Strategic Report

Contents

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 36%[1] 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 benefits.

1. GlobalData August 2024

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 medium term 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 on **page 13.**

CHAIR'S STATEMENT

STEVE JOHNSON
Chair of the Board
→ Bio on **page 52**

Building for the future

This past year has seen continued and sustained improvements in the operational capabilities of the Group to a level that the business has not seen before. Building for the future, we have optimised our cost base and delivered improved levels of customer satisfaction.

We believe that the outlook for DFS remains positive despite the extremely challenging global and domestic environment that we are operating in. As expected, our revenue performance has been impacted by the significant fall in market volumes year on year and on pre-pandemic levels. In addition, the business has had to absorb significantly higher costs due to high levels of international freight rates and continued elevated interest rates. We have responded well to these challenges by progressing with our cost action plan and achieving significant savings of £27.5m to underlying costs. The savings achieved to date demonstrate our ability to remain agile and reshape our operations in light of prevailing market conditions.

The medium term prospects for the upholstered furniture market remains strong and we are confident that our market leading position and long term growth strategy will ensure the business is well positioned to take advantage of the market recovery.

We view the recent acquisition of both ScS by the Italian company Poltronesofà and Anglia Home Furnishings, which trades as Fabb Furniture, by the Australian company Nick Scali as further evidence of confidence that in the medium to long term the UK market will see strong growth as the economy recovers and consumer confidence returns.

The ability of our colleagues across the business to continue to innovate and to deliver in this challenging environment has been invaluable and my thanks on behalf of the Board go to all of them.

Financial results

Whilst overall our financial results are disappointing, we recognise they are an inevitable result of the market backdrop during the year being significantly more challenging than we expected before the year began.

The focus of the Board and the Executive team has been between achieving the best possible short term results and ensuring that the business is still well positioned to take advantage of the inevitable market rebound.

This has meant balancing our approach to costs and operational capability as well as to talent recruitment and retention, being very judicious with capex at the same time as ensuring that the business remains primed to respond to a better market, and it means balancing the need to retain cash in the business to invest for the future with the expectations of our shareholders.

Leverage at year end was 2.5x which remains above our stated target level, although ample liquidity headroom remains. Bringing the level down towards our target remains a key focus using the twin levers of absolute debt reduction and profit improvement.

As detailed in the Financial review at page 18 we are pleased that the business has been able to work with its lenders to amend the terms of its debt facilities to provide sufficient flexibility and headroom going forward.

CHAIR'S STATEMENT CONTINUED

Strategic focus
Inevitably when performance is under pressure, hard choices have to be made on which strategic options to prioritise and this has meant that we have temporarily deprioritised our focus on growing our wider Home offering. The Board is determined to achieve the right balance between justifiable caution given the short term environment and the need to ensure that the business continues to invest and improve for the future.

We have carried out a detailed review of our strategy during the year. We are confident that our pillars and platforms strategy remains the right long term strategy for the Group and we have continued to make good progress on our areas of focus.

We continue to leverage our two market-leading complementary brands, DFS and Sofology – they appeal to different customer segments and allow us to target the majority of the market with creative direction managed by each brand team. Each brand curates its own ranges, supported by specialist in-house design teams.

We continue to innovate in partnership with a small group of specialist suppliers and brands. Over the last 12 months we were excited to bring our new Cinesound™ range to market. This cinema sofa turns home entertainment into a 4D immersive experience, packed with state-of-the-art features – a 3D audio system, vibration pads and powered head and foot rests.

We continue to invest in our national network of showrooms across the UK and the Republic of Ireland and in our websites to ensure they continue to inspire our customers and provide a leading customer experience.

During the period, we were proud to announce that we have entered into an exclusive agreement with Ted Baker. The range has been incredibly well received by our customers looking for that extra bit of luxury.

As a business with our customers at its heart the ongoing evolution of our product range across both our brands is a critical component of what we do. I am proud of the progress that our teams have made working with our suppliers and brand partners such as Ted Baker and La-Z-Boy as well as with our in-house factories to continue to improve our product proposition.

We will continue to assess the pace and priorities of all our strategic objectives as market conditions evolve over the next 12 months.

Culture and purpose
We strongly believe that our colleagues and their contribution to our culture and values is what makes DFS great. Our colleagues across the Group have yet again played a pivotal role in the progress we continue to make and I would like to thank them for their continued outstanding contribution.

It is important that the Board stays close to the views of our colleagues and Directors devote significant time to activity that lets them hear first-hand what is on our people's minds. Visits to our showrooms, manufacturing sites, customer distribution centres and Group Support Centre, as well as attendance at our Voice Forums equip Directors to understand the practical implications of our plans and the challenges faced by our colleagues.

Environmental, social and governance ('ESG')
We continue to make excellent progress on our environmental goals, and we were delighted to be named a Climate Leader by the Financial Times earlier this year. This is a testament to our commitment to sustainable performance. In June 2024 we took the next step on our journey and submitted our plan for Net Zero for validation to the Science Based Targets initiative.

Board changes
At the end of July we gave our thanks to Loraine Martins who stepped down from the Board. Loraine has made a significant contribution to our People Strategy and has worked with the team to develop the Group's wider approach to equity, diversity and inclusion.

In August we welcomed Bruce Marsh to the Board. Bruce is a seasoned retailer and is currently the Chief Financial Officer at Currys plc. He brings expertise in retail, finance, financial markets, investors and governance and will provide fresh insight as to how the Company should address the ongoing challenges facing UK retailers. The approach to any appointment to the Board is on ensuring we have the right blend of skills for the current and likely future environment and that we have the right experience and tenure to deliver continuity and succession over time.

Governance and reporting
The Board generally meets eight times per year when we have a formal agenda and additional meetings are arranged as required for specific items or such matters are delegated to ad hoc committees and reported upon at subsequent meetings. More details of the Board's activities, and key decisions taken during the year are set out later in the Governance section of our Annual Report.

I am pleased to say that we were compliant with the UK Corporate Governance Code (2018) ('the Governance Code') throughout the year, and the following pages set out further details. I invite you to consider that alongside the report on how the Directors have fulfilled their duties in accordance with section 172 of the Companies Act 2006.

Dividend
At the time of the interim results in March 2024 the Board declared an interim ordinary dividend of 1.1 pence per share (2023: 1.5 pence per share).

Given the challenging trading conditions described above the Board concluded that it would not be appropriate to propose a final dividend. Whilst this may be disappointing for some of our shareholders, we believe it is in the best long term interests of the Group.

We continue to encourage all shareholders to attend our 'in person' annual general meeting, which will be held in Doncaster on 22 November 2024. This provides a great opportunity to hear from and speak with members of the Board and Group Leadership Team.

Looking ahead
I am proud of the Group's achievements in 2024 and remain confident in the plans that we have for the year ahead. Our clear strategy, great team, market-leading position, innovative products and the strength of our brands all bode well for the future.

STEVE JOHNSON
Chair of the Board
25 September 2024

Group revenue
£987.1m

Underlying profit before tax and brand amortisation[1]
£10.5m

Loss before tax
£1.7m

1. Refer to pages 19 and 20 for APM definitions.

CHIEF EXECUTIVE'S REPORT

Managing challenging conditions and positioning the business for future growth

In financial year 2024 the Group has made good progress improving our gross profit margin rate and reducing our operating costs whilst achieving record NPS scores. This progress has been delivered against a backdrop of very challenging market conditions.

Market update and financial overview
Consumer demand fell significantly in the financial period driven by the cost of living crisis. The level of decline was beyond our initial expectations with overall demand levels reaching record lows. In addition supply chain disruption in the Red Sea that emerged in the second half of the period extended our made-to-order product lead times delaying the recognition of revenues.

We took decisive action through the period as the scale of market decline, now over 20% below pre-pandemic levels in volume terms, became apparent. We accelerated a number of initiatives across our Cost to Operate efficiencies programme reducing our costs by £27.5m year on year. Despite these actions, the Group's profits were unfortunately impacted by the extent of the market decline and the supply chain disruption. Underlying profit before tax and brand amortisation reduced from £30.6m in our FY23 financial period to £10.5m in FY24 and reported profit before tax reduced from £29.7m to a loss of £1.7m.

When formulating our cost-out action plans we have been resolute in protecting and improving our customer facing resources to continue to deliver good outcomes for our customers and record high post purchase and post delivery NPS scores were achieved. With our retail brands clearly positioned and operations now leaner and more effective than ever, the Group is in a strong position to capitalise when the market recovers and deliver strong returns for our shareholders.

Progress on our three focus areas
The Group has consolidated its position as the clear market leader having added 4ppts to our market share[1] since 2020.

We have improved our gross margins by 140 bps to 55.8% as we target our historical level of 58%. The growth has been supported by redistributing goods across our supplier base to optimise the cost and quality of production as well as from retail price increases in the final quarter of the prior year.

1. GlobalData August 2024.

TIM STACEY
Chief Executive Officer
→ Bio on **page 52**

CHIEF EXECUTIVE'S REPORT CONTINUED

We have reduced operating costs across all areas of the business, be it by operating segment or expense type. This has been accomplished by undertaking a rigorous review and reappraisal of the cost base to ensure it is appropriate for both today's market environment and future, stronger market environments. This programme is ongoing with examples of cost reductions to date achieved via improved operating models, utilising AI, enhanced procurement activities, and utilising data/MI to improve operational performance. The savings achieved in FY24 will provide a further uplift into the following year in addition to new initiatives that we have planned. I'm pleased with the progress we have made which has had the end customer impact core to decision-making to ensure we do not hamper our ability to capture demand when the market recovers.

Strategic update

Our strategy is to profitably and sustainably grow our core upholstery brands, DFS and Sofology, utilising all channels to create a seamless experience for our customers and to grow our share of the £5bn non-upholstery Home market. This growth is supported by utilising and enhancing our enabling platforms; technology and data, logistics, sourcing and manufacturing, and people and culture.

Our pillars

The DFS brand, which has a broad appeal offers a market-leading choice of products. Its trusted, friendly service and digital approach to connect our showroom, web and telesales channels enabling customers to shop their preferred way has continued to improve with post purchase NPS scores reaching record highs of 92.8%.

We have successfully broadened DFS's appeal to a wider range of customers over time. This has been facilitated, for example, by the addition of exclusive brand partnerships and through adapting our marketing strategy to focus more on improved product showcasing supported by improved showroom formats. Our exclusive brand sales now account for over 41% of total sales. The most recent addition to our exclusive brand partnerships in the period was Ted Baker and the three ranges launched have performed very well. We continue to develop new ranges to add to our existing exclusive brands such as the new Carlisle French Connection range. All these factors have supported the brand in consolidating recent market share gains. I'm also pleased to announce that we have recently launched a new exclusive partnership with La-Z-Boy which will be a great addition to our existing brand partnerships.

We adopt good governance practices to ensure our brands play to their relative strengths, targeting their customer segments accordingly to reduce the risk of cannibalising one another's sales.

Our Sofology brand offers an inspiring and exciting range of well targeted products that bring quality, style and luxury within reach and targets a slightly older demographic than the DFS brand.

Sofology over the year as a whole performed broadly in line with the wider market. Following a relatively tough start to the year we adapted the brand's retail pricing and introduced a number of new product ranges to provide an overall refresh to the Sofology proposition. These changes have had an almost instantaneous impact with the brand returning to order intake growth in the final quarter of the year.

To further bolster the brand's potential we plan to commence a refurbishment programme of the Sofology showroom estate in calendar year 2025 to modernise some of the older sites within the portfolio. These will be the first refurbishments carried out across the estate and we will adopt a test and learn approach to ensure we optimise the returns available. When we see a prolonged period of improving like for like performance and as our balance sheet strengthens we plan to continue our showroom roll out to grow the estate from the current 58 showrooms to 65-70 showrooms and have our target locations lined up.

The Home market represents a great opportunity for the Group to expand its addressable market to the wider £5bn Home (non-upholstery) market, first targeting the £3bn beds and mattress sub segment. As announced in our half year update we have completed the development of supporting infrastructure including a drop ship solution and warehouse management system that provide the foundations for growth. We have also expanded some of our exclusive brand partnerships to include beds as well as upholstery. We have decided to temporarily pause further investment into marketing to drive sales and instead focus our investments into our core upholstery offer in this period of weak market demand. Profitability in our Home offer has however stepped up, increasing year on year due to improved gross margins and lower operating costs. We continue to see great potential for the Group to drive incremental profits with limited further incremental investment as we target a 4% share in this market.

Our platforms

Our enabling platforms play a pivotal role in supporting the Group to deliver value. This is achieved through a number of means such as sourcing efficiently utilising the Group's scale, developing our market-leading delivery services and providing our highly motivated colleagues with data to drive insight and improved decision-making across the business.

Sourcing and manufacturing: We are aiming to improve our gross margins to our long term historical pre-pandemic level of 58% following a reduction across 2021 and 2022. This reduction resulted from rising input costs, freight rates and Bank of England base rates that were not fully passed on with a profit mark up. In addition, lower market volumes impacted the efficiency of our own and external manufacturing operations. We expect to deliver cost of goods savings through redistributing goods to optimise the cost and quality across our supplier base and in addition we expect further uplifts through reducing interest rates over time. We took the decision to close the smallest of our three manufacturing sites and one of our two wood mills in the first half of the financial period and redistributed production across the remainder of our supplier base. This resulted in cost savings that contributed to the 140 bps gross margin improvement in the period. These types of decisions are never straightforward and have significant impacts on our colleagues and other stakeholders. Following a consultation with 215 colleagues, we were able to retain 44 colleagues including at our recently formed sewing hub and we supported the remaining workforce through a comprehensive outplacement support service.

Technology and data: Our investments continue to centre heavily on utilising technology and data to improve the efficiency of our operations and the customer experience. We have recently undertaken the process of moving away from a number of legacy systems and implementing Google's contact centre AI platform in Sofology. This will help enable us to utilise AI in the future to further improve our customer service levels and optimise costs. To date we have automated the process to take customer payments over the phone as well as deliver a full self service customer delivery proposition. We see numerous opportunities ahead to reduce the number of customer contacts to enable our teams to focus on the more complex service situations. In the second half of the year we also successfully launched our proprietary Intelligent Lending Platform used in DFS, into Sofology. This has broadened the number of lending partners available to Sofology, increasing the probability of customers obtaining the credit that is right for them, reducing the time taken to deal with credit applications and reducing the cost to the Group of providing credit to customers.

Logistics: Last year we completed the remaining integration activities to combine and rationalise the logistics assets from the DFS and Sofology brands. Now the Sofa Delivery Company, which fulfils deliveries for both brands through utilising the same systems, distribution centre network, fleet and workforce is performing very strongly with key performance indicators such as vehicle fill, labour productivity and delivery failure rates all improving. This has both driven down costs significantly and improved the customer experience with post delivery NPS scores reaching record highs. We believe that we have created a valuable asset and there are additional opportunities available to further refine and improve performance.

People and culture: Our colleagues are the Group's most important asset. Ensuring the Group is a great place to work that has an open, collaborative and inclusive culture where people can be their best is key to our future success. We are constantly looking to evolve and improve our colleague experience and we have been focusing over the last year on colleague development. We have launched a number of programmes to help our people thrive and grow, for example by running a management academy programme within the Sofa Delivery Company to upskill over 150 colleagues, launching a Group leadership academy programme with monthly workshops attended by over 300 aspiring leaders and via developing finance academy courses led by subject matter experts. To help ensure everyone feels

CHIEF EXECUTIVE'S REPORT CONTINUED

welcome we have established six colleague networks and partnered with Diversity in Retail, enabling us to collaborate with other businesses and benefit from adopting best practices. We are constantly seeking to raise standards and I'm pleased to say we have achieved accreditation in the Inclusive Employers Standard.

Sustainability
In June this year we submitted our Net Zero strategy to the SBTi. We decided to shift our Net Zero target to before 2050, aligning with climate science and the UK government targets. I'm pleased to say that this year we have secured commitments from our manufacturing partners that cover 59% of our Scope 3 emissions to commit to developing their own science-based Net Zero plans.

Whilst making up a relatively low proportion of our total emissions I'm nevertheless proud that the consolidation of our delivery fleets, AI route planning tools, and driver efficiency training, as well as removing gas from our retail estate has delivered a significant reduction in our Scope 1 emissions. We are already making great strides to ensure our business can make the most of the opportunities of a circular economy to deliver sustainable performance for the Group (see pages 32 to 51 for more details).

Conclusion and outlook
I want to sincerely thank all of our colleagues for their enthusiasm and continued commitment to delivering a great service to our customers in what has been a very challenging period for the Group given the market conditions.

Despite the challenges that the business has seen, we are optimistic for the future and see signs that market growth could soon return. We expect recent improvements in housing transaction data and strengthening consumer balance sheets to lead to increased upholstery market demand across the FY25 financial year. In addition, thanks to the success we have had growing our gross margin and improving our operational efficiency, we expect to deliver profits in line with market consensus[1], weighted to the second half.

It is clear that the upholstery market has a long road to recovery given the 20% decline on pre-pandemic levels that we have seen. Despite the challenges we have faced, we remain confident that the business is well positioned to capitalise on market recovery. Given our strong market leadership position, the operational leverage in the business, our well invested asset base and negative working capital cycle we expect to deliver strong returns for our shareholders.

TIM STACEY
Chief Executive Officer
25 September 2024

1. Company derived market consensus for underlying profit before tax £23.2m.

We are the leading sofa retailer in the digital age

The Group has consolidated its position as clear market leader in challenging conditions.

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 £3.1bn (incl. VAT) in the calendar year 2023. 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 36%[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.

Market conditions are currently challenging with the UK upholstery market seeing a reduction in volumes and reaching record lows in FY24.

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 and from 32% to 36% in the 2020 to 2023 Covid pandemic and cost of living crisis (GlobalData).

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 August 2024 report. Market share calendar year 2023.

MARKET OVERVIEW CONTINUED

Market conditions are currently challenging with UK upholstery market demand levels at a record low driven by the cost of living crisis. Historically, the Group has been able to grow market share during economically challenging times.

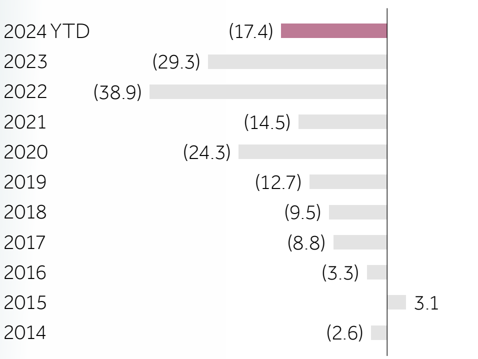
Key market drivers

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 recovered in 2021. Since then consumer confidence has been impacted by high inflation levels and elevated interest rates putting pressure on consumer budgets. In 2024 through to September there has been an improvement in confidence levels, albeit the scores remain volatile month to month.

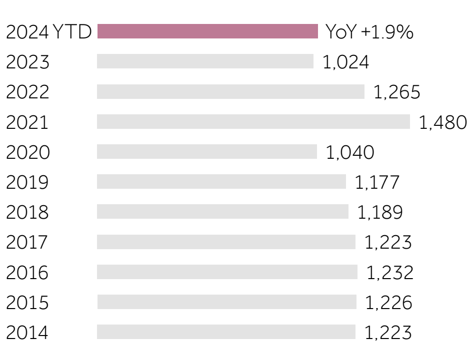
Housing market
Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. As the pandemic spread in spring 2020, government social distancing measures led to a sharp contraction in housing market activity, which subsequently bounced back in 2021 as a result of temporary government measures to reduce stamp duty payable on residential property purchases. Housing transactions since then have been impacted by higher Bank of England base rates and the cost of living crisis, however the July 2024 YTD position is in year on year growth following a recovery over the last four months.

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 been in growth since 2022.

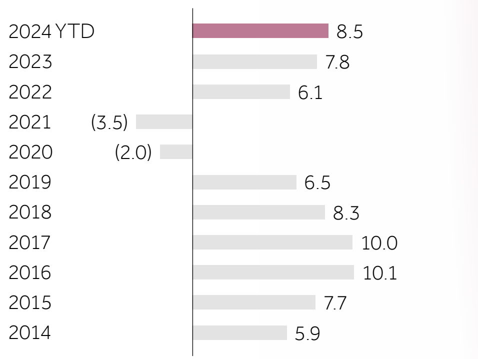
Consumer confidence[1]



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



Net unsecured lending growth[3] (%)



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

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

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

OUR CUSTOMER JOURNEY

The customer is at the heart of our Group journey

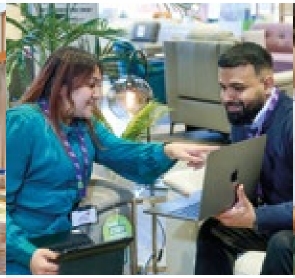
1 DESIGN & INSPIRE

Through our innovative in-house design teams and with our buying expertise we remain at the forefront of home furnishing trends with each of our brands offering a distinct curated range. We inspire consumers to consider a purchase through memorable advertising, inspirational web content and the use of augmented reality technology. Sustainability is a key feature in our product designs as we strive to meet the expectations of our customers by being responsible, ethical and sustainable in our products.

% of customers who research online

81%

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

173

3 CUTTING EDGE TECHNOLOGY

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

Reduction in customer calls from enhanced delivery arranging experience

7%

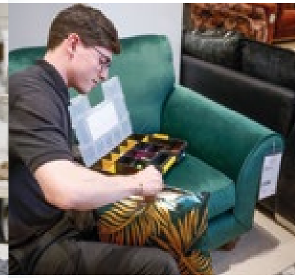
4 MANUFACTURING

We are one of the largest manufacturers of upholstered furniture in the UK. Our factories collectively produce around 18% of all the furniture we sell.

Orders manufactured in own factories

18%

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

253

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

56,800

BUSINESS MODEL

How we create value...

How we deliver 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.36%[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 55 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 18% 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.

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 high levels of 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
92.8%
DFS post purchase NPS

EMPLOYEES
38%
employees > five years' service

SUPPLIERS
33%
customer orders from British factories[2]

SHAREHOLDERS
£191m
net cash distributed since flotation[3]

COMMUNITY
£7.6m
raised since 2013 for BBC Children in Need through customer donations and fundraising initiatives

1. GlobalData August 2024 report. Market share calendar year 2023.
2. Includes third-party manufacturing and internal manufacturing.
3. Dividends and share buybacks net of 2020 equity raise.

OUR STRATEGY

Our vision is to lead furniture retailing in the digital age, and we pursue this through our 'Pillars and Platforms' strategy which will unlock new categories of growth, whilst leveraging our proven and leading upholstery market made-to-order model advantages.

The strategy of the business is made up of three pillars: our DFS brand, our Sofology brand and our expansion into the Home market. The growth of our three pillars will be enabled by our four Group platforms: sourcing and manufacturing, technology and data, people and culture and the Sofa Delivery Company logistics platforms.

The strategy reflects the Group's expertise and scale and the ability to utilise our enabling platforms to improve operational efficiency and 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.

ESG

Pillars

DFS & HOME

dfs HOME

Customer proposition and service innovation
New products and services to engage customers

Focus
- Range enhancements including successfully launching new brand partnerships
- Continued improvement of established customer NPS scores
- Invest to grow beds and mattress sales when core upholstery market demand recovers, leveraging the foundations already laid

SOFOLOGY

sofology

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

Focus
- Like-for-like sales growth
- Roll out of showrooms on the route to targeted 65-70 locations when market recovers
- Continued improvement of established customer NPS scores

Platforms

TECHNOLOGY AND DATA
Using data and technology to unlock growth in our brands

Focus
Development and enhancement of customer contact platforms, introducing AI to improve the customer experience

LOGISTICS
Best in market two person delivery and installation

Focus
Continue to optimise operational performance

SOURCING AND MANUFACTURING
Optimising our supplier portfolio

Focus
Grow gross margin rate to 58%

PEOPLE AND CULTURE
Delivering fundamental cultural change

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

ESG

RETAIL

Best experience
Biggest range and the critical 'sit test':

88%
of DFS customers visit a store before buying

Best in store service

92.8%
DFS post purchase NPS

Best sales teams

91%
people would recommend Sofology having purchased within a Sofology showroom

DIGITAL

Best online brand strength
'DFS' is searched for

1.8x
more than the term 'sofas'

81%
of showroom customers research online before coming in to a showroom

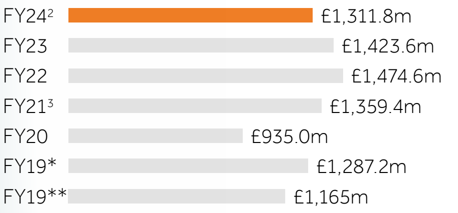
Best enhanced technology
The largest collection of augmented reality (AR) assets accessed through a web browser in the furniture category

Best ecommerce platform
Enhancement of the online experience through the use of AI

KEY PERFORMANCE INDICATORS – FINANCIAL

Gross sales[1]

£1,311.8m

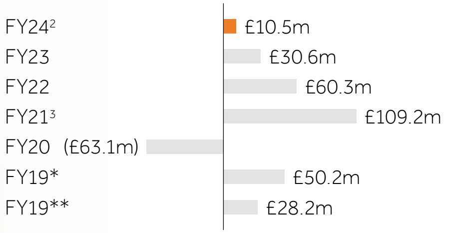


Description
Gross sales represents the total amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Performance
Decline in sales due to reduced levels of market demand.

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

£10.5m

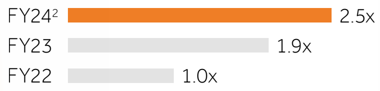


Description
Profit before tax adjusted for non-underlying items and amortisation associated with acquired brands.

Performance
Decrease due to the lower level of gross sales and revenue.

Banking leverage[1]

2.5x

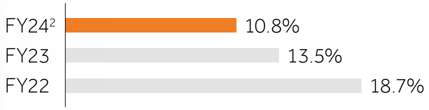


Description
Refer to APMs on pages 19 and 20.

Performance
Increase driven by lower EBITDA and an increase in net debt, partly due to temporary working capital movements.

Underlying return on capital employed[1]

10.8%

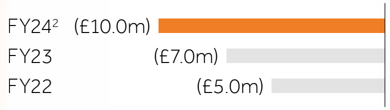


Description
Underlying return on capital employed ('underlying ROCE') is underlying post tax profits expressed as a percentage of the sum of property, plant and equipment, computer software, right of use assets and working capital.

Performance
Decrease driven by lower profit in the period.

Underlying free cash flow to equity holders[1]

(£10.0m)



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 normalising as well as the lower relative profits in the period. Further working capital outflow in week 53 of FY24 due to additional rent and VAT payments made relative to 52 week periods. Excluding the working capital movement, FY24 free cash flow was £7.5m (FY23: £29.4m).

Key

- * 52 weeks pro forma.
- ** 48 weeks reported.
1. Refer to pages 19 and 20 for APM definitions.
2. 53 week period.
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.

KEY PERFORMANCE INDICATORS – NON-FINANCIAL

Net Promoter Score (%) – Post purchase customer satisfaction

92.8%

FY24	92.8%
FY23	91.3%
FY22	86.3%

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

Performance
Significant year on year increase to a record high level.

Strategic links

Suppliers – Average days to pay

48.5 days

FY24	48.5
FY23	39.4
FY22	35.8

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

Performance
Increase from FY23 due to standardisation of key supplier terms.

Strategic links

Sofology UK stores

58

FY24	58
FY23	58
FY22	55

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

Performance
Showroom openings temporarily paused until market demand recovers.

Strategic links

Net Promoter Score (%) – Established customer satisfaction

28.3%

FY24	28.3%
FY23	18.6%
FY22	11.7%

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

Performance
A second year of improvement since FY22 which was heavily impacted by pandemic related shipping disruption, HGV reliability and extended manufacturing lead times.

Strategic links

Suppliers – % paid on time

77.1%

FY24	77.1%
FY23	73.8%
FY22	72.0%

Description
Percentage of supplier invoices paid within agreed terms.

Performance
Increase from FY23 driven by continuous improvement within the operational teams.

Strategic links

Key to strategic links

- Sourcing and manufacturing
- Technology and data
- Logistics
- People and culture

FINANCIAL REVIEW

Focus on strengthening profits and cash flow

The Group's financial performance in FY24 has been heavily impacted by the decline in market demand levels and in the second half by Red Sea related shipping disruption. This has required decisive actions to protect profitability and cash flow, whilst maintaining our position as the clear market leader.

We saw order intake decline by 1.8% for the year in challenging market conditions, with market order volumes down over 20% compared with the pre-pandemic period.

After positive growth in our first quarter summer sale trading period, we saw customer footfall and order intake decline year on year through the second and third quarters, including the important winter sale trading period (January to mid-March). However, within this period we did record good positive order intake growth across our guaranteed Christmas delivery campaign, supported by increased customer choice on 7-10 day express delivery ranges. In the final quarter of the period, we were pleased to see order intake growth improve to +8.4% as we annualised weaker comparatives and following actions in Sofology to strengthen product ranging and pricing, and in DFS to reintroduce 4 years interest free credit at select times.

Basis of preparation
The reporting period covers 53 weeks to 30 June 2024 (FY24). As a result of the adverse impact from Red Sea shipping delays in quarter four, the net effect of the additional week on reported revenues in FY24 is relatively low (+c.£7m year on year) and the profit impact is not significant. Consequently, other than order intake growth metrics we have not included 52 week pro forma numbers for FY24. Year on year order intake has been calculated by comparing the first 52 weeks of the 53 week financial period to the 52 week comparator period.

Revenue and gross sales

£m	FY24	FY23	YoY
Gross sales			
DFS (incl. Dwell)	**1,047.0**	1,125.5	(7.0%)
Sofology	**264.8**	298.1	(11.2%)
Total gross sales	**1,311.8**	1,423.6	(7.9%)
Digital sales %	**24.3%**	24.0%	
Revenue	**987.1**	1,088.9	(9.3%)

Total gross sales, which are recognised on delivery of orders to customers, decreased by 7.9% year on year to £1,311.8m with both brands reporting a decline on prior year. The broader appeal of the DFS proposition supported a relatively better sales performance, whilst Sofology sales were more closely aligned with the market.

Gross sales saw a higher rate of decline than order intake as a result of Red Sea disruption deferring £12m of deliveries into FY25 and the higher order bank at the start of the comparative period converting into sales.

JOHN FALLON
Chief Financial Officer
Bio on **page 52**

FINANCIAL REVIEW CONTINUED

Digital sales mix increased slightly by 0.3ppts year on year to 24.3%. Our market research consistently indicates the majority of consumers utilise both channels in their shopping journey and we have a well-invested asset base across both physical and digital sales channels enabling a seamless customer experience.

Group revenue of £987.1m was 9.3% lower than the prior year (£1,088.9m). The rate of decline is greater than the gross sales reduction due to the higher cost of providing interest free credit.

Interest free credit remains an important part of our overall customer value proposition. The increased cost is a result of higher Bank of England base interest rates and to a lesser extent an increase in the mix of sales made on credit, all partially offset by the impact of reducing our maximum every day interest free credit offer from 48 months to 36 months from March 2024.

Gross profit
Gross profit of £550.8m was £41.4m (7.0%) lower year on year, primarily due to the revenue shortfall.

We delivered good further progress on gross margin rate in the year, whilst continuing to offer customers market-leading quality, choice and value. As a percentage of revenue, gross margin in the period was 55.8% (FY23: 54.4%), an increase of +140bps year on year (in addition to the 170bps increase in FY23).

The margin improvement was supported by our decision to close our smallest manufacturing facility and woodmill in the first half of the year, which enabled us to shift production volumes across our supplier base and reduce our cost of goods, contributing to an overall product margin improvement of c.£9.8m. This decision was disclosed as a post balance sheet event in our FY23 annual report.

In addition, average freight rates across the period were significantly lower than the prior year which helped to partly offset the adverse impacts of higher interest free credit costs and a lower USD rate applied to our Far East purchases. The net impact across these items was a net reduction to gross margin of c.£5.1m. Despite being lower year on year, freight costs were higher than we expected in the final quarter of the year as a result of Red Sea disruption related increases.

The margin rate in the second half was below our expectations as we responded to the weak market conditions with additional promotional activity, together with the Red Sea related freight cost increases noted above.

Whilst the near term freight market is expected to remain volatile and hard to forecast, we are confident that our scale and buying processes will enable us to continue to secure market-leading rates.

We continue to see opportunities to grow gross margin rate, supported by further cost of goods efficiencies across our supply chains and as lower Bank of England rates reduce interest free credit costs (on an annualised basis a 1% change in base rates equates to £7m-£8m cost impact).

We hedge our USD FX requirements with 90% of our expected USD spend currently hedged at a rate that is 4 cents favourable to the FY24 average rate paid. Every 1 cent movement in the USD rate equates to a c.£1.1m change in costs to the Group.

Selling, distribution and administration costs
Underlying selling, distribution and administration costs totalled £408.8m (2023: £434.8m), representing 31.2% of gross sales (2023: 30.5%).

We continue to work hard to bring down our operating costs across the business, and we are making good progress towards the £50m operating efficiencies target we set at the end of FY23. Whilst this requires some difficult decisions, it has helped to protect profitability in the current period and sets the business up for stronger future returns.

The £26.0m reduction in costs included £8.8m of volume related variable costs and £22.0m of savings from more efficient operating models across our stores and online sales teams, logistics and manufacturing operations, customer service teams and across other central support functions. This includes the Sofa Delivery Company, where we are seeing strong improvements in customer and operational KPIs, at the same time as significantly lowering costs through a combination of productivity improvements, a reduction in third-party fulfilment partners and further consolidation of operational distribution centres. In addition, we reduced marketing by £3.8m in the period, principally through reducing our investment in driving the awareness of our Home ranges until market conditions recover.

Inflationary cost increases were contained to c.£12.0m (3%), mainly relating to wages. This increase was partly offset by £4.7m of cost avoidance and one-off savings including rebates on historical business rates, and through not paying a financial performance-related bonus to senior management and our central support teams.

Looking forward, we are confident we have line of sight to additional cost efficiencies that can help us to offset future expected inflationary cost pressures.

Depreciation, amortisation, impairment and underlying net finance cost
Depreciation, amortisation and underlying interest charges have increased by £4.7m to £132.9m (2023: £128.2m).

Underlying net interest increased by £7.0m to £41.1m (2023: £34.1m) as a result of the higher cost of debt servicing due to the higher average SONIA rates and a higher average net debt level through the period.

Depreciation, amortisation and impairment costs reduced £2.3m. Lower depreciation charges and impairment on right of use assets arose as a result of the consolidation of our distribution centre network and associated lease exits in the prior period and renegotiating property leases approaching expiry to lower rent levels.

Non-underlying costs

FY24 (£m)	Income statement	Cash outflow
Restructuring costs	6.5	4.1
Land slippage costs	3.1	0.2
Release of lease guarantee	(0.7)	–
Refinancing costs	1.9	0.8
Total	**10.8**	**5.1**

Non-underlying costs for the year were £10.8m (2023: benefit of £0.5m), including £5.1m of cash outflows in the year.

£6.5m of costs were incurred in relation to the restructuring of our manufacturing operations and central support functions in response to lower demand and to enable productivity improvements. This consists of redundancy and termination costs totalling £4.1m, non-cash write-off losses totalling £2.0m and other closure costs totalling £0.4m.

£1.9m of costs were incurred upon refinancing our banking facilities in September 2023, with the majority of this cost covering the write off of unamortised issue costs. The cash outflows associated with these activities totalled £0.8m.

£2.9m of non-cash costs and £0.2m of cash costs relate to a provision made for expected remediation works required to an area of land slippage identified at one of our remaining manufacturing sites. We expect the necessary works to be carried out and paid for in FY25.

£0.7m of non-cash lease guarantee provision release associated with former subsidiary companies partly offsets the above costs.

Profits, tax and earnings per share
Reported loss before tax for the 53 week period to 30 June 2024 was £1.7m (FY23: profit of £29.7m). Reported loss after tax for the period was £4.4m (FY23: profit of £26.2m).

The tax charge recognised in the financial statements was £3.0m (FY23: £7.1m) despite there being a reported loss for the period. This is primarily due to disallowable depreciation on non-qualifying assets. The Group updates its Tax Strategy Statement each year, which is 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.

Underlying profit before tax and brand amortisation was £10.5m, which is £20.1m lower than the comparable period (FY23: £30.6m). This reflects record low market demand levels and higher interest costs, partly offset by gross margin improvements and operating cost savings.

Basic underlying earnings per share from continuing operations was 1.5 pence (FY23: 9.6 pence).

FINANCIAL REVIEW CONTINUED

Cash flow, net debt and lending facilities

Net bank debt in the period increased from £140.3m to £164.8m.

£m	FY24	FY23
Underlying EBITDA	**142.0**	157.4
Other*	**1.2**	6.6
Capital expenditure	**(21.6)**	(34.9)
Interest	**(18.4)**	(10.3)
Tax	**(3.0)**	(0.7)
Principal and interest paid on lease liabilities	**(92.4)**	(85.1)
Working capital	**(17.8)**	(40.0)
Underlying free cash flow	**(10.0)**	(7.0)
Non-underlying items	**(5.1)**	(0.3)
Free cash flow	**(15.1)**	(7.3)
Shareholder returns	**(9.4)**	(43.0)
Cash flow	**(24.5)**	(50.3)
Closing net bank debt	**(164.8)**	(140.3)

* Other includes discontinued operations, gains on disposal of right of use assets, profit on disposal of fixed assets, FX revaluations and share based payments expense.

Cash capital expenditure of £21.6m in the period reduced from £34.9m in FY23 and £25-£30m guided at the start of FY24, as the business took a more disciplined approach to capital spend prioritisation in response to the more challenging market conditions and our lower profit expectations. Approximately 50% was incurred on maintenance activities. Growth investment was predominantly incurred on technology investments to enhance the customer experience and support our operational efficiency. In addition, one new DFS showroom was opened in Greenwich and we refurbished one DFS showroom (59 showrooms completed over the last five years). £9.8m of capital expenditure was also incurred on leased motor vehicle additions (FY23: £8.7m) which includes company cars and commercial vehicles.

Cash interest paid increased £8.1m year on year and non-underlying cash costs of £5.1m were incurred due to the reasons provided above.

Total working capital outflow in the period was £26m inclusive of additional rent payments included in the lease liabilities line. £13m of the outflow is due to additional VAT(£5m) and rent (£8m) payments in this 53 week accounting period relative to 52 week periods. These outflows will reverse in future periods. The remaining working capital outflow is due to the lower level of trading activity in the period. We expect our negative working capital model to result in working capital cash inflows when market demand recovers.

In September 2023 we successfully completed the refinancing of our debt facilities, increasing the total amount available from £215m to £250m. The facilities comprise a £200m revolving credit facility with a syndicate of banking partners which is in place until September 2027, with a further 16-month extension option, and £50m of US private placement notes with redemption dates split equally between September 2028 and September 2030.

The facility is subject to half yearly covenant tests of 3.0x maximum leverage net debt/EBITDA and 1.5x minimum fixed charge cover (both measured on an IAS 17 basis), which we have fully satisfied during FY24, ending the period with leverage of 2.5x[1] and fixed charge cover of 1.57x.

Whilst the Group expects to stay within the existing facility covenants, in September 2024 we agreed a widening of covenants with our lenders, which provides additional headroom in the event of unanticipated downside scenarios that result in a further decline in market volumes and lower EBITDA.

The amended leverage covenant widens to 3.9x at H1 FY25 and 3.7x at FY25, before returning to 3.0x at H1 FY26. The amended fixed charge cover covenant widens to 1.3x at H1 FY25, 1.3x at FY25 and 1.4x at H1 FY26, before returning to 1.5x at FY26. The revised covenant agreement includes some limited restrictions on the payments of future dividends as detailed in the note opposite.

Dividends

The Board does not propose a final FY24 dividend. Our interim dividend of 1.1 pence per share was predicated on delivering a higher full year underlying profit than we achieved. Based on our dividend cover policy of 2.25x-2.75x underlying EPS, the interim dividend has already covered the implied full year total dividend. Furthermore, this is consistent with our current leverage position and our focus on reducing leverage and net debt over time to our 0.5x-1.0x target range.

Outlook

After two challenging years of market and Group revenue declines, we see increasing reasons to be optimistic about a return to top line growth over the course of the year ahead. However, we are planning prudently with a focus on generating increased profits and free cash flow through improved commercial and operating performance, additional cost efficiencies and disciplined management of our working capital and capital expenditure. In the medium term as the market recovery accelerates, we are confident of generating strong returns for our shareholders.

JOHN FALLON
Chief Financial Officer
25 September 2024

1. Refer to pages 19 and 20 for APM definitions.
2. Covenant amendment dividend terms:
   A maximum £2.0m dividend may be declared in respect of H1 FY25 performance (i.e. FY25 interim dividend) subject to:
   – Leverage at the December 2024 assessment being less than 2.50x and fixed charge cover being greater than 1.50x; and
   – For the future two tests, leverage is forecast to be less than 2.50x and fixed charge cover is forecast to be greater than 1.60x (after dividend payments).
   Any subsequent dividends declared during the remainder of the covenant amendment period are subject to:
   – Leverage being less than 2.50x at the last test and is forecast (after the payment of such dividend) to remain below 2.50x at each of the next two tests; and
   – Fixed charge cover being greater than 1.60x at the last test and is forecast (after the payment of such dividend) to remain above 1.60x at each of the next two financial covenant tests.
   Subject to lender consent we retain the right to revert to the previous covenant terms at any time.

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 glossary and definitions

APM	Definition	Rationale
Gross sales	Amounts payable by external customers for goods and services supplied by the Group, including the cost of interest free credit and aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.	Key measure of overall sales performance which unlike IFRS revenue is not affected by the extent to which customers take up the Group's interest free credit offering.
Brand contribution	Gross profit less selling and distribution costs, excluding property and administration costs.	Measure of brand-controllable profit as it excludes shared Group costs.
Adjusted EBITDA	Earnings before interest, taxation, depreciation and 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.	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, 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.	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, shared 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 (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 activities, expressed as a percentage of the sum of: property, plant and 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

Reconciliations to IFRS measures

Adjusted EBITDA	Note	FY24 £m	FY23 £m
Operating profit from continuing operations	2	**41.3**	63.8
Depreciation	3	**77.8**	80.5
Amortisation	3	**13.7**	11.6
Impairments	3	**0.3**	2.0
Adjusted EBITDA from continuing operations		**133.1**	157.9

Underlying EBITDA	Note	FY24 £m	FY23 £m
Adjusted EBITDA from continuing operations		**133.1**	157.9
Non-underlying operating items	3	**8.9**	(0.5)
Underlying EBITDA from continuing operations		**142.0**	157.4

Underlying profit before tax and brand amortisation – PBT(A)	Note	FY24 £m	FY23 £m
(Loss)/profit before tax from continuing operations	2	**(1.7)**	29.7
Non-underlying items	3	**10.8**	(0.5)
Amortisation of brand names	10	**1.4**	1.4
Underlying profit before tax and brand amortisation		**10.5**	30.6

Net bank debt	Note	FY24 £m	FY23 £m
Interest bearing loans and borrowings	18	**187.4**	165.8
Unamortised issue costs	18	**1.6**	1.2
Cash and cash equivalents (including bank overdraft)		**(24.2)**	(26.7)
Net bank debt		**164.8**	140.3

Movement in net bank debt	FY24 £m	FY23 £m
Closing net bank debt	**(164.8)**	(140.3)
Less: Opening net bank debt	**140.3**	90.0
Movement in net bank debt	**(24.5)**	(50.3)

Underlying free cash flow to equity holders	Note	FY24 £m	FY23 £m
Movement in net bank debt		**(24.5)**	(50.3)
Dividends	21	**9.4**	12.1
Purchase of own shares		**–**	30.9
Non-underlying cash items included in cash flow statement		**5.1**	0.3
Underlying free cash flow to equity holders		**(10.0)**	(7.0)
Exclude:			
Working capital outflow		**17.8**	40.0
Operating result from discontinued operations	29	**(0.3)**	(3.6)
Underlying free cash flow to equity holders excluding operating result from discontinued operations and working capital outflow		**7.5**	29.4

Leverage	Note	FY24 £m	FY23 £m
Net bank debt (A)		**164.8**	140.3
Net cash from operating activities before tax	26	**118.9**	122.4
Add back:			
Pre-tax non-underlying items		**10.5**	(4.3)
Less:			
Movement in trade and other receivables	26	**0.9**	(13.2)
Movement in inventories	26	**3.2**	(8.6)
Movement in trade and other payables	26	**15.9**	55.8
Movement in provisions	26	**(2.2)**	6.0
Payment of lease liabilities		**(67.6)**	(61.6)
Payment of interest on leases		**(24.8)**	(23.5)
Cash EBITDA (B)		**54.8**	73.0
Leverage (A/B)		**3.0x**	1.9x
IAS 17 bank covenant difference		**(0.5x)**	–
Bank leverage		**2.5x**	1.9x

FY24 cash EBITDA is materially different from bank covenant IAS 17-based EBITDA due to week 53 cash flows.

Underlying return on capital employed from continuing operations	Note	FY24 £m	FY23 £m
Operating profit from continuing operations		**41.3**	63.8
Non-underlying operating items		**8.9**	(0.5)
Pre-tax return		**50.2**	63.3
Adjusted effective tax rate[1]		**25.0%**	22.6%
Tax adjusted return (A)		**37.7**	49.0
Property, plant and equipment	8	**83.8**	97.4
Right of use assets	9	**315.0**	312.6
Computer software	10	**19.6**	22.0
		418.4	432.0
Inventories	14	**59.0**	55.8
Trade receivables	15	**6.7**	7.7
Prepayments	15	**4.0**	3.0
Accrued income	15	**0.1**	0.1
Other receivables	15	**1.2**	0.3
Payments received on account	16	**(40.9)**	(39.1)
Trade payables	16	**(100.4)**	(97.6)
Working capital		**(70.3)**	(69.8)
Total capital employed (B)		**348.1**	362.2
Underlying ROCE from continuing operations (A/B)		**10.8%**	13.5%

1. Effective tax rate for FY24 has been adjusted to eliminate the disproportionate impact of disallowable depreciation on non-qualifying assets in the year.

RISKS AND UNCERTAINTIES

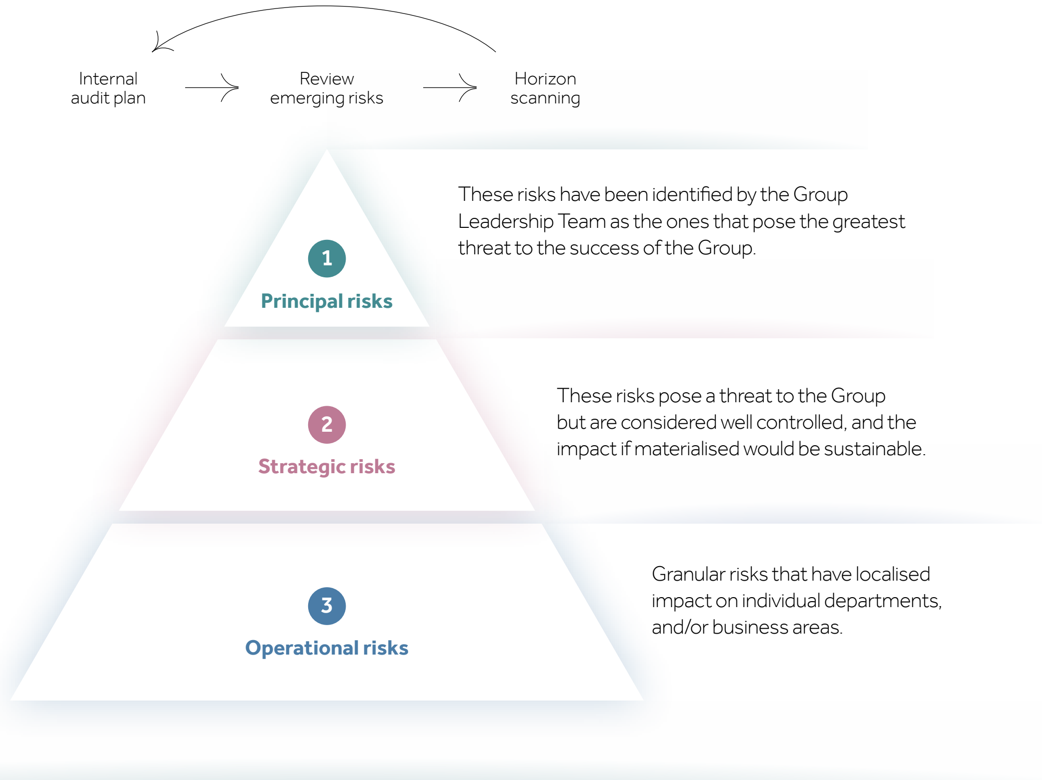
Taking risks is an inherent part of doing business. To manage that risk our Group Leadership Team supported by our Group Risk function has developed effective risk management processes to ensure good risk management is integrated into our business decision-making.

Identification of risks
The Group continues to develop its risk management processes, fully integrating risk management into business decision-making. The Group Risk Team supports the Group Leadership Team ('GLT') and the risk owners in identifying the risks and ensuring they have the relevant processes and controls in place to manage the risks effectively. The team works with the business units responsible for the ongoing identification, assessment and management of their existing and emerging risks. The output of these assessments is aggregated to compile an overall Group level view of risk, utilising both external risk management software and feeding into our internal dashboards to provide greater accessibility and awareness at senior levels. The team is committed to supporting the business in providing support and coaching to further strengthen risk culture within the Group.

The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives and oversees the implementation of processes to manage these risks by the GLT and operational management. The Group risk register details the existing risks facing the Group, emerging risks arising and horizon risks to be considered and monitored. The Group has identified nine principal risks which are reviewed formally with the risk owners, the GLT and Board throughout the 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 GLT, with strategic and operational risks being owned and managed by the senior management team. The Audit and Risk Committee, delegated by the Board, is responsible for the review of the effectiveness of the internal control framework.



RISKS AND UNCERTAINTIES CONTINUED

Management and mitigation of risk by the GLT is determined by a Group risk appetite agreed by the Board. The Group Governance and Risk Committee ('GRC') meets monthly to review changes in the regulatory/legal landscape and the Group's key risks and concerns. Further details of the work of the GRC are set out on page 55 of the Corporate Governance report.

An example of this is the support the Risk team and the Health and Safety team have jointly provided to the Sofa Delivery Company leadership team which has resulted in risk management being embedded in all day to day operations, and every strategic change program. The cross working of the different functions has resulted in a more rounded and informed view of risks.

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 in the following pages, 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. The Group continuously considers and reviews the risks and if there are additional controls that could be implemented to reduce or better manage particular risks these will be considered in line with the Group's risk appetite.

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 and Risk Committee. As a result of these reviews, although there are no additional risks the current risks have been updated to ensure they reflect the risks the Group currently faces.

The cyber risk has been expanded to include the risks associated with data, including accuracy and use.

Due to changes in the internal leadership responsibilities it was agreed to focus the previous ESG risk clearly on the environment and sustainability, whilst the previous risk regarding lack of skilled workers has been expanded to become a people and culture risk to include social risks, community, culture, values and wellbeing.

Risk heat map
The impacts of identified risks are measured against predefined criteria in a number of areas – Financial, Operational, Health & Safety, Legal and Regulatory, and Technology – to establish a robust and objective assessment. The heat map 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, and shows the year on year movement in the risk assessment.

Principal risks

1 Financial risk and liquidity
2 Regulatory and compliance
3 Cyber security and data
4 Supply chain and manufacturing resilience
5 Macroeconomic uncertainty
6 Environmental and sustainability
7 People and culture
8 Consumer proposition and industry competition
9 Business change

1 2024
1 2023

RISKS AND UNCERTAINTIES CONTINUED

Platforms: Sourcing and manufacturing | Technology and data | Logistics | People and culture

Movement: Increase | Unchanged | Decrease

Principal risk

FINANCIAL RISK AND LIQUIDITY

Strategic link	Movement
	Increase

What is the risk?
Accuracy of reporting and adequate access to liquidity is key to delivering the strategy. Any impact on the Group's working capital requirements may result in insufficient headroom and an inability to access debt or equity financing which will directly affect the ability to enact the Group strategy.

Potential impact
- Failure to comply with banking covenants could lead to immediate cash flow and going concern issues.
- If insufficient headroom is maintained, liquidity challenges will be encountered.
- Macroeconomic environment and Company performance may lead to working capital swings, liquidity challenges and may impact ability to obtain financing.
- Risk of facility maturity with no new facility in place.
- Inaccurate financial reporting resulting in a failure to manage cash flow and pay our suppliers and providing insufficient fraud protection.

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.

FY24 progress
- A near term widening of the Group's banking covenants has been agreed to reduce the risk of covenant non-compliance and therefore ensure continued availability of funds.

Principal risk

REGULATORY AND COMPLIANCE

Strategic link	Movement
Technology and data; People and culture	Unchanged

What is the risk?
We operate in an increasingly regulated environment and must comply with a wide range of laws, regulations, standards and guidance. Failure to comply with or to take appropriate steps to prevent a breach of these requirements could result in formal investigations or prosecutions, legal and/or financial penalties, reputational damage and loss of business. It is essential that as a Group we are aware and can fulfil all our obligations in the regions in which we operate, the UK and the Republic of Ireland.

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.
- The Group's reputation could be negatively impacted if it fails to support customers in the purchase of regulated products.

Mitigation
- Comprehensive training and monitoring programmes (including individual colleague NPS, internal audits and mystery shopping programme) are in place to ensure employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance.
- Management information provided to management teams to identify issues and take relevant action.
- Strong working relationships with our financial services and insurance providers to ensure we work together to meet regulations and support customers.
- Rigorous oversight and escalation processes in place to maintain status of limited permission to offer consumer finance granted by the Financial Conduct Authority.
- Review of regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation.
- Escalation of relevant matters to the Audit and Risk 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 ensuring they have the correct level of knowledge and skill to support our customers in their sales journey.

FY24 progress
- The introduction of Consumer Duty has placed a higher focus on demonstrating good customer outcomes and all activities are under ongoing review to ensure we continue to deliver these.

RISKS AND UNCERTAINTIES CONTINUED

Platforms: Sourcing and manufacturing | Technology and data | Logistics | People and culture

Movement: Increase | Unchanged | Decrease

Principal risk

CYBER SECURITY AND DATA

Strategic link	Movement
Technology and data	Increase

What is the risk?
Our data and our IT systems enable us to fulfil our obligations to customers and manage our operations. Ensuring we both protect our data, and utilise it effectively is necessary to deliver our strategy. If a critical system, or our business data was not available, regardless of the cause, it could impact our operations, result in a loss of sales as well as incur regulatory penalties and reputational damage.

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.
- Failure to utilise data effectively, or inaccurate data could result in poor decisions being made which impact the performance and growth of the Group.

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 are regularly reviewed and updated, including by third-party experts, the results of which are reported to the Board.
- Third-party penetration testing is 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.
- Ongoing review of data within the business to ensure we can continue to make informed and effective decisions.

FY24 progress
- Continued to transform and educate our Human Firewall through improved user password strength and complexity, annual mandatory training along with a programme of phishing simulations.
- Enterprise backup solution in place (with regular testing) across the whole of the estate (on premise and cloud) which manages, verifies and securely stores our backups offsite which provides immutability and enhanced controls against ransom-ware attacks.
- Industry leading Manage, Detection, Response and SOC services from a Global enterprise company, increased scope of AI detection and response to include business communications systems. Vulnerability management tools have also been upgraded to an industry-leading solution to drive improved vulnerability remediation.
- Annual pentest covered the widest scope to date, including such areas as web applications internally and externally delivered, physical security and remote access.

Principal risk

SUPPLY CHAIN AND MANUFACTURING RESILIENCE

Strategic link	Movement
Sourcing and manufacturing; Logistics	Increase

What is the risk?
We are reliant on external suppliers, worldwide to provide our finished products to customers or supply raw materials for our UK manufacturing sites. If that supply chain is affected by availability, labour shortages, transport details or failure of a key supplier, this could increase the costs to the business or impact our ability to fulfil customer orders.

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 are maintained in order to manage uncertainty of prices and volumes in the container shipping industry, particularly in relation to deliveries from the Far East.
- Long standing relationships backed by contracts with our key suppliers and the introduction of a stocked model with the brands.

FY24 progress
- Despite the challenges noted, the mitigating actions already in place has meant the situation has been well managed, supported by strong customer NPS scores.
- The Group's supply chain from the Far East has been impacted by the Red Sea conflict resulting in cargo vessels routing around Africa adding circa two weeks onto transit times.
- The shipping route around Africa reduced market capacity and there was a spike in general demand which resulted in the market rates volatility.
- The Group was subject to some surcharges levied by our carrier partners which increased our freight costs versus forecast.
- Customer lead times were extended to account for the longer transit times mitigating any customer impact but deliveries realised in the financial year were impacted.

RISKS AND UNCERTAINTIES CONTINUED

Platforms: Sourcing and manufacturing | Technology and data | Logistics | People and culture

Movement: Increase | Unchanged | Decrease

Principal risk

MACROECONOMIC UNCERTAINTY

Strategic link	Movement
	Increase

What is the risk?
Unexpected or difficult to forecast external factors have increasingly impacted the business environment which the Group operates in. These external factors have included the ongoing consequences of the pandemic, a cost of living crisis, high levels of wage inflation, the invasion in the Ukraine and the ongoing situation in the Middle East. High interest rates, increasing the cost of providing IFC and the cost of debt, and depressing the level of housing marketing. Looking forward there remains the potential for more global geopolitical and economic uncertainties. This can lead to unpredictable supply chains, trading performance and financial results, especially in a market for big ticket, discretionary spend items, all of which can then have a negative impact on performance.

Potential impact
- High inflation, interest rates and global recessionary pressures could result in rising credit risks and a continued fall in consumer demand.
- Conflicts in other countries including the Ukraine intensifies and/or widens into other geographies leading to barriers to trade or rising costs.
- Rising political and economic tensions between China and the west lead to barriers to trade or rising costs.
- High interest rates could result in unaffordably high costs of borrowing.
- Higher oil prices may lead to higher fuel and energy prices.

Mitigation
To minimise the impact of macroeconomic uncertainty on the Group there is a clear focus on what we can control including:
- 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.

FY24 progress
- The Group has amended its approach to interest free credit reducing the standard offer to 3 years increasing it to 4 years to support peak sale periods and give customers flexibility in their purchase choices.
- The Group has been focussed on reducing its cost base, and has implemented an operational efficiencies programme across all areas.

Principal risk

ENVIRONMENTAL AND SUSTAINABILITY

Strategic link	Movement
Sourcing and manufacturing; Technology and data; Logistics; People and culture	Unchanged

What is the risk?
Failure to anticipate and address positively the strategic, regulatory impact our operations have on the environment would fall short of the expectations of our key stakeholders, including our customers, colleagues, investors and regulators which could lead to reputational damage and financial loss. An inability to anticipate and mitigate environmental risks could cause disruption in the availability and quality of raw materials such as leather and timber, affecting production capacity, product quality, and overall supply chain resilience, leading to a significant increase in costs.

Potential impact
- Financial penalties relating to disclosure requirements and legislation breaches.
- Poor risk rating received by risk analysts devaluing the business impacting share price.
- The product is unattractive to consumers resulting in loss of sales/revenue.
- Climate impacts to operations or wider value chain, resulting in operational costs.
- High capital expenditure requirements to transition costs to new technologies.
- Reputational risk due to unethical practices within the value chain.

Mitigation
- Full transparency and traceability of higher risk material value chains with ongoing due diligence audits to mitigate risk.
- Robust data monitoring and reporting, aligned to key reporting frameworks.
- Carbon reduction plan developed with value chain engagement and support.
- Ongoing consumer sentiment monitoring to identify risks and opportunities of product and commercial offering.
- Strong governance in place on environmental strategy including audit and risk controls.
- External audit and certification of suppliers of goods for resale and external assurance on reported carbon emissions.

FY24 progress
- Engaged wider value chain in Net Zero strategy, garnering support to submit to the SBTi.
- Developed commercial models to ensure sustainable performance throughout transition to Net Zero.
- Developed innovative solutions to manufacture low carbon product.
- Achieved significant reductions in Scope 1 against FY19 baseline.
- Created a new ESG Committee with senior leaders to ensure good governance of ESG risks and opportunities.

RISKS AND UNCERTAINTIES CONTINUED

Platforms: Sourcing and manufacturing | Technology and data | Logistics | People and culture

Movement: Increase | Unchanged | Decrease

Principal risk

PEOPLE AND CULTURE

Strategic link

Movement

What is the risk?
We aim to create an inclusive workplace with a positive contribution to the communities we serve as well as all our stakeholders, including our customers, colleagues, communities and suppliers, and creating a 'great place to work'. We need to ensure we have the right skills for today and the future. To do this effectively we need to ensure we live our values, creating a culture that continues to meet the expectations of our colleagues and stakeholders by responding to external pressures and working with everyone to develop an inclusive and diverse workplace. Failing to do this could impact business performance, the delivery of our purpose, our strategy and the long-term sustainability of our business.

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 resources 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.
- A focus on training and developing colleagues within the Group to provide opportunities for colleagues to 'grow' and progress internally.
- Regular engagement surveys and colleague-led network groups to understand the voice of colleagues and the culture within the Group.
- A robust and proactive approach to health and safety to ensure a safe working environment for everyone.

FY24 progress
- Continual review of colleague wellbeing offer resulting in alignment of benefits available to everyone.
- Membership of Diversity in Retail, alongside Inclusive Employers, to strengthen our strategic approach and create peer to peer connections.
- Executive sponsorship and governance to support our inclusion colleague network groups.

Principal risk

CONSUMER PROPOSITION AND INDUSTRY COMPETITION

Strategic link

Movement

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.

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 ensure 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 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 competitors' stores and online offerings.

FY24 progress
- Launch of DFS collaboration with Ted Baker as part of a focus to ensure our products are right for our customers.
- Introduction of new ranges into Sofology to ensure our products meet our customers' expectations.
- Both DFS and Sofology have focused on increased 'in stock' products to allow us to meet the demands of our customers for quick delivery times.

RISKS AND UNCERTAINTIES CONTINUED

Platforms: Sourcing and manufacturing | Technology and data | Logistics | People and culture

Movement: Increase | Unchanged | Decrease

Principal risk

BUSINESS CHANGE

Strategic link	Movement
Technology and data	Decrease

What is the risk?
The Group undertakes a number of significant investment or business change projects that are key to successfully executing its strategy. Failure to successfully implement these changes could mean the business fails to deliver its strategy.

Potential impact
- The business change programme does not deliver the identified changes required to support the business strategy.
- Colleagues are resistant to change and cause operational challenge.
- Internal resources are not informed and fail to support the initiative.
- 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 and Risk 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 programmes to ensure priorities and areas of focus are appropriate to support delivery of the Group's strategy.

FY24 progress
- Business Change team structure defined, senior lead appointed and clear scope of accountabilities in place.
- 'Operate for Less' workstream main focus, with clear line of sight across all operating costs, split into three main areas (People, Property, Other).
- Significant cost reductions/inflationary increase mitigations delivered in year via internal/process change, contract renegotiation and/or supplier partner change.
- External SME partners in place to support initiatives as required, enabling a lower fixed headcount internally.
- Scoping commenced on remaining areas of Group integration opportunities to further enhance optimal commercial approach, create a consistent way of working and mitigate risk.

RISKS AND UNCERTAINTIES CONTINUED

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 30 June 2024 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 21 to 27 of this Annual Report.

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.

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 growth in the Group's market of 2% in FY25, 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 FY25 is expected to be ahead of FY24 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, comprising of a £200.0m revolving credit facility maturing in September 2027 (with an option to extend £175.0m of the facility 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 7% in FY25 compared to the base case, 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.

Whilst the Group expects to stay within its existing facility covenants, in September 2024 the Group agreed a widening of covenants with its lenders, which provides additional headroom in the event of unanticipated downside scenarios that result in a further decline in market volumes and lower EBITDA. The amended leverage covenant widens to 3.9x at H1 FY25 and 3.7x at FY25, before returning to 3.0x at H1 FY26. The amended fixed charge cover covenant widens to 1.3x at H1 FY25, 1.3x at FY25 and 1.4x at H1 FY26, before returning to 1.5x at FY26.

This allows the Group to maintain 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

Engaging with our stakeholders
This statement explains how the Board has embedded stakeholder considerations into its decision-making and, for each of the Company's key stakeholder groups, the key matters that the Board considered during the year. Throughout the year we have engaged with all of our stakeholder groups to understand the impact of the decisions we make.

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 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 culture and ensure we live up to our values. – Look to ensure we balance the way we reward our people with how we provide a return on investments to our shareholders. – Focus on how we manage the Group's cost base given the current economic uncertainty. – Non-Executive Directors receive stakeholder feedback and insights both through their direct access to the Group's key stakeholders and through regular reports from the Group Leadership team, including updates on customer satisfaction metrics and employee Your Say survey results. – All Board members are available to meet with shareholders on request and several meetings including with non-executive directors have taken place during the year. – As a standing agenda item the Board receives an update from the Investor Relations team including shareholder feedback and meets with the Company's brokers. – The Group Chief Executive's report at each Board meeting includes updates on key suppliers and partners. – The Board has appointed the Responsible and Sustainable Business Committee to focus on climate risks and social inclusivity.	– Chief Executive's report – Our strategy – Key performance indicators – Financial review – Risks and uncertainties – Viability reporting – Responsibility and sustainability report – Corporate governance report – Directors' remuneration report	6-8 13 14-15 16-19 21-28 28 32-51 54-60 67-87
B **The interests of our colleagues**	Our colleagues are at the heart of our business. The Board has ultimate responsibility for ensuring that all of our colleagues are treated fairly and given the support they need to grow and develop their careers.	– 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 and in-person sessions are held with colleagues from all the brands to keep them informed and gather their feedback. – We encourage open and honest discussions with our colleagues and undertake regular Your Say surveys to understand how colleagues are feeling. – We have six Colleague Resource Groups, known as our Inclusion Networks, to represent and support colleagues. – We are focused on our Employee Value Proposition and have improved our benefits package to include holiday buy back scheme. – We have an independent whistleblowing helpline. – There are regular briefings on colleague engagement activities, retention rates, learning and development activity, and pay and reward initiatives.	– Chair's statement – Our fundamentals – Chief Executive's report – Our strategy – Key performance indicators – Responsibility and sustainability report – Risks and uncertainties – Corporate governance report – Directors' remuneration report	4-5 3 6-8 13 14-15 32-51 21-28 54-60 67-87

SECTION 172 STATEMENT CONTINUED

Section 172(1) (a)-(f)		How we engage	Where to find it	Page numbers
C The need to build strong beneficial relationships with our customers and suppliers.	We are committed to our purpose of bringing great design and comfort to our customers in an affordable, responsible, and sustainable manner. We work with our suppliers to develop new innovative products and to reduce the impact on the environment.	– We talk to our customers to understand what they want for their homes and their families. – We are developing new sustainable products to reduce not only ours but our customers' and our suppliers' carbon footprint. – We develop new product offerings working with suppliers and brand partners. – We have the market leading financial services products (interest free credit ('IFC') and our product insurance) available for our customers. – We seek feedback from our customers through 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 – Business model – Chief Executive's report – Market overview – Responsibility and sustainability report – Corporate governance report – Directors' remuneration report	4-5 3 12 6-8 9 32-51 54-60 67-87
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 The Sofa Delivery Company established a national partnership with Andy's Man Club. In addition, the Group provided £35,000 of our products to a range of good causes. – Colleagues each have a volunteer day to support them working in the community – 201 days in FY24. – We are focused on developing new sustainable products to reduce our carbon footprint. – In FY24 we refreshed our materiality assessment to support our ESG strategy, this is a crucial tool to ensure that we consider all stakeholder perspectives in our strategic planning and decision-making. We interviewed or surveyed all stakeholder groups, leading to a significant shift in priorities towards social concerns. – In June we submitted our Net Zero strategy to the SBTi.	– Chair's statement – Our fundamentals – Chief Executive's report – Our strategy – Responsibility and sustainability report – Risks and uncertainties – Corporate governance report	4-5 3 6-8 13 32-51 21-28 54-60
E The desirability of the company maintaining a reputation for high standards of business conduct	To support good governance all of our colleagues receive mandatory training on our Code of Conduct, Data Protection, Modern Slavery, Cyber Security, Anti-Bribery & Corruption and IFC Consumer Duty. Our suppliers are bound by our Supplier Code of Practice for product quality, safety, employee rights and ethical business. We work with the regulatory bodies which authorise and regulate our business activities.	– We are transparent in our approach and publish our policies including our Group 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 with a clear focus on vulnerable customers and how we meet their needs. – We continue to review our customers' journey to ensure we deliver the best customer experience. – Changes to our IFC application process this year ensure we give customers the opportunity to find the right payment option for them with the lender most suitable for their circumstances with the benefit of reviewing their documentation at a time that suits them.	– Responsibility and sustainability report – Corporate governance report – Directors' remuneration report	32-51 64-60 67-87
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. The Group has continued to engage with our investors to ensure their views and interests are considered when developing strategy.	– A series of events is held throughout the financial year, including our in-person 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 lenders about our strategic priorities. – The Chair of the Board ensures that investor considerations are sufficiently discussed during Board decision-making in meetings.	– Chair's statement – Business model – Corporate governance report	4-5 12 54-60

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 29** for more information

Our culture of good governance ensures 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 and policy, how decisions impact a particular 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

Board Review

S172 non-financial and sustainability information statement

The table below sets out where the information required to be disclosed under sections 414CA and 414CB of the 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 29 Responsibility and sustainability report – pages 32 to 51 Directors' remuneration report – pages 67 to 87	– Diversity & Inclusivity Policy – Equal Opportunities Policy – Whistleblowing Policy – Group Health and Safety Policy
Anti-corruption and anti-bribery matters	Responsibility and sustainability report – page 50	– Group Code of Conduct – Anti-Bribery Policy – Supplier Code of Practice – Whistleblowing Policy
Respect for human rights Modern slavery	Responsibility and sustainability report – page 50	– Anti-Slavery and Human Trafficking Policy – Modern Slavery Statement Year ended 25 June 2023 – Data Privacy Policy – Group Human Rights Policy
Social matters	Responsibility and sustainability report – pages 32 to 51	– Tax Strategy – Group 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 30 Responsibility and sustainability report – pages 32 to 51	– Environmental Policy – Group Timber Policy – Group Leather Policy – Group Water Policy – Sustainable Sourcing Policy – Biodiversity Policy

Copies of the Committees' terms of reference and our policies are available at https://www.dfscorporate.co.uk/governance/policies-statements.

ALISON HUTCHINSON
Chair of the Responsible and Sustainable Business Committee

→ Bio on **page 53**

RESPONSIBILITY AND SUSTAINABILITY REPORT

The past year has been one of progress, collaboration and reflection

As always, customers have been at the heart of our business – in our core values, how we shape our operations and, an important part of how we measure our success. Their feedback helps define our priorities, both today and in the future.

Alongside our Board, majority shareholders, suppliers, and colleagues, our customers were invited to give their views on the scale of impact of material topics to our Group, through our materiality assessment process. This approach helps us to consider all stakeholder views in our strategic planning and decision-making, and the outcome of the activity has enabled us to highlight key priorities to inform our ongoing ESG agenda. As such, we've adapted the governance around our commitments, forming a new ESG Committee with members from the GLT and senior management to work as a combined task force to address key issues, ensuring unwavering dedication and evolution towards our goals.

We know that customers share our care and concern for our people, and are confident that our ongoing focus on fair wages, topics of inclusion and diversity, and the wellbeing of our colleagues respond well to this. Activities that have taken place this year demonstrate this commitment, and are reflected in our ongoing plans.

We remain passionate about channelling our energy and resources into supporting our people, our communities, and our planet, despite the challenging economic climate, as we believe it is the right thing to do and delivers long term sustainable value.

Our people
We've continued to invest in our people through apprenticeship schemes and learning and development. This year, we launched three new academies across the Group, from leadership in our logistics team, through to finance, with over 650 managers taking part in at least one course. Our ongoing commitment to the health and happiness of our people is demonstrated by our strong wellbeing offering, with revisions during this year including a new aligned approach to enable better access to healthcare for all our colleagues, through to the creation of communities via our colleague networks.

Our inclusion and diversity ambitions are continuing to advance steadily. Accurate measurement of our impact relies on gathering baseline demographic data from our colleagues, and that will be a core focus for our teams over the next 12 months. This can only be achieved through effective engagement and education to ensure that colleagues trust the business with their sensitive information.

Our communities
Support for our communities continued through our Group Giving Back commitment to raise or donate up to 1% of profit before tax each year. Our DFS partnership with BBC Children in Need raised over £700,000 in donations, bringing the total raised since 2013 to £7.6m. The Sofa Delivery Company launched a new affiliation with Andy's Man Club, focused on raising awareness

of men's mental health and Sofology customers have donated over £41,000 to their charity partner, Home-Start UK, via the Pennies scheme, which will go towards its Cost of Living Crisis Appeal. In addition to the donation, we have pledged to gift sofas to vulnerable families and families in crisis throughout the UK.

Our planet

We were delighted to be awarded the title of Climate Leader by the Financial Times this year. This is reflected in our accomplishments, where we exceeded our original Scope 1 reduction target of 10%. And, with the overwhelming support we received from suppliers for our 'In This Together' engagement campaign, we were able to submit our Net Zero strategy to the SBTi in June this year.

We are continually evolving our Net Zero strategy to adapt to new technologies and protocols. This year, we determined the scale of change and investment needed to meet our Net Zero ambition is not moving at the pace we anticipated, and we need more time. Therefore, we have redefined our ambition to reach Net Zero before 2050, aligned with the UK target, external factors, and climate science.

Our intention for the year ahead is to continue the momentum on our ESG agenda. We are forging ahead with product innovation as we strive for circularity, and our Net Zero ambitions will see us continuing to push boundaries with carbon reductions across all scopes. We continue to make steady progress when it comes to building a more diverse representation across our workforce and are proud to empower our people to support our communities through volunteering and fundraising.

Our commitment to leading by example across our industry stands firm, and our aspirations for an ethical, sustainable and better future for our community, our people, and our environment, will guide our journey into FY25.

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

Highlights

83%

of colleagues agree or strongly agree that

"My manager is supportive of creating an environment where everyone is welcome"

We achieved over

14% reduction in Scope 1

emissions compared to our FY19 baseline

138

graduates of our Driver School since launching last year

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.

Since 2013, DFS has raised

£7.6m

for charity partner BBC Children in Need

59%

of our Scope 3 emissions have a supplier commitment to create their own science-based target by 2029

Over

1,500

retail colleagues receiving training for

our new customer journey experience frameworks

Our ESG targets

Our Targets		Target date	Status	Progress
Sustainable sourcing **Page 40**	OEKO-TEX STeP certification for upholstery ranges for cotton, viscose and polyester	July 2022, 2023 & 2024	Missed	Cotton 89%; Viscose 89%; Polyester 73%
Sustainable sourcing **Page 40**	BCI certification is required on all cotton sources	July 2024	Missed	FY24 37%
Carbon reduction **Page 43**	20% of Scope 3 emissions have a supplier commitment to develop their own Net Zero Roadmap and report on it by 2029. 59% of Scope 3 emissions are covered by commitment.	June 2024	Achieved	FY24 59%
People **Page 37**	A minimum of 50% of store management will be female	December 2023	Missed	FY24 32%:68% (Female : Male)
Sustainable sourcing **Page 39**	90% sustainably sourced timber (certified FSC & PEFC) used in all products	December 2025	In progress	FY24 83%
Sustainable sourcing **Page 39**	All leather used on upholstery is sourced from supply chains with LWG certification	December 2024	In progress	FY24 76%
Sustainable sourcing **Page 40**	Zero polystyrene in product packaging	December 2024	In progress	FY24 93%
Carbon reduction **Page 42**	Reduce Scope 1 CO_2 emissions	June 2025	NEW	CY23 13.6 tCO_2e
Circularity **Page 40**	20% of all new textiles contain recycled content	June 2027	NEW	FY24 3.88%

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

Please refer to our Basis for Reporting document for a full explanation for these targets and their methodologies www.dfscorporate.co.uk/media/69984/Basis-For-Reporting-FY-24.pdf

RESPONSIBILITY AND SUSTAINABILITY REPORT
CONTINUED

OUR PEOPLE

Looking after our colleagues

KEY FIGURES

Reduction in workplace related injuries so far this calendar year

22%

Percentage of colleagues agree or strongly agree with the statement 'I can bring my whole self to work'

80%

Completion rate Group-wide of our Everyone Welcome LMS module

87%

Our people are the heart of our business and our success stems from their happiness and wellbeing, both inside and outside of work. Our Everyone Welcome framework highlights the importance of building an inclusive workplace and illustrates how we approach wellbeing, learning and development to create opportunities for all.

The outcome of our materiality assessment reiterates the importance of putting our people first, and we know that topics of wellbeing, fair pay, and health and safety are as much of a priority to the customers considering our brand, as they are to us. We continue to ensure we keep our people at the centre of our strategic priorities with continuous improvement of the colleague experience.

Colleague wellbeing
We are committed to supporting our colleagues in leading healthy and fulfilling lives at every stage. Recognising the challenges that everyday life can present, we have developed a comprehensive wellbeing offering designed to provide meaningful support during these times, underpinned by our strong, supportive culture.

Our ongoing focus on mental health emphasises the importance of open communication and mutual support. In alignment with this, during Mental Health Week 2024, we revisited our Big Group Check-In initiative, which involved a leader-led social campaign encouraging colleagues to connect with their peers and extend acts of kindness.

We encourage our leaders to demonstrate vulnerability and empathy, particularly in times of change and challenge. As line managers often serve as the first point of contact for colleagues in distress, we equip them with resources and training to effectively support their teams and direct them to appropriate resources.

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

This year, we have further enhanced our wellbeing proposition with the following initiatives:

- **Wealth Wise:** In partnership with Schroders Personal Wealth, we have introduced this financial wellbeing programme to address the impact of the cost of living crisis on our colleagues.
- **Aligned health benefits:** We have standardised health benefits across the Group to ensure equitable access to healthcare, including a reduced contribution rate for health cashback plans.
- **Menopause support:** Our continued partnership with Peppy offers specialised menopause support, which is also available to partners or loved ones of those directly affected.
- **Mental health first aid:** We have increased our investment in the training of mental health first aiders in collaboration with St John Ambulance, ensuring that more colleagues are available to provide support when needed.
- **Employee assistance programme:** Our 24/7 employee assistance programme, operated by Health Assured, remains accessible, with ongoing communication efforts to ensure colleagues are aware of available resources.
- **Andy's Man Club partnership:** We have launched an official partnership with Andy's Man Club, raising awareness of the importance of mental health and suicide prevention on International Men's Day.

Learning and development

Attracting and retaining skilled and diverse talent is essential to our success, driving creativity and innovation that propel our future growth. By investing in our colleagues, we empower them to reach their full potential, thereby contributing to our continuous improvement and progress.

DFS

This year, we focused on upskilling our Regional Managers, Branch General Managers, and Assistant Managers to ensure a consistent customer experience across our stores and online channels. Over 200 colleagues participated in face-to-face workshops, followed by a virtual workshop attended by more than 600 sales colleagues.

Sofology

At Sofology, we prioritised colleague growth by delivering face-to-face product training. Product specialists visited each of our 58 showrooms to conduct half-day workshops. Leaders were then responsible for further developing 420 Sofologists through interactive regional workshops.

The Sofa Delivery Company

The Sofa Delivery Company launched the Management Academy programme for all first-line managers, employing a blended learning approach. Over 150 colleagues participated in face-to-face and virtual workshops aimed at enhancing management capabilities. The programme included modules on Inclusion, Recruitment and Wellbeing, totalling 5,250 learning hours.

Group Support Centre

Since the launch of the Group Leadership Academy programme in January 2024, 300 leaders have engaged in monthly workshops covering a wide range of topics, from productivity and efficiency to commercial acumen. To build sector-specific skills, we introduced a new Finance Academy, offering colleagues access to online content and workshops led by subject matter experts.

Health and safety

Our ongoing strategy is focused on cultivating a proactive safety culture and mitigating risk across all levels of the organisation. Central to this strategy is continuous coaching and education, empowering colleagues with the knowledge and tools necessary to identify hazards and report potential risks. We are actively driving cultural change by promoting open communication and engagement, ensuring that safety is integrated into every aspect of our operations. Through regular safety audits, colleague feedback mechanisms, and innovative initiatives such as the Health & Safety league table within The Sofa Delivery Company, we are committed to making safety a shared responsibility and embedding it as a core organisational value.

The Health, Safety and Environment ('HSE') team is now fully qualified to conduct noise assessments, ergonomic evaluations, and Fire Risk Assessments. This enhanced capability allows us to support colleagues more effectively and cost-efficiently, providing greater flexibility to respond swiftly to changes, thus safeguarding our people and ensuring business continuity.

RESPONSIBILITY AND SUSTAINABILITY REPORT
CONTINUED

Our focus on continuous improvement has resulted in a sustained decrease in workplace-related injuries, with a 22% reduction so far this calendar year compared to the same period in 2023.

The HSE team continued to demonstrate excellence by being commended at the SHE Excellence Awards in FY24, receiving recognition in the Safer Logistics Award category for ongoing risk improvements within the manufacturing transport yards.

Equity, diversity and inclusion

Enhancing diversity in leadership is pivotal to positively influencing our culture and fostering a workplace where all individuals feel genuinely welcome, particularly those from underrepresented groups. We remain committed to our long-term goal of reflecting the diversity of the customers we serve and the communities in which we operate. Our ongoing cultural transformation efforts continue to advance, with a strong focus on equality, diversity, and inclusion. Colleagues are actively engaged in understanding their roles in this important journey.

By leveraging data, we are able to identify areas requiring further attention while also celebrating the progress we have made.

Progress made to date:

– 80% of colleagues agree or strongly agree with the statement, "I can bring my whole self to work".
– 83% of colleagues agree or strongly agree that "My manager is supportive of creating an environment where everyone is welcome".
– Six active Colleague Networks.
– Achieved Bronze accreditation in the Inclusive Employers Standard.
– Year on year increase in colleagues disclosing their disabilities, reflecting strengthened psychological safety.
– 32% female representation in showroom management across the Group.
– 40% female representation in senior leadership roles.
– 87% completion rate across the Group for our bespoke 'Everyone Welcome' cinematic adventure LMS module.
– Face-to-face Inclusion workshops delivered to over 500 colleagues.

Future Objectives

Our ongoing efforts to achieve gender balance in showroom management across both brands remain a priority. We are also committed to achieving an equal gender split in our senior leadership population and are developing initiatives to enhance ethnic diversity within this group.

To facilitate change, we will introduce positive initiatives aimed at nurturing our future leaders, supported by a comprehensive review of our current policies and processes to ensure they are more inclusive and conducive to helping our people thrive. Our year on year objectives will be realistic, taking into account attrition rates, market challenges and the opportunities available.

Gender Mix by role

Board	Male		Female	
At 30 June 2024	**3**	**43%**	**4**	**57%**
At 25 June 2023	3	43%	4	57%
GLT*	Male		Female	
At 30 June 2024	**3**	**60%**	**2**	**40%**
At 25 June 2023	3	50%	3	50%
Senior Leaders	Male		Female	
At 30 June 2024	**52**	**60%**	**34**	**40%**
At 25 June 2023	56	60%	37	40%
Total	Male		Female	
At 30 June 2024	**3,048**	**64%**	**1,682**	**36%**
At 25 June 2023	3,435	65%	1,853	35%

* Excluding CEO and CFO

OUR COMMUNITIES

Supporting our communities

KEY FIGURES

Customers and colleagues raised for BBC Children in Need over

£700,000

Percentage of manufacturing partners having at least one on-site audit

100%

All senior leaders are required to complete modern slavery

training

We are proud of our unwavering commitment to supporting our communities and the active engagement of our colleagues in fulfilling our promises.

Giving Back programme
Launched in 2020, our Giving Back programme reflects our dedication to social responsibility. Through this initiative, we commit to raising and donating up to 1% of our profit before tax annually, offering each colleague one paid volunteering day, and donating up to 1% of our products (by volume) each year to charitable causes.

DFS remains a proud partner of BBC Children in Need. In FY24, our customers contributed over £670,000, with our colleagues raising an additional £34,000, bringing the total to just over £700,000. Since the inception of our partnership, the Group has raised over £7.6 million through the generous support of our customers. These funds provide crucial one-to-one support and specialist counselling for children and young people facing mental health challenges.

In FY24, Sofology customers and colleagues donated over £41,000 through Pennies to support their charity partner, Home-Start UK, particularly its Cost of Living Crisis Appeal.

We extend our sincere thanks to all our customers for their generous contributions to these important causes and acknowledge the dedication of our colleagues in making a tangible difference.

Beyond these financial contributions, the Group has donated over £35,000 worth of products to vulnerable families and those in crisis across the UK, as well as to various local communities and charities.

The Sofa Delivery Company officially launched its partnership with Andy's Man Club during this financial year. To support this vital cause, we conducted dedicated team meetings with all 1,300 colleagues to introduce the charity's mission and discuss suicide prevention. Remarkable stories emerged during International Men's Day, as colleagues across the Group collaborated to raise awareness of the charity both within and outside the organisation. In July 2024, our colleagues raised over £5,000 for the charity by supporting a team in The 3 Peaks Yorkshire Challenge.

Ethical supply chain
At DFS Group, our culture and values are firmly rooted in doing what is right. We set clear expectations for behaviour that all our colleagues and suppliers are required to follow. We are committed to upholding human rights across our business and supply chain, with zero tolerance for any form of modern slavery. For further details, please refer to our Modern Slavery and Human Trafficking Statement, which is available on our corporate website: www.dfscorporate.co.uk/esg/modern-slavery-and-human-trafficking-statement.

To support our colleagues in maintaining ethical standards and reporting concerns, we have implemented a clear whistleblowing policy and a confidential reporting hotline. As part of our commitment to managing the risk of modern slavery, all leaders and senior team members are required to complete mandatory training on identifying various forms of modern slavery and the appropriate reporting procedures.

We also hold our value chain partners to the highest ethical standards. We are committed to ongoing assessments of modern slavery risks within our supply chain and will continue to take proactive steps to address these issues.

All manufacturing partners within the Group are required to sign a Supplier Code of Practice, which outlines the framework for an annual on-site audit. This audit incorporates ethical criteria and due diligence measures to prevent modern slavery and forced labour.

In 2024, 100% of the Group's suppliers underwent at least one on-site audit, with no instances of unethical practices identified. Additionally, we mandate that every supplier obtains SMETA certification, which evaluates labour standards, health and safety, environmental performance, and ethics at the supplier site.

For more information please see our Group Code of Conduct and DFS Code of Practice.

https://www.dfscorporate.co.uk/media/63456/Group-Code-of-Conduct-revision.pdf

https://www.dfscorporate.co.uk/media/68866/DFS-Supplier-Code-of-Practice-_-V004-_-Live-.pdf

"Our Group is a values driven business with people at the heart of everything we do."

OUR PLANET

Protecting our planet

Timber

Target: FSC®/PEFC-certified timber* is used in all our products by December 2025

Chain-of-custody certification models such as FSC® and PEFC ensure our full timber value chain is aware of its impact and sources of sustainable, certified timber. Paired with our full supply chain due diligence, we're protecting forests and nature for generations to come.

Progress: 83% of our products are made with certified FSC® or PEFC timber

Leather

Target: Leather will be sourced from Leather Working Group ('LWG') certified supply chains by December 2024

LWG is a global industry body established to set standards within the leather industry around social impact, water governance, and resource use. Our target is to ensure that the second and third actors within a leather supply chain operate to these standards. DFS is a member of the LWG Traceability Working Group and participated in a project with WWF to improve the traceability of leather hides back to farms to ensure deforestation-free supply chains. We updated our due diligence protocol in 2024, focusing on land conversion dates to ensure our supply chains are not linked to deforestation.

Progress: 76% of our leather is sourced from LWG supply chains

KEY FIGURES

Our total carbon footprint (Scope 1, 2 and 3) in FY24 was

216ktCO_2e

Through our 'In This Together' campaign, we've secured a supplier commitment to develop a Net Zero Roadmap which covers

59%

of our Scope 3 emissions

Percentage of our products made with certified timber

Over 80%

Our Sofa Cycle framework, launched in 2020, ensures we take a holistic view of our business's environmental impact and establishes an ambition to become a circular business. The framework encompasses not only our operational impacts but also those of our value chain and end-of-life of our product. Using a circular framework, we highlight the impact of design, sourcing, and manufacturing decisions on the end-of-life of our products, logistics, and consumer use. This ensures we engage our entire value chain in addressing the environmental impact throughout every aspect of a product's journey.

Sustainable sourcing

Our commitment

We work closely with our manufacturing partners and value chain to ensure responsible and sustainable use of materials through transparency and traceability. We seek to support our suppliers by demonstrating best practices through our operations and manufacturing.

Our approach

Our Sustainable Sourcing Policy** is structured around seven core principles:

– Suppliers must act in an ethical manner.
– Protect human rights.
– Support our suppliers and partners.
– Deliver value to our customers and shareholders.
– Take responsibility for the impact on the environment.
– Be fair and transparent with suppliers, including how information is used.
– Champion sustainable innovation within the industry.

We have a number of targets for core materials, including certification in key areas of the value chain based on activity impact. As a target date expires, the requirements move from ambition to expectation. This approach provides fair warning, leaving suppliers sufficient time to consult and adapt.

* DFS Furniture PLC incorporating DFS Trading Ltd T/A DFS and Sofology Ltd T/A Sofology FSC® License holder FSC-C192921.
** www.dfscorporate.co.uk/media/62843/DFSGroup-Sustainable-Sourcing-Policy-V1.pdf

Sustainable Sourcing continued

Textiles

Target: Textile mill OEKO-TEX STeP certification for all polyester, viscose and cotton textiles used on upholstery ranges by July 2024

DFS Group requests that all textile mills producing upholstery fabrics obtain OEKO-TEX STeP certification, a holistic audit that champions responsible production for people and the planet. Though we have made great strides, we did not meet our target by July this year as textiles are impacted by significant range changes. The certification process is multifaceted and requires resources and time. We allow suppliers 12 months to obtain OEKO-TEX STeP certification, which is now a requirement for all textiles.

Progress: 73% of our upholstery textiles are OEKO-TEX STeP certified

Textiles

Target: Better Cotton – All cotton upholstery fabric should be sourced from Better Cotton certified supply chains by July 2025

Cotton supply chains are known for the overuse of water in manufacturing and links to forced labour in some areas. Better Cotton seeks to address these issues by ensuring certified actors operate ethically and responsibly. Less than 9% of our fabrics feature cotton in the composition, so ensuring a chain of custody is in place without scale has proven challenging. Better Cotton is now a policy requirement for all cotton.

Outcome: 37% of our cotton upholstery fabrics are Better Cotton certified

Recycled textiles

Target: Recycled content in our new upholstery textiles by July 2027

At present, recycled textiles are significantly more expensive than virgin textiles and frequently have a poorer performance and feel, causing customers to reject them. This contradicts our ambitions to become a circular business, so by setting a requirement to introduce recycled textiles, we are encouraging our manufacturing partners to stimulate innovation in the upholstery textile industry.

Progress: New target for 2024

Bromide-free fire retardants

Target: All upholstery will be treated with bromide-free fire retardants by December 2024

UK legislation requires all domestic upholstery to be treated with fire retardants which use a variety of halogenated chemicals. We launched a target to move to a more sustainable fire-retardant treatment in all our upholstery textiles. However, the bromide-free treatments available on the market proved unstable and provided a poor customer experience, so we made a choice to remove this target in March 2024 but will continue to monitor innovations and developments.

Progress: Target removed

Packaging

Target: 50% of plastic packaging to contain 50% recycled content by July 2026

Single-use plastic is an important issue for our stakeholders, and this target is intended to ensure our suppliers support circular practices. While we transition all suppliers to at least 30% recycled content to alleviate the plastic packaging tax, we aim to go further and ensure at least 50% of our plastic packaging contains 50% recycled content.

Progress: 9.9% plastic packaging with 50% or more recycled content

Operational targets

Waste

FY24 – 8,500 tonnes total waste/ 5,053 tonnes recycled

Resource use and waste are critical areas to building a circular business. The majority of DFS Group waste is product packaging, which is removed from customers' homes at delivery. We recycle most of the packaging material but know we can improve, so we have launched a new waste target to improve landfill avoidance in the Sofa Delivery Company.

The first phase (FY25) is to ensure every site has the optimal infrastructure to support different types of waste and deliver an engagement plan with our teams. The targets will then be extended to other areas of the business.

Water

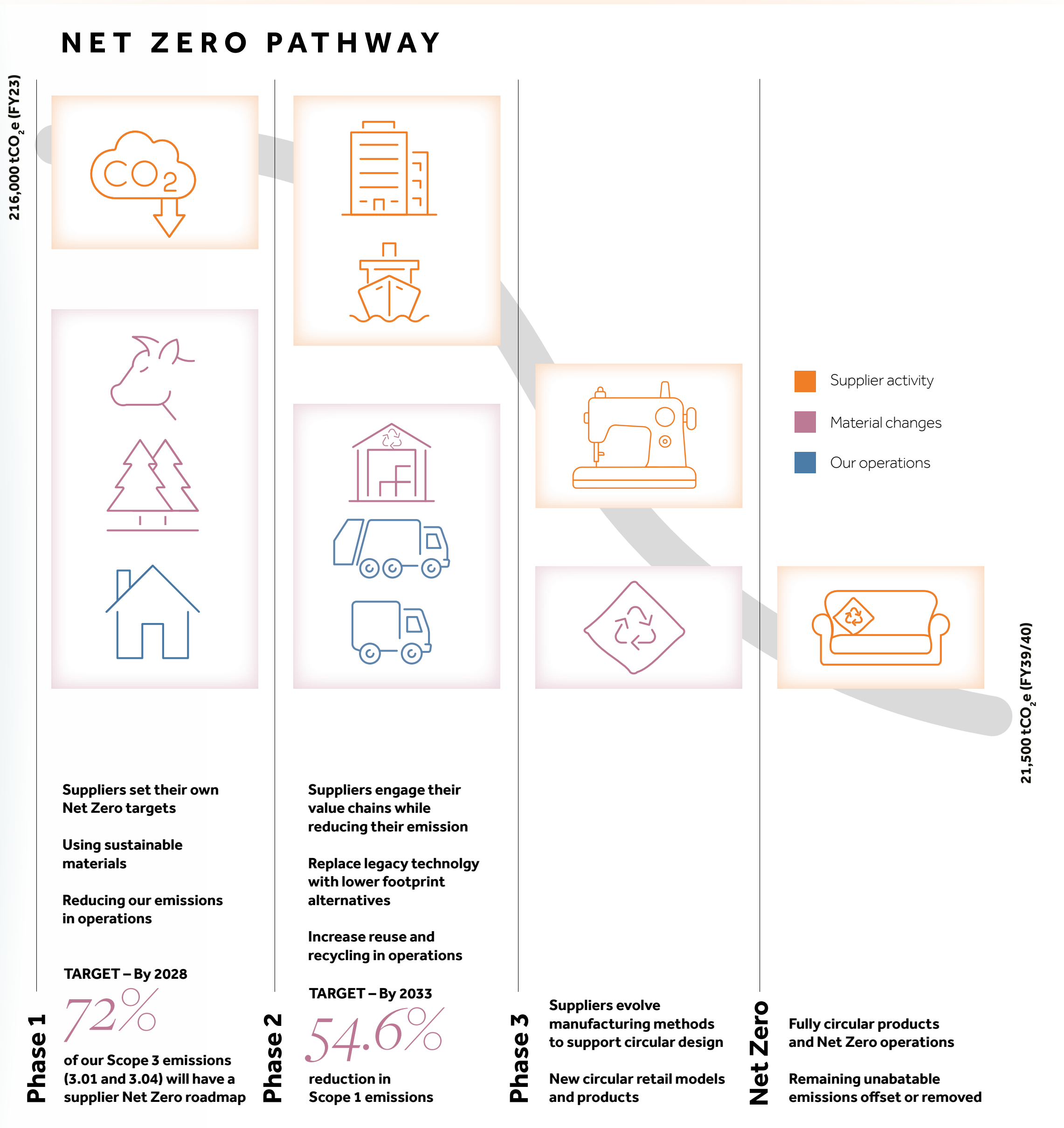
FY24 Water consumption – est. 47,979 litres

Our Group Water Policy, launched in FY24, acknowledges the need for water governance. Over the past 12 months, DFS Group has been working with our landlords and utility providers to install smart water meters across all sites. This has proved challenging in an industry that is less advanced in live monitoring than gas or electricity. However, at the end of FY24, over 30% of sites were metered. Over the next 12 months, we are committed to ensuring we have accurate data to create a baseline we can use to develop a robust strategy to improve water efficiency and reduce consumption, the pillars of good water governance.

Biodiversity

Recognising the wider impact of our value chain on natural capital is an important step in our biodiversity journey. Using the WWF biodiversity Risk Filter tool, we have mapped supply chains for potential high-impact materials (timber and leather) across our manufacturing partners and identified key areas for improvement. When possible, suppliers are working with the information provided to create changes.

Assessing the scale of our impact on biodiversity will take time, but we are committed to continuously reducing our impact and protecting natural resources.



Carbon

Carbon accounting

In accordance with SBTi and GHG Protocol accounting standards, we have shifted our carbon calculations from activity data supplied by our value chain to spend data audited by our audit partners, KPMG. This ensures accuracy and aligns with the methodology of our peers and value chain. However, industry-standard emission factors for furniture used are lower than our own activity calculations (which we were unable to validate across the complete supply chain), resulting in a year-on-year drop in reported Scope 3 emissions.

Our Net Zero strategy

DFS Group defines Net Zero as the absolute reduction of carbon emissions across all scopes by at least 90% compared to baseline year with the offset or removal of the remaining, unabatable emissions.

In FY23 we shared our Net Zero strategy, split into three phases with clear timelines. While our approach has not varied significantly, we recognised the innovation and investment needed, is not in place to support the timeline we originally planned. As such, we have shifted our timeline to *before* 2050 by extending Phase 2 and 3 to work concurrently, collaborating with our value chain to develop plans to decarbonise.

PHASE 1 – FY24-30

Initially concentrating on our own operations, we will adapt to lower-emission technologies throughout our estate and logistics infrastructure and introduce circular business models. We'll also engage our supply chain, support the development of their own Net Zero roadmaps, and specify lower-emission materials in our products.

PHASE 2 – FY30-40

We will encourage suppliers to reduce their emissions and engage their value chains in Net Zero planning. Internally, we'll continue material changes and finalise low carbon technology for our delivery fleet.

PHASE 3 – FY30-50

We aim to ensure all suppliers design and manufacture for repair, reuse and recycling to support a circular business model. Innovation in logistics, materials, and manufacturing is crucial, and we have clear short-term steps to achieve our long-term goals.

Creating a circular business model

Central to our Net Zero strategy is evolving DFS Group to a circular economy, ensuring products are designed, and manufactured for multiple lifecycles, extracting maximum use from the materials and enabling reuse, repurpose and recycling of those materials. In FY24, we launched a new Leadership Development programme in which senior leaders were tasked with developing circular commercial models to support our Net Zero ambition. Their proposed new commercial models are designed to prolong the lifecycle of our product and ensure its return to the Group for refresh, repair and resale, and will be developed further over the next 12 months. We also collaborated on research sprints with Imperial College, London, to develop new product designs with innovative material options, specifically designed to reduce the environmental impact of our product. All these concepts will require further testing and development to ensure viability and sustainable performance.

Scope 1 progress

In 2024, we continued our reduction strategy by removing gas across the estate and transferring company cars and service vehicles to electric or hybrid options. We also trialled 7.5 tonne electric vehicles, however have yet to find a suitable solution to introduce at scale across the Group. Our emissions rose in the second half of the financial year due to increased delivery volumes from our successful Winter Sale and Easter promotions, which diminished the Scope 1 reductions achieved in our calendar year.

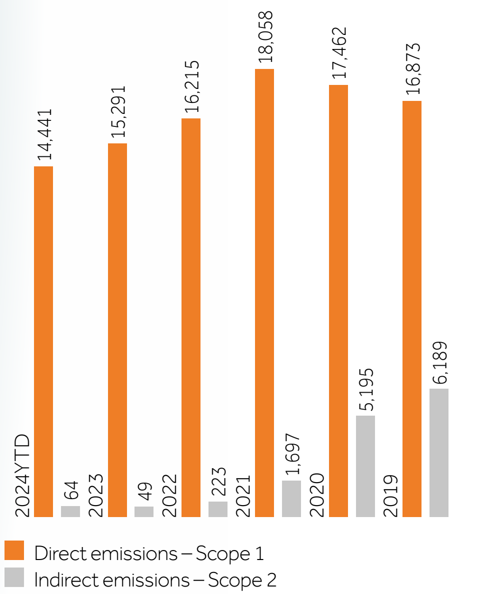
Scope 2 progress

We continue to utilise renewable sources. Our year-on-year market-based emissions have increased with the wider adoption of electric and hybrid company cars. Though charging at our operational sites or on company fuel cards is fully traceable to renewable sources, where we are unable to verify a source, we have assumed non-renewable energy for other EV charging.

DNV has externally assured our Scope 1 and 2 footprints.**

** www.dfscorporate.co.uk/media/64958/DFS-ARA-Assurance-statement.pdf

Scope 1 and 2 emissions



Scope 1 and 2 emissions

The tables below show our energy use and associated greenhouse gas emissions in line with the UK government's Streamlined Energy and Carbon Reporting requirements.

	UK	Rest of the world (ROI)	**Total FY24 kWh**	UK	Rest of the world (ROI & NL)	Total FY23 kWh	% increase/ (decrease)
Scope 1							
Diesel and Kerosene	36,253,180.0	1,307,338.1	**37,560,518.1**	37,985,804.0	1,006,184.92	38,991,989.0	(3.67)
Natural gas	17,013,423.0	415,090.0	**17,428,513.0**	18,302,302.0	415,074.00	18,717,376.0	(6.89)
Petrol	4,237,034.8	66,217.9	**4,303,252.7**	5,539,165.4	3,797.52	5,542,962.9	(22.37)
Scope 2							
Electricity	25,929,697.0	599,872.0	**26,529,569.0**	26,170,487.6	578,708.15	26,749,195.7	(0.82)
Electric vehicles*	161,729.0	742.0	**162,471.0**	83,306.3	0.00	83,306.3	95.03
Total energy consumption	47,341,883.8	1,081,921.9	**48,423,805.7**	50,095,261.2	997,579.7	90,084,829.9	(46.25)

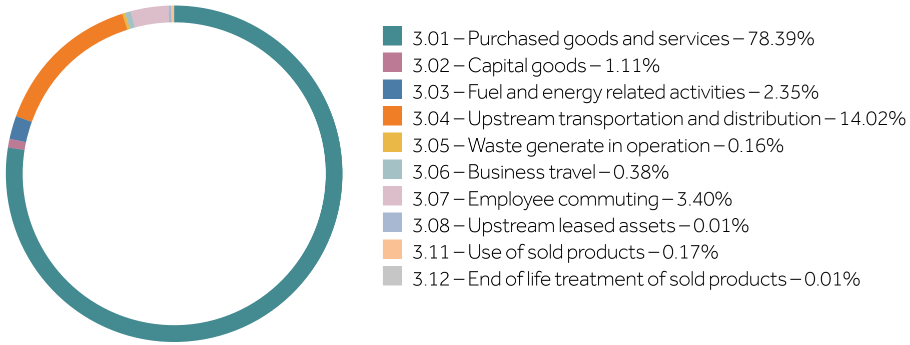
				Absolute emissions (tCO_2e)							
	UK	Rest of the world (ROI)	**Total FY24 tCO_2e**	UK	Rest of the World (ROI & NL)	Total FY23 tCO_2e	% Increase/ (decrease)	FY22	FY21	FY20	FY19
Scope 1 emissions	14,029.8	411.2	**14,441.0**	14,961.2	329.7	15,290.8	(5.6)	16,215	18,058	17,462	16,873
Scope 2 emissions											
Market based	64.0	0.0	**64.0**	38.8	10.4	49.3	29.9	223	1,697	5,195	6,189
Location based	5,369.0	160.0	**5,529.0**	5,531.4	122.0	5,653.4	(2.2)	5,828	5,797	5,195	6,189
Total Scope 1 and 2 Market Based	14,093.8	571.2	**14,505.0**	20,531	462	20,993.5	(30.91)	16,438	19,755	22,657	23,062

Emission intensity (tCO_2e/£m gross sales)

	Emission intensity (tCO_2e/£m gross sales)						
	FY24	FY23	% Increase/ (decrease)	FY22	FY21	FY20	FY19
Scope 1 emissions	**11.0**	10.7	2.45	11.0	13.3	18.6	14.5
Scope 2 emissions							
Market based	**0.05**	0.07	(33.08)	0.2	1.2	5.6	5.3
Location based	**4.2**	4.0	5.56	4.0	4.3	5.6	5.3
Gross sales (£m)	**1,311.8**	1,423.6	(7.85)	1,474.6	1,359.4	935.0	1,165.0

* FY23 Electric vehicle energy consumption has been restated due to a calculation error.

2024 Scope 3 emissions by category – % of Scope 3 emissions



Scope 3 progress

Our value chains are a vital part of our business and contribute almost 93% of our Scope 3 emissions. Their support for our Net Zero journey and collaboration on our plan are critical to the success of our strategy. In FY23, an impact assessment of our manufacturing partners indicated only 40% had either set a Net Zero target or calculated their carbon footprint.

To address this, we launched our 'In This Together' campaign, engaging our partners in our Net Zero journey. Our request to suppliers was to commit to delivering the following by May 2029:

- Calculating their own full carbon footprint
- Developing their own Net Zero strategy aligned to climate science
- Publishing their plan and their progress against it

This approach mirrors the 'supplier engagement' target set out by the SBTi. We hoped to secure commitments which would cover 20% (88 tCO_2e) of our FY23 Scope 3 emissions, thereby endorsing our plans to submit to the SBTi.

Utilising our experiences to provide guidance and support, we encouraged suppliers on their own journeys. The campaign was successful, garnering commitments from manufacturing partners covering 49% of Scope 3 emissions and a further 10% from raw material suppliers and logistics partners.

Science Based Targets initiative (SBTi)

In June 24, we submitted our plan to the SBTi to reduce our carbon footprint by at least 54.6% on Scopes 1 and 2 by 2033 and Scope 3 by 90% or more before 2050. We hope to have the SBTi validate this plan very shortly.

Scope 3 emissions*

	Absolute emissions (kt CO_2e)							Emission intensity (kt CO_2e/£m gross sales)						
	FY24	FY23	% increase/ (decrease)	FY22	FY21	FY20	FY19	**FY24**	FY23	% increase/ (decrease)	FY22	FY21	FY20	FY19
3.01 – Purchased goods and services	**158.2**	320.0	(50.56)	321.1	309.2	215.8	284.8	**120.6**	224.8	(46.35)	217.8	227.5	230.8	244.5
3.02 – Capital goods	**2.2**	3.7	(40.41)	17.4	15.1	10.3	8.2	**1.7**	2.6	(35.33)	11.8	11.1	11.0	7.0
3.03 – Fuel and energy related activities	**4.7**	5.2	(9.21)	4.0	4.2	4.0	3.9	**3.6**	3.6	(1.47)	2.7	3.1	4.3	3.3
3.04 – Upstream transportation and distribution	**28.3**	36.7	(22.98)	74.6	58.5	33.2	36.7	**21.6**	25.8	(16.42)	50.6	43.0	35.5	31.5
3.05 – Waste generate in operation	**0.3**	0.3	20.15	1.4	1.3	0.9	1.3	**0.2**	0.2	30.39	0.9	1.0	1.0	1.1
3.06 – Business travel	**0.8**	0.5	62.67	1.2	0.8	1.3	1.3	**0.6**	0.3	76.54	0.8	0.6	1.4	1.1
3.07 – Employee commuting**	**6.9**	7.6	(9.21)	4.7	4.1	4.5	5.4	**5.3**	5.3	(0.85)	3.2	3.0	4.8	4.6
3.08 – Upstream leased assets	**0.0**	0.6	(100.00)	4.0	3.2	3.1	2.5	**0.0**	0.4	(100.00)	2.7	2.4	3.3	2.1
3.11 – Use of sold products**	**0.3**	0.3	–	0.6	0.7	0.5	0.7	**0.3**	0.2	35.65	0.4	0.5	0.5	0.6
3.12 – End of life treatment of sold products	**0.0**	0.1	(75.88)	10.2	9.7	7.1	9.0	**0.0**	0.1	(73.83)	6.9	7.1	7.6	7.7
Total Scope 3 emission intensity	**201.7**	375.0	(46.20)	439.2	406.8	280.7	353.8	**153.9**	263.3	(41.60)	297.8	299.3	300.2	303.5

* 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 (FY24) figures unless otherwise stated.
** 3.07 – Employee commuting and 3.11 – Use of sold products were recalculated for FY23 as an error was found in the source data. The figures stated above are the revised calculations.

TCFD

The reporting period of this disclosure was the hottest year recorded since records began. Climate-related risks are continuously evolving, as are the transition risks and opportunities. DFS Group is committed to building a sustainable business model 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.

Summary

Our progress in FY24

1. Engaged suppliers in creating their own Net Zero strategy aligned to science-based targets, securing commitments covering 59% of all Scope 3 emissions.
2. Submitted our Net Zero strategy to Science Based Targets Initiative for validation in June 2024.
3. Confirmed a 14% reduction of Scope 1 emissions against FY19 baseline.
4. Introduced new policies for water and biodiversity and strengthened our deforestation requirements within our Sustainable Sourcing Policy.
5. Completed an updated materiality assessment.
6. Developed new commercial models to support our evolution to a circular business.

Areas of focus in FY25

1. Continue engaging and supporting our suppliers in developing their Net Zero strategy aligned to science based targets.
2. Secure SBTi validation for our Net Zero strategy.
3. Continue to integrate climate risk consideration into our business strategy and decision-making processes.
4. Develop our reporting capabilities for TPT and ISSB.
5. Continue to develop and test new commercial models to support circularity.

Compliance Statement
We have complied with the Financial Conduct Authority listing rule LR 9.8.6R 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. Note that this report reflects the listing rules as at the year end date.

Our approach

Scenarios

We assessed our risk and opportunity exposure in two scenarios.

Low Carbon World scenario (1.5°C)

A low-carbon scenario assumes the implementation of policies and technologies that support circular economies, material efficiency strategies, and the promotion of alternative fuels and technologies within a reasonable timeframe to limit global warming to below 1.5°C. As a result, global Net Zero CO_2 emissions are expected to be achieved around 2050.

Hot House World scenario (4°C)

A hot house scenario assumes that policies and infrastructure to support sustainability are not effective. There is little to no adaptation of resource and energy-intensive behaviours. As a result, economies fail to transition to a low-carbon world, and the physical impacts of climate change become increasingly severe.

The following sources informed the assumptions in the scenario analysis:

- **Intergovernmental Panel on Climate Change** – Shared Pathways scenarios of projected global changes are used to derive greenhouse gas ('GHG') emission scenarios associated with different worlds and forecasts on physical climate implications of GHG concentrations.
- **International Energy Agency scenarios** – focus on the consequences of different energy policies 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** – explore different 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 considers various scenarios, adding two additional scenarios in 2023: the Fragmented scenario, which considers divergent geopolitical approaches to climate change and the Low Demand scenario, in which enforceable legislative requirements are coupled with stringent carbon prices.

We conducted a scenario analysis in 2022 with support from Willis Towers Watson and included geographic aspects of our value chain for manufacturing and core materials to enhance financial considerations.

Timeframes

Throughout our analysis, we have defined the time frames as follows:

Horizon	Years	Rationale
Short	1-3 years	Aligned with our business strategy and financial forecasting.
Medium	3-10 years	Aligned to the strategic plan timeframe.
Long	10-30 years	Aligned with our Net Zero ambition by 2050.

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

Net Zero strategy

DFS Group defines net zero as the absolute reduction of carbon emissions across all scopes by at least 90% compared to baseline year with the offset or removal of the remaining, unabaltable emissions.

Our Sofa Cycle Framework underpins our Net Zero ambition and will be delivered by evolving the business to a circular model. We aim to achieve this by mitigating the environmental impact of each aspect of the product lifecycle – from sustainable sourcing to end-of-life – by engaging our entire value chain in the journey. See page 41 for more details.

Engaging with our suppliers directly on our Net Zero strategy and climate-related issues gives us the resilience to mitigate and adapt to climate change issues as they evolve.

Table 1 on pages 46 to 48 details our response to the risks and opportunities identified in the scenario analysis exercise.

Risk management

In FY24, we updated our materiality assessment using the SASB framework and in-depth stakeholder engagement. The critical environmental topics for our business and stakeholders were material use, longevity, and circularity, followed by carbon emissions and plastic and packaging Waste.

Further climate-related risks were identified and assessed through the scenario analysis exercise in FY23. We involved various internal stakeholders in the process, and our wider value chain representatives were consulted on the outcome. We applied a percentage of profit before tax as a benchmark to consider the materiality of the impact of climate change risks and opportunities.

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

Risk management framework

Climate change is included in our principal risks (Environmental and sustainability risk – PR6). The CFO owns the risk and is supported by the Sustainability Director and risk managers, who are closely related to each specific risk identified. The CFO is accountable for ensuring that the relevant controls and mitigation strategies are effective and in place, while the Board has oversight responsibility for principal risks.

We continuously monitor the risk factors and the effectiveness of the controls assigned to the risk. Climate change is currently rated a medium risk, requiring a quarterly review of the controls and mitigation effectiveness.

See page 49 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

The scenario analysis highlighted 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.

Greenhouse gas measures

Engaging our suppliers in our Net Zero strategy is critical to our approach. This year, we used a new metric of 'Scope 3 emissions covered by a supplier commitment to develop a Net Zero strategy' to track the viability of our Net Zero strategy. The supplier engagement target was considered a performance metric and part of the bonus structure. See Director's Remuneration report page 81 for further details.

Please note, our Scope 3 calculation methodology in FY24 shifted to spend-based calculations, to ensure consistency with our industry and suppliers as well as using verified data which is audited by a third party.

We also use Scope 1 and 2 intensity metrics as our cross-industry metrics to track our progress in achieving our Net Zero ambition which are externally assured – see page 42.

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

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

MANDATES AND REGULATION ON OUR PRODUCTS

Risk type	Indicator	Risk rating
P; Transition risks – 1.5°	Production cost.	Medium

Risk/opportunities description
Regulatory pressure is applied to the materials used in the manufacturing of our products, leading to increasing production costs.

This includes the possibility of introducing carbon footprint labelling, plastic taxes or bans on single-use plastics, and zero-net deforestation policies.

Our response
Our Sustainable Sourcing Policy is regularly reviewed to keep current with our regulatory obligations. Furthermore, we set clear ambitions for our suppliers to continually improve upon the requirements to stay ahead of legislative changes such as increasing the volume of recycled content in our packaging and textiles.

We align our supplier contracts with the supplier requirements within the Sustainable Sourcing Policy.

Risk

CARBON PRICING

Risk type	Indicator	Risk rating
P, R; Transition risks – 1.5°, Physical risks – 4°	Direct operating cost.	Low

Risk/opportunities description
Carbon pricing already exists in some of the jurisdictions where we operate. Under both scenarios, the pricing of GHG emissions is expected to increase, which could impact our direct operating costs.

Our response
We continue to monitor developments in this area.

Risk

CLIMATE CHANGE LITIGATION

Risk type	Indicator	Risk rating
P, R; Transition risks – 1.5°	Compliance cost/non-direct operating cost. Brand value.	Medium

Risk/opportunities description
Investors, insurers, shareholders, and public interest organisations could bring climate-related litigation claims against DFS. 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.

Our response
We continuously monitor the legislative landscape to ensure compliance with the relevant disclosure requirements. We are aware that the sustainability reporting landscape is fast-evolving.

In FY25 we intend to invest in training for our Sustainability team and legal counsel in the new ISSB framework and other standards.

Risk

BUILDING CODE REQUIREMENTS

Risk type	Indicator	Risk rating
P; Transition risks – 1.5°	Maintenance cost/capex/opex.	Low

Risk/opportunities description
Increased maintenance costs are associated with upgrading stores, distribution centres, and manufacturing sites to adhere to stringent building codes and guidelines.

Our response
All landlords are required to comply with building code requirements. The majority of our tenancy agreements will be reviewed prior to the 2030 deadline ensuring we have the opportunity to factor compliance and opportunity costs into financial planning.

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 continued

Short term risk and opportunities continued

Risk

INVESTMENT RISK

Risk type	Indicator	Risk rating
R; Transition risks – 1.5°	Cost of capital.	Medium

Risk/opportunities description
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.

However, demonstrating a robust and deliverable strategy, potentially opens the opportunity to access lower cost capital, such as sustainability-linked loans.

Our response
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.

Though we have not met every target this year we believe our targets and submission to the SBTi demonstrate we are ambitious and setting sufficiently challenging objectives.

Medium to long term risk and opportunities

Risk

TRANSITION TO LOWER EMISSION TECHNOLOGY AND MAINTAINING A CIRCULAR SYSTEM

Risk type	Indicator	Risk rating
T; Transition risks – 1.5°	Capex to increase energy efficiency . Capex to increase recycling capability. Capex/opex for transitioning to electric vehicle fleet.	Medium

Risk/opportunities description
Innovation, especially in technology will be essential to achieving our Net Zero ambition.

The technology transition costs could include:
- Energy infrastructure across our estate.
- Switching our logistics fleet to low-emission vehicles.
- Investing in technology to improve the lifecycle of products.

Our response
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 includes the anticipated replacement cycles for legacy infrastructure and lifecycles of vehicles and projected costs are built into the four year financial plan.

Risk

INCREASED COST OF RAW MATERIALS AND PRODUCTS

Risk type	Indicator	Risk rating
M; Transition risks – 1.5°	Production cost.	Medium

Risk/opportunities description
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 and products.

Our response
Phased and adapted pricing and margin structure to accommodate cost changes.

Risk

SHIFT IN CUSTOMER/ CONSUMER VALUE

Risk type	Indicator	Risk rating
M; Transition risks – 1.5°	Revenue.	Low

Risk/opportunities description
Customers have demonstrated they will align themselves with brands that reflect their values. Failure to meet these shifting values could cause customers to switch to alternative products or competitors.

Growing awareness of climate issues and change in consumer priorities could provide an opportunity to widen our customer base, and increase revenues, profits and market share.

Our response
Customer satisfaction was ranked the top issue in our materiality assessment in 2024.

We conduct regular consumer monitoring on appetite and attitudes toward sustainable brands and products as well as our ongoing performance metrics such as NPS.

Additionally, we use customer research to validate our approach to circular models to ensure we are developing commercially viable solutions.

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 continued

Medium to long term risk and opportunities

Risk

COST OF CAPITAL

Risk type	Indicator	Risk rating
M; Transition risks – 1.5°	Cost of capital.	Low

Risk/opportunities description
As credit ratings begin to incorporate climate change considerations, there is a risk that the cost and availability of capital would increase/ decrease.

Our response
We support ESG inquiries and disclosures to third-party and credit rating agencies as well as engaging shareholders.

Risk

PHYSICAL RISK

Risk type	Indicator	Risk rating
Ph; Physical risks – 4°	Asset value located in an area of material climate hazard intensity.	Low

Risk/opportunities description
Damage or loss of value to our facilities due to climate hazards.

Our scenario analysis considers heat stress, flooding, drought, fire weather, and windstorms as climate hazards.

Our response
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.

Risk

SUPPLY CHAIN

Risk type	Indicator	Risk rating
Ph; Physical risks – 4°	% of supply from supplier facilities that are in high-risk areas.	Medium

Risk/opportunities description
The climate hazards considered in our scenario analysis are: heat stress, flooding, drought, fire weather, and windstorm. Any of these hazards could cause disruption in our value chain and disrupt production and delivery.

Our response
Climate or geopolitical disruption of our supply chain is addressed in a similar approach.

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 addressed this with our key partners and have contingency plans in place.

Governance

See full corporate governance framework on page 55.

The Board recognises the crucial role of addressing climate change risks and opportunities for the Group's long-term success. We have established a clear governance framework for climate change and sustainability.

The Board holds overall responsibility for monitoring our progress towards climate-related goals and targets, and has designated the RSC.

The RSC meets at least three times per year to review and assess the Group's sustainability strategy, governance, and performance against targets, as well as review and approve policies related to our focus areas: our planet, our people, and our community.

Climate change remains a central topic in RSC and Board meetings, reflecting its importance in our strategic plan. The Committee's terms of reference are available on the Company's website.

In January 2024, the GLT completed a comprehensive materiality assessment.* The Group Board were independently interviewed as key stakeholders on their views of the topics which were summarised and shared as part of the process. Upon completion, the materiality assessment was presented to the Board and used throughout the Strategy Days held in April 2024.

Climate-related risk is monitored by the Audit and Risk Committee ('ARC') and the Board through regular meetings. The ARC also provides assurance on non-financial metrics. In FY24, they conducted an internal audit of environmental data control systems.

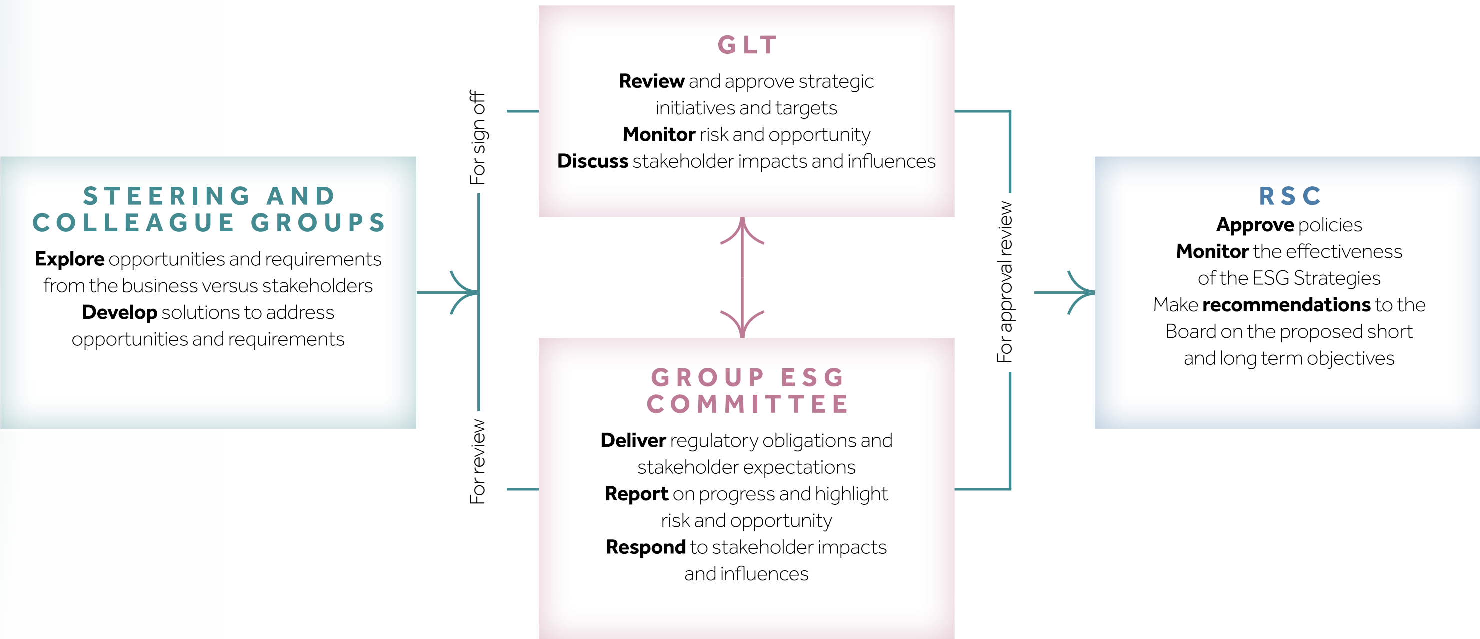
The ESG Committee meets six times per year and reports to the GLT and RSC. Senior management forms part of these forums to ensure they are influencing and monitoring the progress of the climate change objectives. Responsibilities include updating the RSC on climate change and sustainability developments as well as driving the overall strategy of the business and managing its climate-related risks and opportunities.

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

- Internally through regular updates from the ESG Committee and Sustainability team, who ensure governance, including risk management, strategy and implementation, and any financial implications are raised.
- Externally through input from sustainability experts and groups, to ensure our sustainability strategy is relevant and abreast of the continually changing reporting and regulatory landscape.
- Externally through collaboration with the industry bodies and non-profit organisations, such as FSC, Leather Working Group, Circular Change Council, Undaunted (formerly CCCI/Imperial College) and WWF to advocate for circularity, deforestation, and decarbonisation across industry.

* See our Materiality Disclosure at www.dfscorporate.co.uk/media/69987/Materiality-Disclosure.pdf

Governance framework



Ethical business

Our commitment
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. We implement effective systems to counter the risk of bribery and corruption.

We apply our policies across all of our operations, and also require all of our suppliers to commit to apply the same or equivalent policies. The Group does not operate in any tax havens or use any tax avoidance schemes.

Our Anti-Bribery Policy and our Tax Strategy are available on our website https://www.dfscorporate.co.uk/governance/policies and our key principles are stated below:

Bribery and corruption
The principle: We will not accept bribery or corruption, in any form or in any place, and we do not offer, give or take a bribe or inappropriate payment, either directly or indirectly.

What this means in practice:
– Offering, giving, taking or promising things that may influence, or affect an organisation or individual in order to gain business, or an advantage, is not allowed in any form.
– Accepting or offering a bribe/kickback payment of any kind is prohibited; a bribe doesn't have to be successful to be corrupt.
– We will never use our charity or sponsorship activities to gain an unfair advantage.
– We expect all colleagues, partners and suppliers to report any breaches, or suspected bribes or corrupt behaviour.

Gifts and hospitality
The principle: Giving or accepting a gift or hospitality should only be done if it can be proved to be of small and modest value. They should never influence the decisions we take.

What this means in practice:
– We don't offer or accept gifts or hospitality as part of contract negotiations or sales transactions.
– Any gifts given or received are modest in value and recorded appropriately.

Business transactions and information
The principle: All business records, information and transactions must be recorded accurately and honestly. We're steadfast in our approach to preventing any kind of fraud, embezzlement, money laundering or other financial crime.

What this means in practice:
– We have robust controls in place to prevent and detect any form of fraud or money laundering.
– The records of our business dealings and finances are accurate and well maintained.
– If we suspect any kind of irregularity in our finances, they are reported straight away to the management team.
– Timesheets and expenses that are submitted for payment are accurate and timely.

Data Privacy Policy and cyber security
The Group's operations depend upon the continued availability and integrity of its IT systems, including the security of customer and other data held by the Group, and risk of attacks is ever increasing. Cyber security and data has been identified as a principal risk. See page 24 for further details on the procedures and system in place to mitigate the risks.

The Group will take all steps necessary to comply with the principles as set out in the GDPR and DPA 2018 and have a formal Data Privacy Policy.

Human rights and modern slavery
The culture and ethos across DFS Group is about doing the right thing. We set clear standards for conduct, which we expect colleagues and suppliers to adhere to. We respect human rights in our business and our supply chain and do not tolerate modern slavery in any form as documented in our Modern Slavery and Human Trafficking Statement on our corporate website: www. dfscorporate.co.uk/esg/modern-slavery-and-human-trafficking-statement

To assist our colleagues in doing the right thing and to raise any concerns or suspicions we have a clear whistleblowing policy and confidential reporting hotline.

As part of managing the risk of modern slavery, we have a supply chain compliance programme in place.

Our training initiatives include:
– An e-learning module on modern slavery which has been deployed to senior and middle managers across the Group. The training provides guidance on spotting the signs of different types of modern slavery and how to report concerns.

Our commitment
We are committed to acting ethically and will continue to take steps to assess the risk of modern slavery taking place in our supply chain.

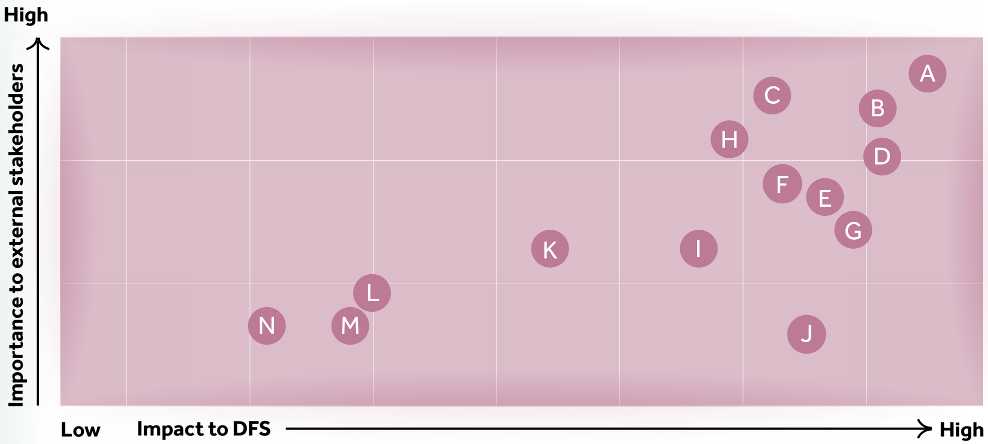
To help achieve this we will:
– Continue working with our tier 1 suppliers and manufacturers to ensure compliance with our policies in relation to human rights.
– Continue to assess our training requirements to ensure that they are fit for purpose and deliver training based on this assessment.
– Address any gaps highlighted in the Ardea gap analysis report to strengthen our policies and procedures.
– Strengthen our due diligence processes by undertaking risk mapping and identifying modern slavery risk through procurement.
– Ensure that any new supplier commits to the Group's Supplier Code of Practice/SLA including SMETA (SEDEX Members Ethical Audits) certification.

For more information please see our Group Code of Conduct and the Group's Supplier Code of Practice https://www.dfscorporate.co.uk/media/46609/Group-Code-of-Conduct.pdf
https://www.dfscorporate.co.uk/media/68866/DFS-Supplier-Code-of-Practice-_-V004-_-Live-.pdf

RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

MATERIALITY ASSESSMENT

A materiality assessment is required under TCFD regulations but is also a useful tool to ensure the business includes all stakeholder perspectives in strategic planning and decision-making. In FY24, we refreshed our assessment by interviewing or surveying all stakeholder groups. Of note, there was a significant shift in priorities to social priorities such as fair wages and diversity and equality over environmental concerns. For more information, please see our Materiality Disclosure at www.dfscorporate.co.uk/media/69987/Materiality-Disclosure.pdf.



Topic		Definition
A	**Customer satisfaction and quality**	Measurement used to determine how satisfied customers are with its products and services.
B	**Health, safety and wellbeing**	Programmes, guidelines and procedures to protect the safety, welfare and health of any person engaged in work or employment.
C	**Data security and privacy**	Protection of customer data and adhering to current regulations such as GDPR to reduce the risk and exposure to potential cyber attacks.
D	**Fair wages**	An income earned during normal working hours that meets the basic needs of workers and their families, with some leftover for extra expenses and savings.
E	**Equality and diversity**	Creating an inclusive environment where everyone is welcome, ensuring employees are treated respectfully and have equal opportunities.
F	**Material use, longevity and circularity**	Responsible use of resources by improving the efficiency of materials in our products and re-use where possible while designing out waste by keeping products and materials in use for longer.
G	**Labour conditions**	Labour conditions and workplace standards including human rights, fair wages and benefits, organised labour and freedom of association.

Topic		Definition
H	**Carbon emissions**	GHG (Greenhouse Gas emissions) produced by the activities and operations and the movement of resources in the supply chain.
I	**Plastic packaging and waste**	The efficiency and recyclability/ reusability to limit waste created in operations.
J	**Energy consumption**	Overall energy efficiency and access to alternative energy sources.
K	**Deforestation and biodiversity loss**	Protection and restoration of the natural capital and biodiversity impacted by harvesting, farming and production of raw materials.
L	**Environment tax**	Tax imposed on activities that have a negative impact on the environment, such as carbon emissions, pollution, or resource depletion (e.g., carbon tax and plastic tax).
M	**Air pollution**	Operational and supply chain activities contributing to air pollution.
N	**Water quality and drought**	Water governance in operations (own and supply chain) to reduce consumption and protect quality.

LOOKING AHEAD

As climate-related considerations become more central to our business, we expect them to become 'business as usual' in our strategy and financial planning. We are developing commercial solutions to provide business resilience during the transition and capitalise on the opportunities highlighted. Investments needed to transition and manage potential impacts will continue to be integrated in financial planning going forward.

TCFD CONSISTENCY INDEX

Pillar	Recommended disclosures	Location within this report
Governance	(a) Board oversight of climate-related risks and opportunities	Page 49
	(b) Role of management in assessing and managing climate-related risks and opportunities	Page 49
Strategy	(a) Climate-related risks and opportunities	Page 45-48
	(b) Impact on the organisation's business, strategy and financial planning	Page 45-48
	(c) Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Page 45
Risk management	(a) Processes for identifying and assessing climate-related risks	Page 25 and 45
	(b) Risk management process	Page 25 and 45
	(c) Integration into overall risk management	Page 25 and 45
Metrics and targets	(a) Metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process	Page 42, 43 and 45
	(b) Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions See www.dfscorporate.co.uk/media/69984/Basis-For-Reporting-FY-24.pdf for our Basis for Reporting	Page 42 and 43
	(c) Targets used to manage climate-related risks, opportunities and performance	Page 34, 41 and 45

This Strategic Report was approved by the Board on 25 September 2024.

On behalf of the Board.

TIM STACEY
Chief Executive Officer

JOHN FALLON
Chief Financial Officer