8.8)
Release of provisions (note 20)	**(0.9)**	(2.1)
Government grants received (business rates relief)	**(0.2)**	(2.0)
Operating lease rentals	**0.2**	0.7

Non-underlying items

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Release of lease guarantee provision	**(0.5)**	(0.3)
Restructuring costs	**–**	0.9
Acquisition costs	**–**	(0.2)
	(0.5)	0.4

The release of the lease guarantee provision relates to the property provisions detailed in note 20.

In addition to the non-underlying items for continuing operations above, a further £3.8m of non-underlying credits were recognised in respect of discontinued operations. This amount related to the closure costs of discontinued operations. Further details are presented in note 29 to the consolidated financial statements.

Auditor's remuneration

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Audit of these financial statements	**0.3**	0.3
Audit of the financial statements of Group subsidiaries	**0.5**	0.4
Amounts receivable by the Company's auditor and its associates in respect of:		
All other services	**0.1**	–
	0.9	0.7

During the period, an amount of £49,500 was paid to the Company's auditor in respect of the review of the Group's interim financial statements (FY22: £49,500) and £35,000 in respect of other audit related assurance services (FY22: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

4 Staff numbers and costs – continuing operations

The average number of persons employed by the Group during the period, analysed by category, was as follows:

	Number of employees	
	52 weeks to 25 June 2023	52 weeks to 26 June 2022
Production	**1,016**	1,009
Warehouse and transport	**1,356**	1,315
Sales and administration	**3,167**	3,182
	5,539	5,506

The aggregate payroll costs of these persons were as follows:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Wages and salaries	**177.4**	180.7
Social security costs	**17.5**	17.6
Other pension costs	**5.8**	5.6
	200.7	203.9
Share based payment expense (equity settled)	**1.8**	2.6
	202.5	206.5

Aggregate remuneration payable to directors in respect of qualifying services was as follows:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Emoluments	**1.6**	1.3
Pension contributions	**–**	0.1
Gain on exercise of share options	**–**	0.9

Three directors accrued retirement benefits under pension schemes in the period (2022: two). All of the directors' pension contributions were to defined contribution schemes.

5 Finance income and expense

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Finance income		
Interest income on bank deposits	**0.2**	–
Total finance income	**0.2**	–

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Finance expense		
Interest payable on senior revolving credit facility	**10.4**	2.5
Bank fees	**0.4**	1.5
Unwind of discount on provisions	**0.1**	–
Interest on lease liabilities	**23.4**	24.7
Other interest	**–**	0.1
Total finance expense	**34.3**	28.8

6 Taxation

Recognised in the income statement

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Current tax		
Current period	**5.7**	4.9
Adjustments for prior years	**0.1**	0.9
Current tax expense	**5.8**	5.8
Deferred tax		
Origination and reversal of temporary differences	**2.4**	6.8
Deferred tax rate change	**0.4**	1.6
Adjustments for prior years	**(1.5)**	(0.8)
Deferred tax expense	**1.3**	7.6
Total tax expense in income statement	**7.1**	13.4
Total tax expense in income statement		
– from continuing operations	**6.7**	14.3
– from discontinued operations	**0.4**	(0.9)
	7.1	13.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

6 Taxation continued

Reconciliation of effective tax rate

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Profit before tax for the period from continuing and discontinued operations	**33.5**	44.8
Tax using the UK corporation tax rate of 20.5% (2022: 19%)	**6.9**	8.5
Non-deductible expenses	**2.3**	2.2
Tax exempt revenues	**(1.0)**	(1.1)
Effect of tax rates in foreign jurisdictions	**(0.4)**	1.4
Recognition of previously unrecognised tax losses	**–**	0.3
Adjustments in respect of share options	**0.3**	0.4
Adjustment in respect of prior years	**(1.4)**	0.1
Impact of change in tax rate on deferred tax balances	**0.4**	1.6
Total tax expense	**7.1**	13.4

The Finance Act 2021, which was substantively enacted in May 2021, included provisions to increase the rate of UK corporation tax to 25% with effect from 1 April 2023.

Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, a tax rate of 25% has been applied when calculating deferred tax assets and liabilities at 25 June 2023 (25% at 26 June 2022).

Income tax recognised in other comprehensive income

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Effective portion of changes in fair value of cash flow hedges	**(1.8)**	4.8
Net change in fair value of cash flow hedges reclassified to profit or loss	**(3.0)**	0.4
Impact of change in tax rate on deferred tax balances	**(1.1)**	1.2
	(5.9)	6.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

7 Earnings per share

Statutory earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the financial period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period. The weighted average number of shares reflects the movements in share capital detailed in note 22 and the impact of movements in treasury shares held by the Company. Changes in the Company's capital structure with no corresponding change in resources are reflected as if they had occurred at the beginning of the earliest period presented.

Diluted earnings per share is calculated using the same net profit or loss for the financial period attributable to ordinary equity holders of the parent company, but increasing the weighted average number of ordinary shares by the dilutive effect of potential ordinary shares. Potential ordinary shares arise from employee share based payment arrangements (note 25). Where share based payments are subject to performance conditions, they are included as potential ordinary shares to the extent that the performance conditions have been met at the reporting date. Details of share based payment vesting conditions are provided in the Director's Remuneration Report.

	52 weeks to 25 June 2023 pence	52 weeks to 26 June 2022 pence
Basic earnings/(loss) per share		
– from continuing operations	**9.8**	17.3
– from discontinued operations	**1.3**	(5.0)
Total basic earnings per share	**11.1**	12.3
Diluted earnings/(loss) per share		
– from continuing operations	**9.7**	17.2
– from discontinued operations	**1.3**	(5.0)
Total diluted earnings per share	**11.0**	12.2

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Profit/(loss) for the period attributable to equity holders of the parent company		
– from continuing operations	**23.0**	44.2
– from discontinued operations	**3.1**	(12.8)
	26.1	31.4

	25 June 2023 No.	26 June 2022 No.
Weighted average number of shares in issue for basic earnings per share	**235,470,857**	254,675,661
Dilutive effect of employee share based payment awards	**1,783,365**	1,220,492
Weighted average number of shares in issue for diluted earnings per share	**237,254,222**	255,896,153

Underlying earnings per share

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

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Continuing operations		
Profit for the period attributable to equity holders of the parent company	**23.0**	44.2
Non-underlying (profit)/loss after tax	**(0.4)**	0.4
Underlying profit for the period attributable to equity holders of the parent company from continuing operations	**22.6**	44.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

7 Earnings per share continued

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Discontinued operations		
Profit/(loss) for the period attributable to equity holders of the parent company	**3.1**	(12.8)
Non-underlying (profit)/loss after tax	**(3.5)**	11.3
Underlying loss for the period attributable to equity holders of the parent company from discontinued operations	**(0.4)**	(1.5)

	52 weeks to 25 June 2023 pence	52 weeks to 26 June 2022 pence
Underlying basic earnings/(loss) per share		
– from continuing operations	**9.6**	17.5
– from discontinued operations	**(0.2)**	(0.6)
Total underlying basic earnings per share	**9.4**	16.9
Underlying diluted earnings/(loss) per share		
– from continuing operations	**9.5**	17.4
– from discontinued operations	**(0.2)**	(0.6)
Total underlying diluted earnings per share	**9.3**	16.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Right of use assets £m	Total £m
Cost					
Balance at 27 June 2021	20.5	192.5	10.2	462.9	686.1
Reclassification	–	0.9	(0.1)	(0.4)	0.4
Additions	2.0	34.4	0.4	51.9	88.7
Remeasurements	–	–	–	5.4	5.4
Disposals	(0.6)	(45.3)	(1.8)	(9.6)	(57.3)
Balance at 26 June 2022	21.9	182.5	8.7	510.2	723.3
Reclassification	(8.3)	49.3	8.8	8.3	58.1
Additions	0.1	20.4	0.1	25.0	45.6
Remeasurements	–	–	–	7.0	7.0
Disposals	(0.2)	(15.7)	(5.1)	(26.1)	(47.1)
Balance at 25 June 2023	**13.5**	**236.5**	**12.5**	**524.4**	**786.9**
Depreciation and impairments					
Balance at 27 June 2021	1.7	121.4	8.5	117.8	249.4
Reclassification	–	0.5	–	(0.4)	0.1
Depreciation charge for the period	0.4	19.8	0.5	58.5	79.2
Impairments	0.1	1.2	0.1	3.1	4.5
Disposals	(0.1)	(45.2)	(1.7)	(6.8)	(53.8)
Balance at 26 June 2022	2.1	97.7	7.4	172.2	279.4
Reclassification	(1.7)	49.3	8.8	1.7	58.1
Depreciation charge for the period	0.4	20.9	0.8	58.4	80.5
Impairments	–	–	–	2.0	2.0
Disposals	(0.2)	(15.3)	(5.1)	(22.5)	(43.1)
Balance at 25 June 2023	**0.6**	**152.6**	**11.9**	**211.8**	**376.9**
Net book value					
At 27 June 2021	18.8	71.1	1.7	345.1	436.7
At 26 June 2022	19.8	84.8	1.3	338.0	443.9
At 25 June 2023	**12.9**	**83.9**	**0.6**	**312.6**	**410.0**

Reclassifications in the year between gross cost and depreciation between plant and equipment and motor vehicles relate to historic disposals made at £nil net book value. In addition, other assets previously presented within land and buildings have been reclassified to property right of use assets during the year. None of these reclassifications impacted reported profit or total non-current assets. Accordingly, the Directors do not consider the changes sufficiently material to require restatement of prior period balances.

Capital commitments

At 25 June 2023 the Group had contracted capital commitments of £9.1m (2022: £11.8m) for which no provision has been made in the financial statements. Plant and equipment includes leasehold improvements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

9 Leases
Right of use assets

	Property £m	Vehicles £m	Equipment £m	Total £m
Cost				
At 27 June 2021	443.3	17.7	1.9	462.9
Reclassification	(0.4)	–	–	(0.4)
Additions	44.2	7.7	–	51.9
Remeasurements	5.4	–	–	5.4
Disposals	(6.8)	(2.8)	–	(9.6)
At 26 June 2022	485.7	22.6	1.9	510.2
Reclassification	8.3	–	–	8.3
Additions	16.3	8.7	–	25.0
Remeasurements	7.0	–	–	7.0
Disposals	(24.0)	(2.1)	–	(26.1)
At 25 June 2023	**493.3**	**29.2**	**1.9**	**524.4**
Depreciation and impairment				
At 27 June 2021	108.0	8.6	1.2	117.8
Reclassification	(0.4)	–	–	(0.4)
Depreciation charge for the period	54.6	3.7	0.2	58.5
Disposals	(4.1)	(2.7)	–	(6.8)
Impairments	3.1	–	–	3.1
At 26 June 2022	161.2	9.6	1.4	172.2
Reclassification	1.7	–	–	1.7
Depreciation charge for the period	53.7	4.5	0.2	58.4
Disposals	(20.5)	(2.0)	–	(22.5)
Impairments	2.0	–	–	2.0
At 25 June 2023	**198.1**	**12.1**	**1.6**	**211.8**
Net book value				
At 27 June 2021	335.3	9.1	0.7	345.1
At 26 June 2022	324.5	13.0	0.5	338.0
At 25 June 2023	**295.2**	**17.1**	**0.3**	**312.6**

Amounts recognised in the consolidated balance sheet:

	25 June 2023 £m	26 June 2022 £m
Current lease liabilities	**84.1**	89.0
Non-current lease liabilities	**327.3**	356.4

For more information on the maturity of the Group's lease liabilities, see note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

9 Leases continued

Amounts recognised in the consolidated income statement:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Interest on lease liabilities	**(23.5)**	(25.0)
Variable lease payments not included in the measurement of lease liabilities	**(0.3)**	1.0
Income from subleasing right of use assets	**0.4**	0.1
Expenses relating to short term leases and low value leases	**(0.3)**	(1.8)

Amounts recognised in the consolidated cash flow statement:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Total cash outflow for lease liabilities	**85.1**	88.5

Non-cancellable short term lease rentals are payable as follows:

	25 June 2023 £m	26 June 2022 £m
Less than one year	**0.6**	0.1
Between one and five years	**–**	–
More than five years	**–**	–
	0.6	0.1

The Group has entered into short term leases in respect of warehouses and equipment.

At 25 June 2023, future rentals receivable under non-cancellable leases where the Group is the lessor were £2.4m (2022: £2.8m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

10 Intangible assets

	Computer software £m	Brand names £m	Goodwill £m	Total £m
Cost				
Balance at 27 June 2021	44.9	14.8	509.3	569.0
Reclassification	(0.2)	–	–	(0.2)
Additions	10.6	–	–	10.6
Disposals	–	–	–	–
Balance at 26 June 2022	55.3	14.8	509.3	579.4
Reclassification	0.9	–	–	0.9
Additions	14.5	–	–	14.5
Disposals	(0.1)	–	–	(0.1)
Balance at 25 June 2023	**70.6**	**14.8**	**509.3**	**594.7**
Amortisation and impairments				
Balance at 27 June 2021	28.5	5.1	–	33.6
Amortisation charge for the period	9.1	1.4	–	10.5
Impairments	–	0.5	1.0	1.5
Balance at 26 June 2022	37.6	7.0	1.0	45.6
Reclassification	0.9	–	–	0.9
Amortisation charge for the period	10.2	1.4	–	11.6
Disposals	(0.1)	–	–	(0.1)
Balance at 25 June 2023	**48.6**	**8.4**	**1.0**	**58.0**
Net book value				
At 27 June 2021	16.4	9.7	509.3	535.4
At 26 June 2022	17.7	7.8	508.3	533.8
At 25 June 2023	**22.0**	**6.4**	**508.3**	**536.7**

Goodwill

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

	Goodwill	
	25 June 2023 £m	26 June 2022 £m
DFS Trading Limited	**479.9**	479.9
Sofology Limited	**28.4**	28.4
	508.3	508.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

10 Intangible assets continued
Goodwill is tested annually for impairment on the basis of value in use. The key assumptions underlying the calculations are those regarding expected future sales volumes, changes in selling prices and direct costs and the discount rate applied.

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations for each cash generating unit. Selling prices and related costs are based on past practice and expected future changes in the market. The base case forecast assumes a further underlying contraction in the Group's market of 5% in FY24, followed by a slow recovery (mid single digit annual growth) in subsequent years. The base case also reflects a cautious assessment of the anticipated growth in the Group's market share driven by delivery of our strategic initiatives. Revenue is assumed in line with order intake, keeping order bank levels relatively consistent across the assessment period.

Gross margin percentage for FY24 is expected to be ahead of FY23 through more effective sourcing and the annualised impact of price increases and freight rate reductions already implemented. Other costs reflect anticipated inflationary increases and benefits from specific cost saving initiatives. Capital expenditure is assumed to remain in line with planned investments and strategic initiatives.

A terminal value was then calculated on the basis of the four year plan and an estimated long-term growth rate for the UK upholstery furniture sector of 2.0% (2022: 2.0%). These cash flow forecasts were then discounted at pre-tax discount rates of 13.3% to 14.6% (2022: 10.3% – 11.1%). The discount rates are estimated based on the Group's weighted average cost of capital (derived from market indices of risk-free rates, market risk premia, peer group analysis and the Group's own borrowing costs), risk adjusted for an individual unit's circumstances.

For DFS and Sofology, the value in use calculations showed a significant headroom between the calculated value in use and the carrying value of goodwill in the financial statements. A number of sensitivities were then applied to the base case model to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. This analysis applied a number of challenging scenarios, including: possible shortfalls in revenue or gross margin compared to plan, a decrease in the long term growth rate of the UK upholstery market, further increases in UK interest rates, and changes in applicable discount rates. On the basis of this analysis the Directors concluded that a reasonably possible change in assumptions would not lead to an impairment being recognised.

11 Investments in subsidiaries
The following companies are incorporated in England & Wales, with the exception of Coin Retail Limited (Jersey) which is incorporated in Jersey. They are all wholly owned by the Group and have been consolidated in these financial statements.

	Principal activity
Diamond Holdco 2 Limited[1]	Intermediate holding company
Diamond Holdco 7 Limited[1]	Intermediate holding company
DFS Furniture Holdings plc[1]	Intermediate holding company
DFS Furniture Company Limited[1]	Intermediate holding company
DFS Trading Limited[1]	Furniture retailer
Sofology Limited[3]	Furniture retailer
Sofaworks Limited[1]	Dormant
Haydock Furniture Limited[3]	Dormant
The Sofa Delivery Company Limited[1]	Contract logistics
The Sofa Manufacturing Company Limited[1]	Dormant
The Sofa Servicing Company Limited[1]	Dormant
Coin Retail Limited (Jersey)[2]	Intermediate holding company
Coin Furniture Limited[1]	Furniture retailer
DFS Spain Limited[1]	Furniture retailer

Registered offices:
1. Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster DN6 7NA
2. 26 New Street, St Helier, Jersey, JE2 3RA
3. Ashton Road, Golborne, Warrington, WA3 3UL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

12 Other financial assets

	25 June 2023 £m	26 June 2022 £m
Non-current		
Foreign exchange contracts	–	4.8
Current		
Foreign exchange contracts	0.7	12.8

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 24).

13 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	25 June 2023 £m	26 June 2022 £m
Fixed asset timing differences	4.4	3.6
IFRS 16	7.8	10.6
Remeasurement of derivatives to fair value	3.0	(4.4)
Tax losses carried forward	–	0.4
Brand names	(1.5)	(1.9)
Share based payments	0.7	0.7
Other temporary differences	1.1	1.8
Net tax assets	15.5	10.8

The deferred tax movement in the period is as follows:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
At start of period	10.8	24.7
(Charged)/credited to the income statement:		
Fixed asset timing differences	0.8	(3.7)
Unwind of IFRS 16 transition impact	(2.8)	(1.2)
Tax losses carried forward	(0.4)	(2.2)
Brand names	0.4	0.3
Share based payments	–	(0.5)
Derivatives	1.5	–
Other temporary differences	(0.7)	(0.1)
Recognised in the statement of comprehensive income	5.9	(6.5)
At end of period	15.5	10.8

Deferred tax assets on losses of £4.7m (2022: £5.3m) have not been recognised as there is uncertainty over the utilisation of these losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

14 Inventories

	25 June 2023 £m	26 June 2022 £m
Raw materials and consumables	**8.9**	7.3
Finished goods and goods for resale	**62.8**	76.0
	71.7	83.3
Write-down to net realisable value	**(15.9)**	(18.9)
	55.8	64.4

In applying its accounting policy for inventory, the Group identifies those items where there is a risk that net realisable value does not exceed cost, due to either the age or condition of the item. An estimate of the net realisable value of such items is made based on the sale of similar items in the past, taking into account expected future opportunities for sale, and their carrying value reduced by an appropriate provision.

15 Trade and other receivables

	25 June 2023 £m	26 June 2022 £m
Trade receivables	**7.7**	12.6
Prepayments	**3.0**	11.4
Accrued income	**0.1**	0.3
Other receivables	**0.3**	–
	11.1	24.3

No interest is charged on trade receivables; the Group bears no credit risk in respect of amounts due from retail customers under interest free credit arrangements. Prepayments and accrued income do not include impaired assets.

16 Trade payables and other liabilities

	25 June 2023 £m	26 June 2022 £m
Current		
Payments received on account	**39.1**	72.2
Trade payables	**97.6**	122.5
Other creditors including other tax and social security	**34.7**	32.5
Accruals	**53.5**	53.5
	224.9	280.7

Payments on account represent contract liabilities under IFRS 15, which will be realised through revenue in the subsequent financial year. Trade payables do not bear interest and are paid within agreed credit terms. For more information on lease liabilities, see note 1.12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

17 Other financial liabilities

	25 June 2023 £m	26 June 2022 £m
Non-current		
Foreign exchange contracts	**0.2**	–
Current		
Foreign exchange contracts	**6.7**	–

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 24).

18 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 24.

	25 June 2023 £m	26 June 2022 £m
Senior revolving credit facility	**167.0**	95.0
Unamortised issue costs	**(1.2)**	(1.5)
	165.8	93.5

The revolving credit facility in place at the year end bore interest at a rate of credit spread adjusted SONIA plus 2.955% and was repayable on 21 December 2025. The revolving credit facility was secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Group. Subsequent to the year end, the Group undertook a refinancing of its debt, replacing the previous £215.0m revolving credit facility with a £200.0m facility maturing in September 2027 and £50.0m of private debt. Refer to note 30 for further details.

For more information on the maturity of the Group's lease liabilities, see note 24.

19 Employee benefits

Defined contribution pension plans

The Group operates a number of defined contribution pension plans under which contributions by the employees and the Group are administered by trustees in funds separate from the Group's assets. The costs of these schemes are charged to the income statement as they become payable under the rules of the scheme. The total pension cost of the Group for the period was £5.8m (2022: £5.6m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

20 Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 26 June 2022	8.7	4.0	6.4	19.1
Provisions made during the period	3.8	1.7	–	5.5
Provisions used during the period	(5.0)	(0.6)	(1.2)	(6.8)
Provisions released during the period	–	(0.5)	(4.2)	(4.7)
Balance at 25 June 2023	7.5	4.6	1.0	13.1
Current	5.2	0.3	0.7	6.2
Non-current	2.3	4.3	0.3	6.9
	7.5	4.6	1.0	13.1

The Group offers a long-term guarantee on its upholstery products and in accordance with accounting standards a provision is maintained for the expected future cost of fulfilling these guarantees on products which have been delivered before the reporting date. In calculating this provision the key areas of estimation are the number of future claims, average cost per claim and the expected period over which claims will arise (nearly all claims arise within two years of delivery). The Group has considered the sensitivity of the calculation to these key areas of estimation, and determined that a 10% change in either the average cost per claim or the number of expected future calls would change the value of the calculated provision by £0.8m. The directors have therefore concluded that reasonably possible variations in estimate would not result in a material difference.

Property provisions relate to potential obligations under lease guarantees offered to former subsidiary companies, the majority of which expire in 2025, and wear and tear costs for Group properties based on anticipated lease expiries and renewals, which will predominantly be utilised more than five years from the reporting date.

Other provisions relate to payment of refunds to customers for payment protection insurance policies and other regulatory costs. Other provisions also include costs associated with the exit from the Netherlands and Spain, see note 29 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

21 Dividends
The following dividends were recognised and paid during the period:

	Pence per ordinary share	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m
Final ordinary dividend for FY21	7.5p	**–**	19.0
Interim ordinary dividend for FY22	3.7p	**–**	9.4
Special dividend	10.0p	**–**	25.4
Final dividend for FY22	3.7p	**8.6**	–
Interim ordinary dividend for FY23	1.5p	**3.5**	–
		12.1	53.8

The Directors recommend a final dividend of 3.0p in respect of the financial period ended 25 June 2023, resulting in a total proposed dividend of £6.9m. Subject to shareholder approval it is intended that this dividend will be paid on 29 December 2023. DFS Furniture plc shares will trade ex-dividend from 30 November 2023 and the record date will be 1 December 2023. This dividend has not therefore been recognised as a liability in these financial statements.

22 Capital and reserves
Share capital
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Ordinary shares of £0.10 each	**Number of shares '000**	**Ordinary shares £m**
Allotted, called up and fully paid		
At the start of the financial period	258,637	25.9
Cancelled during the financial period	(17,959)	(1.8)
At the end of the financial period	**240,678**	**24.1**

On 9 November 2022 17,958,600 ordinary shares which had been held in treasury were cancelled.

Share premium
The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue of ordinary shares on 11 March 2015.

Merger reserve
The merger reserve arose on the issue of shares in the Company in exchange for minority interests in the issued share capital of a subsidiary company on 10 March 2015.

Capital redemption reserve
The capital redemption reserve represents the par value of cancelled treasury shares.

Treasury shares
Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

During the period ended 25 June 2023 21,694,437 shares (2022: 2,585,666) were acquired at a total cost of £30.9m (2022: £4.4m). 17,958,600 treasury shares (2022: nil) were cancelled on 9 November 2022. None of the Company's own ordinary shares (2022: 63,444) were used to satisfy employee share based payment awards during the year. At 25 June 2023 the company had 6,533,700 ordinary shares held in treasury (2022: 2,797,863).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

22 Capital and reserves continued

Employee Benefit Trust shares

The Employee Benefit Trust holds ordinary shares which are issued for the purpose of satisfying future employee share based payments awards and is consolidated into the Group financial statements.

During the period ended 25 June 2023 the Company acquired and issued no ordinary shares to the Employee Benefit Trust (2022: 3,000,000). 172,800 shares were used during the period (2022: 824,009). At 25 June 2023 the Employee Benefit Trust held 3,686,178 of the Company's ordinary shares (2022: 4,040,978).

23 Financial instruments: categories and fair value

	25 June 2023 £m	26 June 2022 £m
Financial assets		
Derivatives in designated hedging relationships	**0.7**	17.6
Loans and receivables	**8.0**	12.6
Cash	**26.7**	17.3
Financial liabilities		
Derivatives in designated hedging relationships	**(6.9)**	–
Senior revolving credit facility	**(165.8)**	(93.5)
Bank overdraft	**–**	(12.3)
Amortised cost	**(164.2)**	(195.1)
Finance lease obligations	**(412.2)**	(445.4)

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

The Directors have reviewed for expected credit losses and consider the amount of any such losses to be immaterial.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

24 Financial instruments: risk management
The objectives, policies and processes governing the treasury activities of the Group are reviewed and approved by the Board. The Group's documented treasury policy includes details of authorised counterparties, instrument types and transaction limits and principles for the management of liquidity, interest and foreign exchange risks. As part of its strategy for the management of these risks the Group uses derivative financial instruments. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Liquidity risk
The Group manages its cash and borrowing requirements to ensure that it has sufficient liquid resources to meet its obligations as they fall due while making efficient use of the Group's financial resources.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities:

25 June 2023	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Trade and other payables	**151.1**	**–**	**–**	**–**	**151.1**
Lease liabilities	**77.2**	**74.2**	**179.1**	**156.0**	**486.5**
Senior revolving credit facility	**13.0**	**13.0**	**173.2**	**–**	**199.2**
Other liabilities	**6.2**	**2.7**	**1.6**	**2.6**	**13.1**
	247.5	**89.9**	**353.9**	**158.6**	**849.9**
Derivatives: net settled	**–**	**–**	**–**	**–**	**–**
Derivatives: gross settled	**–**	**–**	**–**	**–**	**–**
Cash in flows	**(119.1)**	**(12.0)**	**–**	**–**	**(131.1)**
Cash out flows	**128.2**	**9.8**	**–**	**–**	**138.0**
Total cash flows	**256.6**	**87.7**	**353.9**	**158.6**	**856.8**

26 June 2022	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	176.0	–	–	–	176.0
Lease liabilities	84.3	79.0	200.8	179.0	543.1
Senior revolving credit facility	3.5	3.5	96.6	–	103.6
Other liabilities	12.8	3.0	1.3	2.0	19.1
	276.6	85.5	298.7	181.0	841.8
Derivatives: net settled	–	–	–	–	–
Derivatives: gross settled					
Cash in flows	(143.7)	(68.3)	–	–	(212.0)
Cash out flows	143.0	51.6	–	–	194.6
Total cash flows	275.9	68.8	298.7	181.0	824.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

24 Financial instruments: risk management continued

Interest rate risk management

The Group's operating profit is affected by the cost of providing interest free credit to its customers. This cost is in turn impacted by interbank lending rates, including SONIA. While the relationship is not wholly direct, an increase in SONIA of one percentage point would reduce the Group's reported revenue by 0.6%.

The Group is also exposed to interest rate risk on its senior revolving credit facility, which bears interest at a floating rate of credit spread adjusted SONIA plus a margin (2.955% at 25 June 2023); no related interest rate hedging was in place as at 25 June 2023. Based on drawn amounts under the facility at that date, an increase of one percentage point in SONIA would increase the Group's annual interest cost by £1.7m.

Foreign exchange risk management

The Group is exposed to the risks of exchange rate fluctuations on the purchase of products denominated in foreign currencies. Currency requirements are assessed by analysis of historic purchasing patterns by month, adjusted as appropriate to take into account current trading expectations. The Group's treasury policy allows for the use of forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases up to 16 months in advance. These contracts are designated as cash flow hedges.

The table below summarises the forward foreign exchange contracts outstanding at the period end:

	Notional amount		Fair value	
	25 June 2023 £m	26 June 2022 £m	**25 June 2023 £m**	26 June 2022 £m
Derivatives in designated hedging relationships				
US Dollar	**137.9**	194.6	**(6.2)**	17.6

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

	Assets		Liabilities	
	25 June 2023 £m	26 June 2022 £m	**25 June 2023 £m**	26 June 2022 £m
US Dollar	**12.9**	1.5	**(18.8)**	(10.3)
Euro	**3.0**	4.2	**(0.2)**	(0.2)

Foreign currency sensitivity analysis

The Group's primary foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% weakening of these currencies against Sterling, assuming all other variables were unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the cash flow hedging reserve in equity.

Positive figures represent an increase in profit or equity.

	Income statement		Equity	
	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m
US Dollar	**0.6**	0.9	**(13.2)**	(20.8)
Euro	**(0.3)**	(0.4)	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

24 Financial instruments: risk management continued
A 10% strengthening of the above currencies against the Sterling at the period end would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a qualitative and forward-looking approach to assessing hedge effectiveness. The Group determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and, has been, effective in offsetting cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:
- the effect of counterparties and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

Financial risk management
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

Investments of cash, borrowings and derivative instruments are transacted only through counterparties meeting the credit rating and investment criteria specified in the Group's treasury policy. The Group's exposure and the credit ratings of its counterparties are regularly reviewed. Concentrations of risk are mitigated through the use of multiple counterparties and by counterparty limits which are reviewed and approved by the Board. The Group considers that expected credit losses on derivative assets arising from the default of counterparties are not material.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Capital management
The capital structure of the Group consists of debt, as analysed in note 27, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shown in the consolidated statement of changes in equity. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not restricted by any externally imposed capital requirements.

25 Share based payments
The Group has four share based payment schemes in operation:

Long Term Incentive Plan (LTIP)
The LTIP is a discretionary executive reward plan that allows the Group to grant conditional share awards or nil-cost options to selected executives at the discretion of the Remuneration Committee. The scheme is focused on the senior leadership roles in the Group, including Executive Directors. The maximum value of LTIP awards granted to an individual is 150% of base salary, although the Remuneration Committee may in exceptional circumstances increase this to 300%.

LTIP awards vest after a three year performance period subject to the achievement of performance measures based on earnings per share and total shareholder return targets. Further information on LTIP performance targets and awards made to Directors is given in the Directors' Remuneration Report on pages 78 to 99.

Based on the scheme rules,the Group may settle the vested shares in cash sum equivalent to the market value of the shares and this decision is driven solely at the discretion of the Board. During the year, no LTIP shares vested, so no cash payments were made to participating employees (2022: £1.5m). As there is no present obligation that the Group will settle future awards in cash, the Group will continue to recognise the LTIP as an equity settled scheme.

Deferred bonus scheme (DBS)
25% of any bonus earned by the Executive Directors is granted as a deferred award under the Deferred Bonus Plan. The deferred award ordinarily has a vesting period of three years, and its vesting is conditional on the participant's continued employment with the Group at the end of the vesting period unless they are a 'good leaver'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

25 Share based payments continued

Restricted Share Plan (RSP)

The RSP is also a discretionary reward plan under which conditional share awards or nil-cost options may be granted to individuals in key executive roles in the Group, excluding Executive Directors and other recipients of LTIP awards. Awards may not exceed 50% of an individual's salary for a particular financial year.

RSP awards vest after a three year performance period (other than those granted shortly after Admission vested in July 2017). For awards granted on or after 1 July 2019, 50% of awards made to each individual are subject to either an earnings per share or underlying profit before tax performance target; remaining awards are not subject to other performance conditions.

Based on the scheme rules,the Group may settle the vested shares in cash sum equivalent to the market value of the shares and this decision is driven solely at the discretion of the Board. During the year, the Group settled part of the vested RSP shares by offering cash payments (£0.3m, FY22: £1.2m) to participating employees. As there is no present obligation that the Group will settle future awards in cash,the Group will continue to recognise the RSP as an equity settled scheme.

Save as You Earn (SAYE)

SAYE schemes are currently available to all employees in the UK and Republic of Ireland, with invitations to participate generally issued on an annual basis and subject to HMRC rules. The current maximum monthly savings limit for the schemes is £500. Options are granted at the prevailing market share price less a discount of 20% and vest three years from the date of grant.

The movements in outstanding awards under each of the schemes are summarised below:

	52 weeks to 25 June 2023				52 weeks to 26 June 2022			
	LTIP No.	**DBS No.**	**RSP No.**	**SAYE No.**	LTIP No.	DBS No.	RSP No.	SAYE No.
Outstanding at the beginning of the period	**1,982,263**	**93,938**	**2,692,875**	**4,116,029**	1,929,231	-	3,113,529	4,197,239
Granted	**1,547,809**	**–**	**2,422,628**	**10,102,311**	675,766	93,938	955,496	1,094,094
Forfeited	**(526,237)**	**(33,727)**	**(535,072)**	**(283,551)**	(77,435)	–	(347,775)	(151,159)
Exercised	**–**	**–**	**(399,060)**	**–**	(545,299)	–	(1,028,375)	(252,598)
Lapsed	**(436,289)**	**–**	**(415,394)**	**(30,622)**	–	–	–	(35,689)
Cancelled	**–**	**–**	**–**	**(2,978,743)**	–	–	–	(735,858)
Outstanding at the end of the period	**2,567,546**	**60,211**	**3,765,977**	**10,925,424**	1,982,263	93,938	2,692,875	4,116,029
Weighted average remaining contractual life (months)	**18.8**	**15.9**	**20.4**	**28.1**	15.9	27.6	16.0	19.4
Weighted average share price at exercise	**–**	**–**	**£1.15**	**–**	£2.45	–	£1.64	£2.28

At 25 June 2023 the weighted average exercise price of outstanding SAYE options was £1.01 (2022: £1.81) and the range of exercise prices was £0.88 to £2.18 (2022: £1.62 to £2.18). At 25 June 2023 there were 408,057 (2022: 148,051) exercisable SAYE options, with a weighted average exercise price of £1.88 (2022: £1.80). There were no exercisable LTIP, DBP or RSP options at 25 June 2023 (2022: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

25 Share based payments continued

Fair value calculations

The LTIP, DBS, RSP and SAYE awards are all accounted for as equity-settled under IFRS 2. The fair value of LTIP awards which are subject to a market based performance condition (total shareholder return) is calculated using a stochastic (Monte Carlo) option pricing model. RSP awards, SAYE awards and LTIP awards subject to a non-market based performance condition (earnings per share) are valued using a Black-Scholes option pricing model. The inputs to these models for awards granted during the financial period are detailed below:

	LTIP	RSP	SAYE
Grant date	12 October 2022 and 14 December 2022	12 October 2022	21 November 2022
Share price at date of grant	£1.05 and £1.51	£1.05	£1.43
Exercise price	Nil	Nil	£0.89
Volatility	36.5% to 42.7%[1]	–[2]	47.8%
Expected life	3 years	3 years	3.3 years
Risk free rate	3.3% to 4.5%[1]	–[2]	3.2%
Dividend yield	–[3]	7.1%	5.2%
Fair value per share			
Market based performance conditions	£0.39 to £0.69[1]	–	–
Non-market based performance condition	£0.91 to £1.40[1]	£0.85	–
No performance condition	–	£0.85	£0.88

1. The 2022 LTIP grant included a number of required holding periods, giving a range of volatility and fair values.
2. Volatility and risk free rates do not impact the fair value calculation for awards with no exercise price or market based performance condition.
3. LTIP participants are entitled to receive dividend equivalents on unvested awards therefore dividend yield does not impact the fair value calculation.

Expected volatility is calculated over the period of time commensurate with the relevant performance period or holding period. Expected life has been assumed to equate to the vesting period of the awards.

The total share based payment expense included in administration costs in respect of the above schemes was £1.8m (2022: £2.6m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

26 Net cash from operating activities

	Note	**52 weeks to 25 June 2023 £m**	52 weeks to 26 June 2022 £m
Profit for the period		**26.2**	31.4
Adjustments for:			
Income tax expense	6	**7.1**	13.4
Finance income	5	**(0.2)**	–
Finance expenses	5	**34.3**	29.1
Depreciation of property, plant and equipment	8	**22.1**	20.7
Depreciation of right of use assets	9	**58.4**	58.5
Amortisation of intangible assets	10	**11.6**	10.5
Impairment of assets	8	**2.0**	6.0
Gain on sale of property, plant and equipment	3	**(0.8)**	(1.1)
(Gain)/loss on disposal of right of use assets	3	**(1.2)**	0.1
Settlement of share based payments		**(0.3)**	(2.7)
Share based payment expense	25	**1.8**	2.6
Foreign exchange impact on cash flow hedges		**1.4**	–
Decrease/(increase) in trade and other receivables		**13.2**	(7.2)
Decrease/(increase) in inventories		**8.6**	(3.3)
Decrease in trade and other payables		**(55.8)**	(16.6)
Decrease in provisions		**(6.0)**	(1.7)
Net cash from operating activities before tax		**122.4**	139.7
Tax paid		**(0.7)**	(6.8)
Net cash from operating activities		**121.7**	132.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

27 Net debt

	26 June 2022 £m	Cash flow £m	Other non-cash changes £m	**25 June 2023 £m**
Cash in hand, at bank	17.3	9.4	–	**26.7**
Bank overdraft	(12.3)	12.3	–	**–**
Cash and cash equivalents (including bank overdraft)	5.0	21.7	–	**26.7**
Senior revolving credit facility	(93.5)	(72.0)	(0.3)	**(165.8)**
Lease liabilities	(445.4)	61.6	(27.6)	**(411.4)**
Total net debt	(533.9)	11.3	(27.9)	**(550.5)**

	27 June 2021 £m	Cash flow £m	Other non-cash changes £m	26 June 2022 £m
Cash in hand, at bank	22.7	(5.4)	–	17.3
Bank overdraft	(16.7)	4.4	–	(12.3)
Cash and cash equivalents (including bank overdraft)	6.0	(1.0)	–	5.0
Senior revolving credit facility	(23.1)	(70.0)	(0.4)	(93.5)
Lease liabilities	(454.1)	63.5	(54.8)	(445.4)
Total net debt	(471.2)	(7.5)	(55.2)	(533.9)

Non-cash changes include the addition of leases within the period of £25.0m (2022: £51.9m), lease remeasurements of £7.0m (2022: £5.4m), disposals of leases of £4.7m (2022: £2.5m) and the amortisation of capitalised debt issue costs of £0.3m (2022: £0.4m).

28 Related parties

Key Management Personnel

At 25 June 2023, Directors of the Company held 0.4% of its issued ordinary share capital (2022: 0.4%), and a further 0.1% (2022: 0.1%) was held by other key management personnel. The compensation of key management personnel (including the Directors) is as follows:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Emoluments	**3.5**	4.0
Share based payments expense	**0.1**	0.8
Company contributions to money purchase schemes	**0.1**	0.3
	3.7	5.1

A number of key management personnel hold positions in other companies that result in them having control or significant influence over these companies. One such relationship was formed during the period, with an entity which the Group already transacted. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with other companies with no relationship with members of key management, and were conducted on an arm's length basis.

The aggregate value of transactions related to key management personnel and entities over which they have control or significant influence was £4.3m, and the outstanding balance at the year end was £0.6m.

From time to time key management personnel or tier related parties may buy goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

29 Discontinued operations

During the period to 26 June 2022 the Group took the decision to exit its operations in the Netherlands and Spain. The cessation of these operations was completed in the year ended 25 June 2023, with the order book at the point of closure being delivered during this year. The revenues and expenses of the discontinued operations have therefore been eliminated from the consolidated income statement for the Group's continuing operations and are shown as a separate single post-tax line item, consistent with the presentation adopted for the year ended 26 June 2022. Prior to being classified as discontinued operations, these operations were included within the DFS segment of the Group's segmental analysis.

Results from discontinued operations:

	52 weeks to 25 June 2023			52 weeks to 26 June 2022
	Underlying £m	**Non-underlying £m**	**Total £m**	Total £m
Revenue	**2.0**	**–**	**2.0**	9.0
Cost of sales	**(1.1)**	**–**	**(1.1)**	(4.6)
Gross profit	**0.9**	**–**	**0.9**	4.4
Selling and distribution costs	**(1.1)**	**–**	**(1.1)**	(5.0)
Administrative expenses	**–**	**3.8**	**3.8**	(5.3)
Operating (loss)/profit before depreciation, amortisation and impairment	**(0.2)**	**3.8**	**3.6**	(5.9)
Depreciation	**–**	**–**	**–**	(1.5)
Impairment	**–**	**–**	**–**	(6.0)
Operating (loss)/profit	**(0.2)**	**3.8**	**3.6**	(13.4)
Finance expenses	**–**	**–**	**–**	(0.3)
(Loss)/profit before tax	**(0.2)**	**3.8**	**3.6**	(13.7)
Taxation	**(0.1)**	**(0.3)**	**(0.4)**	0.9
(Loss)/profit for the period from discontinued operations	**(0.3)**	**3.5**	**3.2**	(12.8)

Non-underlying items from discontinued operations:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Impairment of right of use assets	**–**	3.1
Impairment of other assets	**–**	1.4
Impairment of goodwill and intangible assets	**–**	1.5
Other closure (credits)/costs	**(3.8)**	5.3
	(3.8)	11.3

The closure credits in the year relate to the release of provisions made in FY22 for costs associated with the closure of these operations where the actual costs incurred were lower than had been expected when the provision was made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

29 Discontinued operations continued

Cash flows from discontinued operations:

	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Net cash from operating activities	**(0.6)**	1.1
Net cash used in investing activities	**–**	–
Net cash used in financing activities	**(0.4)**	(1.4)
Net decrease in cash and cash equivalents	**(1.0)**	(0.3)
Cash and cash equivalents at beginning of period	**1.3**	1.6
Net cash and cash equivalents (including bank overdraft) at end of period	**0.3**	1.3

30 Subsequent events

Refinancing

On 1 September, the Group successfully completed a refinancing of its £215.0m revolving credit facility, replacing it with a new £200.0m revolving credit facility and £50.0m of senior secured notes. The £200.0m revolving credit facility is held with a syndicate of banks and matures in September 2027, with the option of a one year extension, and attracts variable rate interest (credit spread adjusted SONIA plus a margin). The senior secured notes attract fixed rate interest and comprise two tranches: £25.0m maturing September 2028 and £25.0m maturing September 2030.

Both of the new debt facilities are subject to the same financial covenants as the previous facility, being: 3.0x Net Debt / EBITDA and 1.5x Fixed Charge Cover, and are assessed on a six-monthly basis at June and December.

As a consequence of the refinancing, non-underlying finance costs of £1.9m will be recognised in the income statement in FY24 comprising £0.8 m in associated professional fees and the write-off of £1.1m of unamortised issue costs on the previous £215.0m loan.

Restructuring

On 11 September, a consultation process was commenced on the potential closure of the smallest of the Group's UK factories. If the closure goes ahead, it is expected to result in non-underlying restructuring costs of approximately £5.5m, including redundancy costs and asset impairment.

COMPANY BALANCE SHEET
AT 25 JUNE 2023

	Note	25 June 2023 £m	26 June 2022 £m
Non-current assets			
Investments	2	**254.5**	252.7
Amounts due from group companies	3	**275.0**	205.1
		529.5	457.8
Current liabilities			
Amounts due to group companies	4	**(63.3)**	(20.1)
Net assets		**466.2**	437.7
Capital and reserves			
Called up share capital	5	**24.1**	25.9
Share premium	5	**40.4**	40.4
Merger reserve	5	**18.6**	18.6
Capital redemption reserve	5	**359.6**	357.8
Treasury shares	5	**(10.1)**	(4.9)
Shares held by employee benefit trust	5	**(6.6)**	(6.9)
Retained earnings		**40.2**	6.8
Equity shareholders' funds		**466.2**	437.7

The Company's profit for the period was £70.0m (2022: £10.0m).

These financial statements were approved by the board of directors on 21 September 2023 and were signed on its behalf by:

Tim Stacey
Chief Executive Officer

John Fallon
Chief Financial Officer

Company registered number: 07236769

COMPANY STATEMENT OF CHANGES IN EQUITY
AT 25 JUNE 2023

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Treasury shares £m	Shares held by employee benefit trust £m	Retained earnings £m	Total equity £m
Balance at 27 June 2021	**25.9**	**40.4**	**18.6**	**357.8**	**(0.7)**	**(0.2)**	**52.0**	**493.8**
Profit for the period	–	–	–	–	–	–	10.0	10.0
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	–	10.0	10.0
Dividends paid	–	–	–	–	–	–	(53.8)	(53.8)
Purchase of own shares	–	–	–	–	(4.4)	–	–	(4.4)
Treasury shares issued	–	–	–	–	0.2	–	(0.2)	–
Purchase of shares by Employee Benefit Trust	–	–	–	–	–	(8.1)	–	(8.1)
Employee Benefit Trust shares issued	–	–	–	–	–	1.4	(1.0)	0.4
Settlement of share based payments	–	–	–	–	–	–	(2.7)	(2.7)
Share based payments	–	–	–	–	–	–	2.6	2.6
Tax recognised directly in equity	–	–	–	–	–	–	(0.1)	(0.1)
Balance at 26 June 2022	**25.9**	**40.4**	**18.6**	**357.8**	**(4.9)**	**(6.9)**	**6.8**	**437.7**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**70.0**	**70.0**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**70.0**	**70.0**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(12.1)**	**(12.1)**
Purchase of own shares	**–**	**–**	**–**	**–**	**(30.9)**	**–**	**–**	**(30.9)**
Cancellation of treasury shares	**(1.8)**	**–**	**–**	**1.8**	**25.7**	**–**	**(25.7)**	**–**
Employee Benefit Trust shares issued	**–**	**–**	**–**	**–**	**–**	**0.3**	**(0.3)**	**–**
Settlement of share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(0.3)**	**(0.3)**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1.8**	**1.8**
Balance at 25 June 2023	**24.1**	**40.4**	**18.6**	**359.6**	**(10.1)**	**(6.6)**	**40.2**	**466.2**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
AT 25 JUNE 2023

1 Accounting policies

Basis of preparation

The financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ('UK-adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006. The Company has applied the exemption available under FRS 101 in respect of the following disclosures:

– a cash flow statement and related notes
– comparative period reconciliations
– disclosures in respect of transactions with wholly owned subsidiaries
– disclosures in respect of capital management
– the impact of new but not yet effective IFRSs

As the consolidated accounts of the Company include the equivalent disclosures, the Company has also taken the exemption available under FRS 101 in respect of IFRS 2 Share Based Payments disclosures of group settled share based payments. Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account. The Company's profit for the period was £70.0m (2022: £10.0m).

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The Company heads a group which at 25 June 2023 had a £215.0m revolving credit facility maturing in December 2025. On 1 September 2023 the Group refinanced its borrowing facilities, replacing the previous £215.0m facility with a combination of a new £200.0m revolving credit facility with a consortium of lending banks maturing in September 2027 and £50.0m of private placement debt, £25.0m of which matures in September 2028 and £25.0m in September 2030.

At 18 September 2022, £65.2m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £2.4 m. The Directors have considered the projected trading and cash flow forecasts for the Company, including the inherent uncertainty in forecasting the impact of the current economic and political environment, and are confident that the Company has adequate resources to continue to meet all liabilities as and when they fall due for at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

Investments

Investments are stated at cost, less any accumulated impairment losses. Carrying values of investments in subsidiary companies are reviewed at each reporting date to determine whether there is any indication of impairment. If any such exists, then the investment's recoverable amount is estimated based on a value in use calculation. An impairment loss is recognised if the carrying amount of the investment exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Amounts due from and to group companies

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

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Share based payments

Awards (options or conditional shares) granted by the Company over its own shares to the employees of subsidiary companies are recognised in the Company's own financial statements as an increase in the cost of investment in subsidiaries. The amount recognised is equivalent to the equity-settled share based payment charge recognised in the consolidated financial statements. The corresponding credit is recognised directly in equity.

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Audit fees

Amounts receivable by the Company's auditor, and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements.

Directors' remuneration and staff numbers

The Company has no employees other than the Directors, who did not receive any remuneration for their services directly from the Company in either the current or preceding period. See note 28 of the consolidated financial statements for Key Management Personnel compensation.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
AT 25 JUNE 2023

2 Investments

Shares in subsidiary undertakings	52 weeks to 25 June 2023 £m	52 weeks to 26 June 2022 £m
Cost and net book value		
At the start of the financial period	**252.7**	250.1
Additions	**1.8**	2.6
At the end of the financial period	**254.5**	252.7

Details of the Company's investments are given in note 11 to the consolidated financial statements. Additions in the current and prior period relate to capital contributions made in respect of share based payments schemes for the Group's employees. As a consequence of the Company's share price at 25 June 2023, a value in use calculation was performed to test the carrying value of the investments for impairment. The key assumptions used were in line with those set out in note 10 to the consolidated financial statements. The value in use calculations showed a significant headroom between the calculated value in use and the carrying value of the investments in the Company financial statements. A number of sensitivities were then applied to the base case model to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. On the basis of this analysis the Directors concluded that a reasonably possible change in assumptions would not lead to an impairment being recognised.

Coin Furniture Limited and DFS Spain Limited are exempt from the requirement of the Companies Act relating to the audit of individual financial statements by virtue of s479A of the Companies Act 2006. DFS Furniture plc will guarantee the debts and liabilities of these entities in accordance with Section 479C of the Companies Act 2006.

3 Debtors

	25 June 2023 £m	26 June 2022 £m
Amounts due from subsidiary undertakings (non-interest bearing, repayable on demand)	**275.0**	205.1

Amounts due from subsidiary undertakings have been classified as non-current assets as they are not expected to be settled within the next 12 months.

4 Creditors: amounts due in less than one year

	25 June 2023 £m	26 June 2022 £m
Amounts due to subsidiary undertakings (non-interest bearing, repayable on demand)	**63.3**	20.1

5 Capital and reserves

Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

	Number of shares '000	Ordinary shares £m
Ordinary shares of £0.10 each		
Allotted, called up and fully paid		
At the start of the financial period	258,637	25.9
Cancelled during the financial period	(17,959)	(1.8)
At the end of the financial period	**240,678**	**24.1**

On 9 November 2022 17,958,600 ordinary shares which had been held in treasury were cancelled.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
AT 25 JUNE 2023

5 Capital and reserves continued

Share premium

The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue of ordinary shares on 11 March 2015.

Merger reserve

The merger reserve arose on the issue of shares in the Company in exchange for minority interests in the issued share capital of a subsidiary company on 10 March 2015.

Capital redemption reserve

The capital redemption reserve represents the par value of cancelled treasury shares.

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

During the period ended 25 June 2023 21,694,437 shares (2022: 2,585,666) were acquired at a total cost of £30.9m (2022: £4.4m). 17,958,600 treasury shares (2022: nil) were cancelled on 9 November 2022. None of the Company's own ordinary shares (2022: 63,444) were used to satisfy employee share based payment awards. At 25 June 2023 the company had 6,533,700 ordinary shares held in treasury (2022: 2,797,863).

Employee Benefit Trust shares

The Employee Benefit Trust holds ordinary shares which are issued for the purpose of satisfying future employee share based payments awards.

During the period ended 25 June 2023 the Company acquired and issued no ordinary shares to the Employee Benefit Trust (2022: 3,000,000). 172,800 shares were used during the period (2022: 824,009). At 25 June 2023 the Employee Benefit Trust held 3,686,178 of the Company's ordinary shares (2022: 4,040,978).

FINANCIAL HISTORY

		FY23	FY22	FY21 Restated[3]	FY20	FY19[2] 52 weeks	FY19[1] 48 weeks
		IFRS 16				IAS 17	
Gross sales	£m	**1,423.6**	1,474.6	1,359.4	935.0	1,287.2	1,165.0
Revenue	£m	**1,088.9**	1,149.8	1,060.2	724.5	996.2	901.0
Underlying EBITDA	£m	**157.4**	175.9	224.0	61.9	90.2	65.1
Underlying profit/(loss) before tax excluding brand amortisation	£m	**30.6**	60.3	109.2	(63.1)	50.2	28.2
Profit/(loss) before tax from continuing operations	£m		58.5	102.6	(81.2)	43.6	22.4
Basic earnings per share from continuing operations	p	**9.8**	17.3	35.8	(31.4)	16.5	8.6
Ordinary dividends per share	p	**4.5**	7.4	7.5	–	11.2	11.2
Special dividends per share	p	**–**	10.0	–	–	–	–
Purchase of own shares	£m	**30.9**	4.4	–	1.1	–	–
Total shareholder return	%	**-28.3**	-37.9	+71.4	-32.5	+31.9	+31.5

1. Audited statutory period: 48 weeks ended 30 June 2019.
2. Unaudited pro-forma period: 52 weeks ended 30 June 2019.
3. Restated to exclude operations becoming discontinued in FY22.

SHAREHOLDER INFORMATION

Contacts

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John Fallon

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Shareholder enquiries
The Company's registrar is Equiniti. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them of your change of address or other personal information. Their address details are:

Equiniti
Aspect House
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Lancing
West Sussex
BN99 6DA

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

Lines are open 8.30am to 5.30pm, Monday to Friday (excluding public holidays).

Shareholders are able to manage their shareholding online and facilities include electronic communications, account enquiries, amendment of address and dividend mandate instructions.

For institutional investor enquiries, please contact:
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Annual General Meeting 2023
This year's AGM will be held at 2:30pm on 10 November 2023 at DFS Group Support Centre, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA

Financial calendar

FY23 full year results	21 September 2023
Annual General Meeting	10 November 2023

Report and Accounts
Registered number 7236769
25 June 2023
Company No. 07236769

NOTES

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