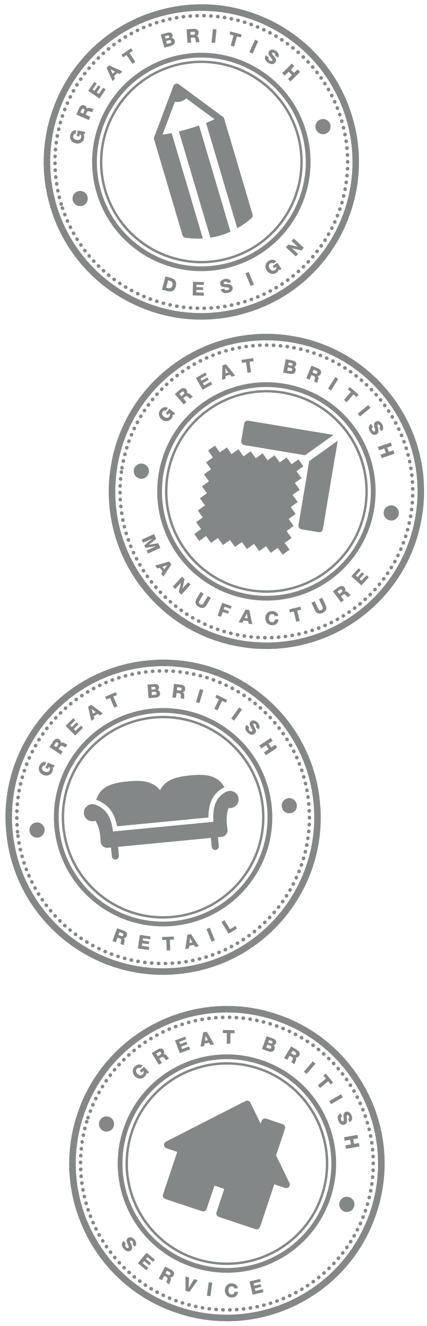


Annual report and accounts 2016

We are the sofa experts.
We specialise in

making us a **Great British business** and the leading retailer of upholstered furniture in the UK.

I am delighted to report that our financial and operational progress remains on track in our first full year of trading since DFS returned to the stock market in March 2015.

Richard Baker
Chairman

See full statement on page 8

CONTENTS

Visit us online at dfscorporate.co.uk

A year of record results

FINANCIAL

GROSS SALES

£980.4m

up 7.4%
(FY15: £913.1m)

REVENUE

£756.0m

up 7.1%
(FY15: £706.1m)

PROFIT BEFORE TAX

£64.5m

(FY15: underlying £33.3m)

NET DEBT/ADJUSTED EBITDA

1.45x

Continued strong cash generation

UNDERLYING EPS

23.7p

up 28.1% (adjusted underlying FY15: 18.5p)

FINAL DIVIDEND

7.5p

per share proposed
Full year total 11.0p, up 18.3%

UNDERLYING EBITDA

£94.4m

up 5.8% (FY15: £89.2m)

Further special capital return to shareholders expected later in FY17

OPERATIONAL

- **Proven growth strategy on track:**
  - Broadening our appeal
    - 35% growth in branded upholstery orders through DFS.
    - Sofa Workshop ranges performing well in DFS stores.
  - UK stores
    - Three new 10-15,000 sq. ft. DFS stores opened in UK and ROI.
    - DFS small store trial opened in Bromley, with further store in Crawley to open shortly.
  - International
    - Netherlands stores trading in line with expectations, with third store opened post year end.
  - Full utilisation of retail space
    - Eleven Customer Distribution Centres operating at year end.
    - Twelve Dwell co-located stores performing strongly; potential for over 40 Dwell stores.
  - Online
    - Continued strong growth in gross sales, profits and site traffic.
- **Continued strong increases in customer satisfaction scores: average post-purchase NPS above 80%; established customer rising from 21.9% to 31.2%.**
- **Positive customer and employee response to partnership with Team GB for Rio Olympics.**

Today the DFS Group employs approximately 4,000 people and operates over 100 retail stores in the UK, the Republic of Ireland and the Netherlands, a comprehensive online channel, and our own five factories in the UK.

UK & ROI
- DFS stores
- Factories
- Dwell stores
- Sofa Workshop stores
- ▲ DFS/Dwell/ Sofa Workshop

The Netherlands
Cruquius
Rotterdam

Spain
San Javier

DFS STORES IN THE UK & REPUBLIC OF IRELAND[1]

109

DWELL AND SOFA WORKSHOP STORES[1]

36

STORES IN THE NETHERLANDS[1]

02

STORES IN SPAIN[1]

01

1 As at 30 July 2016

A Great British business

DFS is the leading upholstery retailer in the UK – passionate about making and selling high quality, great looking sofas since 1969.

At DFS, we have almost 50 years of experience in designing, manufacturing, selling, delivering and installing an extensive range of sofas and other upholstered and general furniture products. Our products are complemented by our market-leading interest free credit offer, British Standards accreditation, long-term guarantees and comprehensive after-sales service. Through our broad core DFS product range, together with our premium branded partnerships and our subsidiaries Sofa Workshop and Dwell, we really do offer a sofa for everyone.

Our heritage and focus make us the clear UK sofa experts, with a share in the segment greater than our next four specialist competitors combined. Through our scale, specialism and in-house manufacturing expertise we are able to offer our customers an unbeatable combination of great products, great service and great value.

UPHOLSTERY RANGES INTRODUCED IN FY16

163

SERVICE MANAGERS IN THE FIELD[1]

200

UPHOLSTERY ORDERS MADE IN-HOUSE IN FY16

25%

1 As at 30 July 2016

DESIGN & INSPIRE

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

RETAIL

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

MANUFACTURE

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

SERVICE

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

See our business model on page 10

The sofa experts

We have been consistently capturing market share, achieving success through offering great service, great choice and great value.

Large potential customer base
DFS has a specialist focus on the retail upholstered furniture segment which accounts for approximately 25% of the furniture and floorcoverings market. The UK retail upholstered furniture segment was estimated by Verdict to be valued at c.£3.2 billion in 2015. We also offer a selected range of beds, dining and other furniture giving access to other segments in the market.

Clear leader in the segment
DFS is the clear leader in the upholstery segment with 26.4% share by value. Our share is greater than that of our next four competitors combined. We see three broad categories of companies competing in the upholstery retail market: Specialist Chains such as DFS, ScS, Harveys, Sofology and Furniture Village; Independents that are typically single store operations; and General Merchandisers and Others with stores such as Ikea, John Lewis, Next, Argos, Debenhams and all other retailers including DIY chains and supermarkets.

A new sofa will be located at the heart of a customer's home for a number of years. As a result, most customers will perform significant research in order to find the right product for them. This depth of research generally leads customers to prefer to choose to purchase from Specialist Chains and Independents that have the specialist sales staff and breadth of product range to appeal to the broadest range of customers.

This trend can be seen in the combined market share of these two categories now accounting for two-thirds of retail sales and having steadily grown from 2010 to 2015.

Customers are however increasingly choosing to purchase from Specialist Chains, with the sector share held by specialists rising from 45.3% in 2010 to 54.6% in 2015. Specialist Chains benefit from advertising more widely than Independents and using their purchasing scale to offer customers better value and more attractive purchase financing terms, as well as giving the reassurance of more visible financial strength and brand reputation to underpin long-term product warranties.

We believe that this trend is likely to continue as customers continue to see the benefits that Specialist Chains can offer and Independents continue to face the challenge of declining sales with static fixed costs.

Our website also maintains a leading presence, attracting more than 40% of the specialist segment's traffic volumes.

Steady growth trends over long-term periods
Between 1995 and 2015, the UK upholstered furniture segment has grown by 2.9% per annum on a compound annual growth basis, driven by a c.7 year replacement cycle and underpinned by demographic trends.

The segment is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability. After peaking at £3.9 billion in 2007, the subsequent financial crisis, compounded by the exit of several significant retailers, caused the segment to decline to £2.9 billion in 2011 from where it has since stabilised to c.£3.2 billion in 2015.

Although the outlook for 2017 is somewhat uncertain following the result of the UK's EU Referendum, current levels of consumer confidence still remain significantly above those seen during the financial crisis and the number of housing transactions and rate of consumer credit growth has not as yet changed markedly.

Between 1995 and 2015, the UK upholstered furniture sector has grown by 2.9% per annum on a compound annual growth basis.

KEY MARKET DRIVERS

Consumer confidence

Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. While levels of consumer confidence have been impacted recently by the outcome of the EU Referendum, as of October 2016, they remain well above the lows seen in 2008.

Consumer confidence[1]

Oct 2016	-1.0
2015	3.1
2014	-2.6
2013	-18.6
2008-12*	-26.0
2006-07*	-6.2

Housing market

Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. Housing market transaction volumes are well above levels seen between 2009-2012 albeit still at levels significantly beneath the 2006 peak.

Housing transactions ('000s[2])

2016 YTD	+6% year on year
2015	1,226
2014	1,223
2013	1,068
2009-12*	892
2006-08*	1,644

Consumer credit

Upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling. Consumer credit availability has steadily improved since 2010 lows.

Net unsecured lending growth[3] (%)

Aug 2016	10.3
2015	7.7
2014	5.9
2013	3.6
2009-12*	-0.5
2006-08*	5.6

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

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

3. Bank of England - 12 month average growth rate of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in %) seasonally adjusted

* Mathematical average of reported values

Delivering on our strategy

"The tried and tested DFS growth strategy has delivered another set of record results and put us in an excellent position, as the market leader, to continue to generate shareholder value. Our unique and flexible business model, the quality and commitment of our people, our family culture and our focus on customer satisfaction remain the key factors behind our continuing success."

Growth strategy on track
I am delighted to report that our financial and operational progress remains on track. These excellent results reflect the executive management team's successful implementation of multiple strategic initiatives that have delivered ahead of our expectations in a number of areas, enabling us once again to outperform the furniture retail market as a whole. Such outperformance has been a consistent feature of the DFS track record in all the varied market conditions the business has encountered throughout its long operating history.

Our markets
The key macroeconomic indicators of consumer confidence, housing market activity and consumer credit availability remained generally favourable throughout the year, enabling the UK retail furniture market to continue its recovery from the low point it reached in 2011, in the wake of the global financial crisis. The market still remains, however, some 20% smaller by value than at its peak in 2007, potentially indicating further scope for growth in the longer term once current economic uncertainties are resolved.

Results and dividend
The business performed strongly throughout the year to deliver continued record levels of revenues, profits and cash flow. The strong cash generation that is such an important feature of our business enables the Board to recommend payment of a final dividend of 7.5 pence per share (FY15: 6.2 pence), an increase of 21.0%. Together with the increased interim dividend of 3.5 pence (FY15: 3.1. pence) paid in June, this makes a total dividend for the year of 11.0 pence (FY15: 9.3 pence), a rise of 18.3%, in line with our commitment to deliver excellent returns to our shareholders through a consistently progressive dividend policy.

Given the strong progress in reducing our financial leverage and current positive trading momentum, the Board is also pleased to confirm it currently expects that the business will be in a position, at the interim results in March 2017, to announce a further special capital return to shareholders anticipated to occur prior to the current financial year end in July 2017. In the interests of prudence, the return would depend on the capital requirements of the business, in line with the detailed guidance given within the Financial Review.

People
Our whole family of some 4,000 people deserve our sincere thanks for their hard work in delivering another set of record results. Their commitment to delivering outstanding service to our customers at every stage of their experience with DFS is endorsed by record levels of customer satisfaction, as measured by our Net Promoter Scores.

I am delighted to welcome Nicola Bancroft to our Board as Chief Financial Officer, following the retirement of Bill Barnes after almost 13 years. Bill leaves with our thanks and our very best wishes for the future. Nicola and Bill have worked closely together for the last three years and the handover of responsibilities has therefore been seamless and smooth. I am particularly pleased that we now have equal representation of women and men on our Board.

Conclusion
DFS has weathered many forms of political and economic turbulence during its 47 years of operating history, and I have confidence that we will continue to be well positioned despite the uncertainties inevitably surrounding the outcome of the EU Referendum. Our business model, scale, vertical integration and highly flexible cost base all provide resilience against potentially weaker trading conditions, relative to the market. We will continue to pursue our proven long-term growth strategy, leveraging our excellent cash flow to invest in the business for the future, and I am confident that this will continue to deliver long-term profitable growth and cash returns for the benefit of all our stakeholders.

Richard Baker
Chairman
5 October 2016

Creating value

KEY COMPETITIVE ADVANTAGES:

Scale

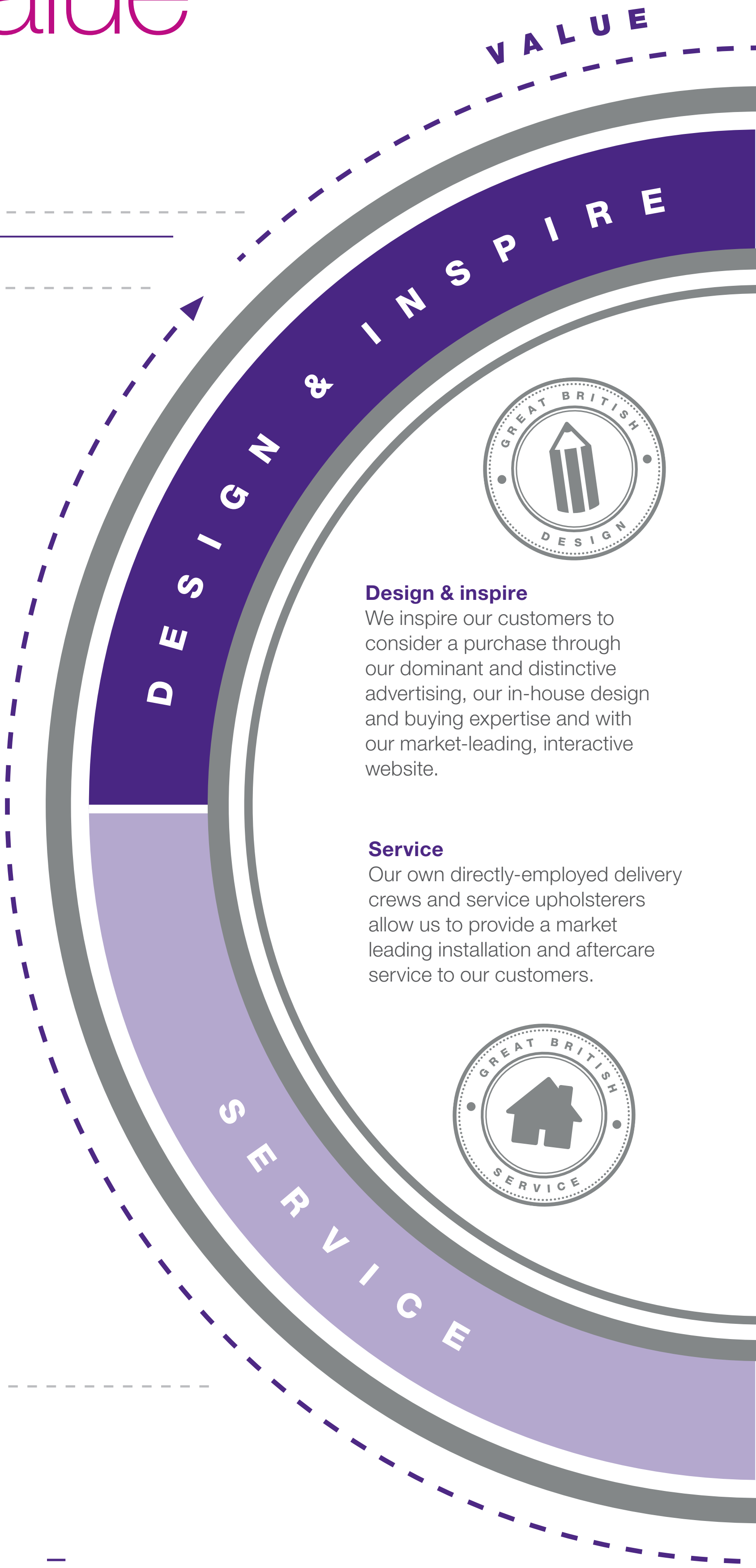
Our upholstery sales are greater than those of our next four specialist competitors combined. By leveraging our scale when sourcing products, offering interest free credit and spreading the cost of central services and buying advertising, we are able to offer our customers an overall product, value and service proposition that we believe competitors struggle to match. Furthermore, with over 100 stores giving us nationwide coverage of the UK and Republic of Ireland, our high store sales densities reduce our fixed cost margins for rent and rates.

Vertical integration

With vertical integration from product design through to installation and service, we benefit from significant advantages in cost, customer service and responsiveness. Our five factories allow us to shorten lead times and provide valuable cost insights for negotiations with external suppliers. Our well-trained in-house delivery and service teams enable us to control interactions with our customers at every stage to ensure their satisfaction.

Expert focus

We are sofa specialists with nearly 50 years of expertise in designing, making, selling and servicing upholstered furniture. Sustained, memorable advertising and regular range innovation mean that our brand has unmatched consumer recognition as the UK's number one sofa retailer. This has underpinned our proven ability to achieve consistent, profitable, above market growth in a wide range of trading environments throughout our long operating history.



Design & inspire
We inspire our customers to consider a purchase through our dominant and distinctive advertising, our in-house design and buying expertise and with our market-leading, interactive website.

Service
Our own directly-employed delivery crews and service upholsterers allow us to provide a market leading installation and aftercare service to our customers.

We have a 'difficult to match' business model, with key advantages that deliver sales growth, market share gain and strong margins.

Retail
Our nationwide showroom network is staffed by knowledgeable, well-trained and highly motivated retail sales teams complemented by our transactional website, apps and telephone call centres.

Manufacture
Our five UK factories produce more than a quarter of the furniture we sell ensuring we maintain a competitive edge in all product sourcing.

OUTCOMES:

Happy customers

By using our operational advantages, we aim to delight our customers by offering the best combination of product, service and price. We monitor our customer satisfaction using NPS*, and have seen our score for post purchase satisfaction rise from 40% in January 2012 to an average of 83.9% in FY16.

Gross sales growth

Our target is to achieve gross sales growth that is consistently above overall market rates. We have grown Group gross sales over the last five financial years by over £230m or 30%. Our success is evidenced by consistent growth in our share of the upholstery segment of the furniture market, as estimated by independent consultants Verdict Retail.

Strong margins and cash flow

Our EBITDA margin in FY16 was 12.5%, and 12.6% in FY15. Our strong profitability and robust business model deliver a consistently excellent cash flow, reflected in a £25.0m reduction in net debt over the last financial year after the payment of £31.0m in returns to shareholders.

* Net Promoter Score ("NPS") is an industry standard measure of customer satisfaction, based on the direct question "How likely are you to recommend DFS to friends, family or colleagues?". Scoring is on a 0 to 10 scale. NPS is calculated by subtracting the percentage of customers who are detractors (score of 0 to 6) from enthusiasts (score of 9 or 10).

OUR STRATEGY

Strategy for growth

1. Broadening our product and brand appeal

We aim to consolidate our leadership across all segments of the upholstered furniture market by increasing our appeal to older and more affluent 'aspirational customers' while retaining our core mass market appeal.

The DFS tradition of making all products to order, and our own UK manufacturing base, have provided a strong platform to achieve this by broadening the DFS product range, developing exclusive brand partnerships and acquiring complementary businesses.

Exclusive brand partnerships with French Connection, House Beautiful and Country Living delivered 35% growth in bookings last year, building on a 75% uplift in FY15.

GROWTH IN EXCLUSIVE BRAND SALES

35%

Key performance indicator

2016	35
2015	75
2014	55

TARGETS

- We have an ambition to reach a share in the 'aspirational' customer segment of 25% by the end of FY18.
- We will achieve this target without weakening our strong share in and focus on our other core customer segments.

2. Exploit UK and ROI roll-out opportunities

We see continued potential to build on our nationwide store coverage by opening both three to five profitable new stores each year in the traditional 10-15,000 sq. ft. DFS store format and by developing smaller stores of as little as 2,500 sq. ft. in high footfall urban locations.

Three new larger format stores were successfully opened in FY16 at Christchurch, Limerick and Kettering, and we also opened a second smaller urban store in Bromley.

Our proven, bespoke customer catchment area model enables us to predict accurately where future store opening opportunities exist.

We have already identified locations for more than 15 additional 10-15,000 sq. ft. stores that are each predicted to generate over £500,000 of incremental EBITDA net of existing store cannibalisation.

NUMBER OF DFS STORES (UK & ROI)

+4

Key performance indicator

2016	109
2015	105
2014	100

- We will open between three and five UK and ROI stores each financial year using our large and medium 10,000-15,000 sq. ft. formats.
- Each of these traditional formats is targeted to achieve cash payback within two years on the initial c.£1m operating and capital expenditure (including incremental logistics assets).
- We will continue to test and learn from our trial small-format (2,000-5,000 sq. ft.) stores.

3. Establish presence in international markets

Our ability to extend the DFS brand to new markets was first demonstrated by our successful expansion into the Republic of Ireland, where we opened our first store in 2012, and is continuing with our more recent developments in the Netherlands and Spain.

We continue to be encouraged by the results of our trial in the Netherlands. Our initial store at Cruquius opened in November 2014, while our second store at Alexandrium in Rotterdam opened in September 2015 and is achieving a comparable performance to Cruquius despite its smaller 10,000 sq. ft. footprint.

The DFS Spain operation acquired in October 2015 has benefited from showroom refurbishment and is successfully driving online traffic.

NUMBER OF INTERNATIONAL STORES

3

Key performance indicator

2016	3
2015	1
2014	0

- Building on our success in the ROI, we aim to develop a profitable national network of 10-20 stores in the Netherlands, which leverages our UK infrastructure and proven operating model.
- We will develop our Spanish store presence to profitably serve significant ex-pat communities in Southern Spain, giving us a foothold in the overall Spanish market.

4. Full utilisation of store retail space

Releasing former warehouse space in our store estate enables us to generate incremental retail sales while consolidating warehousing and delivery in lower cost and more logistically efficient offsite locations.

A store-in-store concept to expand the Dwell brand alongside DFS has been proven to deliver a superior sales and profit performance compared with trials of using the additional space to retail beds and dining furniture.

We have accelerated our planned Customer Distribution Centre ("CDC") conversion programme, opening six during FY16 rather than our initial target of three per annum.

We now expect to complete our CDC conversion programme in FY17 with the opening of a further eight CDCs to give us a total of 19.

STORES WITH CONVERTED WAREHOUSE SPACE

19

Key performance indicator

2016	19
2015	8
2014	3

TARGETS

- We will complete our roll-out of 19 UK CDCs by the end of FY17 with completion of retail space conversion occurring in FY18.
- Retail space released by our CDC openings will either be converted into new Dwell or Sofa Workshop stores, allow us to downsize our retail footprint, or be used to sell an extended range of furniture.
- Once fully rolled out, our programme is targeted to deliver incremental annual EBITDA of an average of £650k - £700k per CDC.

5. Maintain online leadership

We have the clear market-leading online upholstery platform, accounting for over 40% of upholstery segment web traffic, and a proven track record of growing margin-enhancing sales through this channel.

With most customers now beginning their research on potential furniture purchases online, our website provides both inspiration to visit our physical stores and the opportunity to make direct purchases through a convenient, interactive platform that is available 24 hours per day throughout the year.

Sales completed online continued to show double digit growth during FY16.

Integrating online technology into our stores through the roll-out of "Swoosh" furniture visualisation technology across the DFS estate demonstrates our ability to offer our customers a true omnichannel proposition.

ONLINE GROWTH RATE

15.6%

Key performance indicator

2016	15.6
2015	17.5
2014	6.7

- We will continue to maintain a share of over 40% of upholstery segment web traffic.
- Our significant investment in key future online technologies, in particular mobile web, personalisation and strengthening the omnichannel customer experience will continue.

GREAT BRITISH DESIGN

ASPIRATION AND EXCLUSIVITY

Our French Connection, Country Living and House Beautiful partnerships highlight how we are successfully using our upholstery design and manufacturing expertise to create exclusive branded ranges of high quality British upholstery. Together with our Sofa Workshop subsidiary, these branded ranges are broadening our appeal to all customers, and particularly to aspirational customer segments.

During the year we have seen strong growth once again from our French Connection ranges together with the exciting launches of the House Beautiful *Lydia*, Country Living *Lavenham* and Sofa Workshop *Dillon* and *Ellie* in DFS stores.

DESTINATION RETAIL LOCATIONS

Our new Oxford site is a great example of the potential of our retail space conversion programme. Originally a DFS store with on-site warehouse, we moved the warehouse space off-site and in December 2015 opened both a Dwell and a Sofa Workshop alongside our DFS store.

Prompted by the broad appeal of our three store brands we have seen a wider variety of customers visiting the site. Footfall has also increased, which we interpret as a more frequent shop by customers driven by Dwell's homewares range. Overall the conversion has released new, profitable sales space for Dwell and Sofa Workshop and increased sales from the existing DFS store.

Managing risk

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

Risk management framework

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

Assessment of principal risks and uncertainties

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

These risks are discussed below, together with the Group's related mitigating activities. Other risks which are currently either not known to the Group or are not considered material could also impact the Group's reported performance or assets.

RISK	MITIGATION	MOVEMENT
Economy and consumer market conditions The retail market for upholstered furniture in the UK is highly competitive. The Group's success is therefore dependent on its ability to compete effectively, particularly during peak trading periods. The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the economies in which the Group operates including (but not limited to) consumer confidence, income levels, interest rates, the availability of credit and the level of housing market activity. 1 2 3 4 5	The Group continues to make substantial investments in marketing to maintain its leading brand status. Marketing strategy is supported through econometric and customer insight analysis. Detailed sales information by product and store is reviewed daily, enabling changes to product selection, incentive structures and advertising strategy to be made on a dynamic basis to optimise sales. The Group's interest free credit offer allows customers to spread the cost into affordable monthly payments.	Increased risk
Product and innovation Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of the business. A failure to predict changes in customer tastes or the impact of changes in the competitor environment could reduce the Group's revenues and market share. 1	Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value and are supported by excellent customer service, in order to enhance the Group's market-leading position. Our in-house design teams enable reaction to emerging trends and new entrants to the market. External design partners are also incentivised to generate new product concepts on a regular basis. Quality Level Agreements are in place with all upholstery suppliers, reinforced with internal quality control procedures to rapidly identify and rectify product liability and recall issues. Compliance with fire regulations and other quality standards is supported by independent external testing. The Group has a focus on offering outstanding customer care and service. This is underpinned by our established use of Net Promoter Score ("NPS") at all touch points of the consumer journey to ensure our brand is growing, trusted and appealing.	Stable
Expansion of retail store network The growth of the Group depends on its ability to open and operate new stores on a timely and cost-effective basis while continuing to increase sales at existing stores. This includes successfully achieving incremental sales from retail space released by roll out of Customer Distribution Centres. Competition for desirable retail sites has historically been significant, which may reduce the availability and/or increase the rental costs of such sites. Successful execution of any new store roll-out also depends upon a number of other factors, including the hiring, training and retention of qualified personnel and the capability of the Group's existing information technology and distribution systems to accommodate new stores. 2 3 4	The Group continuously reviews the location and format of its stores and their contribution to overall results. A detailed appraisal model is applied to assess the payback period and expected profitability of each potential new store, including its impact on existing stores in the area. Appraisals are subject to thorough review and approval by the Board before any investment is made. The Group has an established supporting infrastructure in place to recruit and train new employees and fit out and open stores to schedule.	Stable

1 2 3 4 5 Link to strategic priority   Increased risk   Decreased risk   Stable

RISK	MITIGATION	MOVEMENT
Website and IT systems The Group's websites are a key component of its omnichannel proposition and a failure to review and innovate in this competitive area could impact achievement of the Group's strategic growth plans. Websites and other parts of the Group's operations depend upon the continued availability and integrity of its IT systems. 5	The Group continues to make substantial investment in both website development and marketing to maintain its market-leading position. An established team of experienced staff in this field are supported with ongoing relationships with external partners. The Group engages with independent third parties to actively monitor both customer satisfaction with its digital services and the emergence of new online competitors. Full back-up and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated. Technical security measures against data loss through a systems breach are in place and regularly reviewed. Third party penetration testing is carried routinely to check the resilience of the Group's systems to cyber-attack.	
Consumer finance The majority of the Group's sales are to customers that utilise its interest free finance offerings, which are provided by external finance houses that, in return for a fee, bear the risk of customer default. Credit standards with respect to customer finance offerings typically tighten during periods of economic downturn, which may limit the Group's ability to offer customer finance on commercially acceptable terms and/or may increase the amount of the fee payable to the external providers of customer finance. 1	The Group has longstanding relationships with a number of finance houses, with long term contracts in place with two providers which more than cover the total requirement for customer finance. These arrangements enable a redistribution of business in the event of withdrawal by one or more providers, and surety on acceptance rates and fee levels. These key metrics are continuously reviewed to ensure that each provider remains competitive. An increase in LIBOR that affects the cost of providing credit may be mitigated by revising the customer offer in line with maintaining market leader status.	
Supply chain A large portion of the Group's products are supplied by a core of manufacturers, with many produced in continental Europe and Asia. The Group's internal manufacturing operations also supply a significant proportion of goods sold and may not wholly be able to compensate for the failure of any of the Group's key external suppliers to satisfy their delivery obligations. Increases in finished goods and underlying commodity prices may negatively impact the Group's trading margins. 1	The Group maintains flexible supply arrangements to facilitate switching between suppliers where necessary and uses a variety of freight forwarders to avoid reliance on any one transport link. Supplier performance is monitored against operational and quality targets and reviewed by senior management. All external upholstered furniture suppliers are frequently inspected by the Group to ensure working conditions and quality standards are maintained. Fixed prices are negotiated for finished goods and the scale of the Group enables it to achieve significant cost savings with supplier partners. The Group's in-house manufacturing capacity provides insight into production costs and the ability to create cost-efficient designs.	
Employees The success of the Group depends significantly on its ability to attract and retain a workforce that includes experienced sales, product design and production personnel and to retain members of its senior management team, many of whom have significant experience in the Group's business and industry. The physical nature of our products and handcrafted production processes involves a number of manual activities, increasing the complexity of health and safety compliance. 1 2 3 4 5	Employee remuneration is structured to be at attractive levels and to incentivise employees towards results that are aligned with the objectives of the Group. In addition, senior management across the business may participate in equity in the Group or in longer term incentive plans operating over a three year cycle. Succession planning is operated throughout the business to identify short and long term successors to key roles. A high performance training programme is in place for individuals identified for key roles. The Group makes significant investment in training employees in health and safety requirements. Dedicated internal teams are supported where needed by external advisors in specialist ares.	

RISK	MITIGATION	MOVEMENT
Financial risk and liquidity A downturn in the macroeconomic environment may impact the Group's ability to obtain financing. An increase in interest rates could increase the Group's financing costs. The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas. 2 3 5	The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £30.0 million revolving credit facility in place until March 2020 which is as yet unutilised. Foreign exchange and interest rate risks are managed through the use of appropriate hedging arrangements in accordance with its Board-approved treasury policy, with details reviewed by the Board on a regular basis. No financial instruments are entered into for speculative purposes. In response to the significant change in foreign currency exchange rates following the EU Referendum, the Group has established detail plans to actively manage its cost base and supply chain to mitigate these risks as far as possible.	▲
Regulatory environment The Group is subject to increasing levels of compliance requirements in many of its activities from regulatory and other authorities and is subject to regulatory risk with potential for significant financial impact or reputational damage. Changes to the regulatory environment surrounding DFS product warranty insurance could impact the sales of these products. Changes in other legislation which may have significant retrospective or future economic effects could also impact operating results. 1 2 3 4 5	Comprehensive training and monitoring programmes are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Reputational Risk Committee is in place to monitor management information and review processes and procedures to ensure our customers are treated fairly. This includes rigorous oversight and escalation processes to maintain the status of limited permission to offer consumer finance granted by the FCA.	▲

Viability reporting

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the date of approval of the financial statements.

This assessment was based on the current position of the Group and the key risks and uncertainties, as discussed on pages 16 to 19 of this Annual Report, and considered a period of four years from 30 July 2016. A period of four years was selected by the Directors since it reflects the period over which the Group's various growth initiatives are anticipated to have a key impact on the business profile and corresponds to the Group's normal planning cycle.

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

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

In developing the viability assessment it has been assumed that the Group's £200.0 million senior loan facility will be refinanced on its maturity in March 2020 on similar terms to the current arrangement.

Based upon this assessment, the Directors have confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the four year assessment period.

Consistent outperformance

"It is naturally pleasing to again report record results that demonstrate the robustness of our business model, the effectiveness of our growth strategy and the excellence of our products and our people. Together these unique assets give DFS the proven ability to achieve consistent outperformance of the retail furniture market over the long term."

Overview

Our strong sales growth was sustained throughout the year, as many of our strategic initiatives continued to deliver ahead of our expectations within a healthy furniture market environment. This performance enabled us to deliver profit before tax at the upper end of market expectations despite the increased operating costs arising from our investment for the future in the development of Dwell, Sofa Workshop and DFS internationally. The business also remains highly cash generative, enabling us to fund our investments in store openings and refurbishments, and an accelerated programme of retail space conversion, while reducing gearing and increasing returns to our shareholders.

Growth strategy update

Broadening our appeal to customers

We remain committed to "creating and making sofas that every home loves and can afford", and have focused on extending our appeal to an even broader range of customers so as to consolidate our position as the UK market leader in upholstered furniture across all customer segments.

Our ranges of Exclusive Brands have performed well ahead of our expectations, with a 35% increase in total sales orders over the year as a whole.

Highlights included the introduction of a number of new models under the House Beautiful brand, and the continued outstanding success of the French Connection *Zinc* range. Our close supplier relationships and vertical integration insights have enabled us to introduce a seven-day express delivery option across the *Zinc* sofa range.

We extended our partnership agreements with French Connection, House Beautiful and Country Living during the year, and are also achieving encouraging results from the sale of sofas from our own Sofa Workshop *Dillon* and *Ellie* ranges through DFS stores.

UK and Republic of Ireland DFS store roll-out

Our well-established programme of adding new 10-15,000 sq. ft. DFS stores at the rate of three to five per annum has continued to plan, with the successful opening of three new stores at Christchurch and Kettering in the UK and Limerick in the Republic of Ireland. Our established customer catchment area model, leveraging our comprehensive delivery postcode data, enables us to make a highly accurate assessment of new store opportunities to target new stores likely to deliver substantial incremental EBITDA, and achieve rapid payback within two years. Progress in opening new stores in the 2017 financial year is well advanced with two new stores opened in Truro and Salisbury, and further openings planned in the next six months.

Following the success of our initial trial of a smaller 2,500 sq. ft. store last year in the Westfield shopping centre in Stratford, London, we opened a further small store in Bromley in April 2016 and will shortly open a third store in this format in Crawley, extending the trial outside the M25. The development of this smaller concept is made possible by our market-leading website and innovative “Swoosh” furniture visualisation technology, allowing us to demonstrate the comfort of our products to customers with just one unit from each range in store, while using large screens to show our complete range of sizes, types, coverings and colour options.

International expansion

We continue to make progress in The Netherlands, where we opened a second store in Rotterdam’s Alexandrium shopping mall and retail park in September 2015. At 10,000 sq. ft. this store is smaller than our initial trial opening in Cruquius and is achieving comparable results, giving us reassurance that store performance is replicable and predictable in new locations. Cruquius also achieved satisfactory growth in sales year-on-year.

As expected, our investment in long-term brand-building for DFS in The Netherlands was reflected in operating costs, net of incremental revenue, of approximately £2 million during the year, and we expect to maintain a similar £2-3 million of net investment in the current financial year. In September 2016 we opened a 3,300 sq. ft. store in Amsterdam as our first trial in The Netherlands of a smaller format store in a shopping centre location. We intend to maintain a measured approach to additional store openings as we strengthen customer awareness and reputation in this market, with the long-term aim of building the scale needed to support national TV marketing based on the proven model of DFS in the UK.

EXCLUSIVE BRANDS TOTAL SALES ORDER INCREASE

35%

EXPRESS DELIVERY LEAD TIMES ON CERTAIN RANGES

7 days

DFS Spain, acquired in October 2015, performed well during the year following the refit of its showroom in San Javier, near Murcia in January 2016. However, since our brand primarily appeals to the 800,000-strong British expatriate community in Spain, recent trading in this business has understandably seen some impact from the uncertainty arising from the EU Referendum vote.

Retail space optimisation

We have established a successful model for Dwell to occupy store warehousing space converted for retail use within the DFS estate. This has two positive results. First, the new Dwell stores generate higher revenue and profits than we have been able to achieve by using converted space to sell ranges of beds and dining furniture. Secondly, the first twelve Dwell stores opened have also generated a c.2% like-for-like increase in DFS bookings within the associated DFS stores, as these stores have benefited from increased footfall through new customers and an increased frequency of return visits.

The success of the Dwell store-in-store concept has led us to accelerate our investment in the Customer Distribution Centre ("CDC") conversion programme. This programme releases additional retail space by removing DFS's warehouse operations from stores and consolidating them into larger, purpose-built, off-site facilities. A further six CDCs opened during the year, giving us a total of eleven at the year-end, which serve approximately half of our store estate. We now expect to complete the programme with the opening of a further eight CDCs during the new financial year.

On completion of the CDC conversion programme and store-in-store roll-out we will have over 40 Dwell stores giving us nationwide coverage, together with more than five new Sofa Workshop stores, whilst in the remainder of the DFS estate we will utilise the remaining retail space to carry additional ranges of beds and dining furniture. Whereas previously we have guided to incremental EBITDA per CDC of c.£500k, we now expect each of the CDC conversions will generate £650k–700k of incremental EBITDA including both the benefit of the incremental Dwell profitability and also the impact of DFS LFL sales growth.

The roll-out of this programme involves significant pre-opening costs in the short term, as new sales staff are recruited and trained and we scale up our supply chain and head office to support the new stores. With the scale and pace of roll-out this financial year, we believe the incremental benefits we are currently seeing will be offset by implementation costs, however from FY18 and into FY19 we expect there will be a £3-4 million increase in EBITDA in aggregate above the previous guidance given for this growth lever.

Omnichannel

Today the web is the natural starting point for most people researching a potential furniture purchase and a vital gateway and complement to our physical stores. Our website dfs.co.uk remains a strong leader, continuing to attract over 40% of upholstery sector web traffic over the course of the year.

Continued investment in our web channel this year has included the upgrading of our product viewer and room planning apps, the development of a new online payment system, and the introduction of an online order tracking service that allows customers to follow the progress of their new furniture through every step from placing their order to its installation in their home. Our mobile and tablet sites have remained a focus for our development reflecting the changing mix of devices our customers use to visit our site. We have also enjoyed continued double-digit growth in sales completed online, making a valuable contribution to overall Group sales growth. Subsequent to the end of the financial year we also successfully replatformed our website allow us to continue to grow our scale and add incremental functionality.

The integration of online technology with our stores has also continued during the financial year, with roll-out of 'Swoosh' furniture visualisation technology in over 70% of the DFS estate, with all stores planned to have the technology before our key Winter Sale trading period. This allows us to project the full range of models, colours and materials on a video wall in store, enabling customers to see exactly how their chosen product will look in their homes, and helping our store staff to sell the full breadth of the DFS range.

Customer service

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

I am pleased to report a further improvement in our post-purchase NPS to 83.9% (FY15: 78.8%) during the year. As I indicated in our last annual report, we have placed increasing emphasis on our ability to deliver established customer satisfaction – the willingness of customers to recommend our products to their friends or family six months after making their own purchase. This established customer satisfaction (surveyed six months post-delivery) showed a substantial improvement to 31.2%, compared with 21.9% in the prior year. All our management and customer-facing staff are now incentivised according to the results achieved in these established customer NPS.

SHARE OF THE UPHOLSTERY SECTOR WEB TRAFFIC DFS.CO.UK ATTRACTS DURING A YEAR

40%

ESTABLISHED CUSTOMER NPS (SIX MONTHS POST ORDER) INCREASED TO

31.2%

AMOUNT RAISED FOR THE BRITISH HEART FOUNDATION IN 2016

£3.4m

Management

I would like to join the Chairman in thanking Bill Barnes for his great contribution to DFS as our Group Finance Director since 2003, and to wish him a very long and happy retirement.

As well as welcoming Nicola Bancroft to her new role as Chief Financial Officer, I would like to welcome Toni Wood to our Executive Committee as Chief Marketing Officer. Toni joins us from Costa Coffee, where she was Global Brand & Digital Director, and has previously held senior marketing roles at The Jordans & Ryvita Company, Findus and Procter & Gamble.

Corporate responsibility

We have continued to work hard to be a responsible and sustainable business that puts something back into the communities where we operate. Our Energy Management Policy has continued to reduce our environmental impact by reducing emissions from our delivery vehicles and company car fleet, and by upgrading store lighting through the installation of low-energy LED equipment. Our ISO 14001 environmental accreditation was extended during the year to cover DFS retail stores as well as our head office in Doncaster.

In the community, we have continued our partnership with the British Heart Foundation ("BHF") both in fundraising through the successful sofa recycling scheme, and in training and raising awareness among our people. All new starters at DFS receive training in CPR skills which may prove literally life-saving. We are proud to have raised £3.4 million for BHF during the year and also to have raised more than £750,000 for BBC Children in Need.

Team GB partnership

We were delighted to play a part in the historic and well-deserved success of Team GB in the Rio 2016 Olympics through our sponsorship as Team GB's official homeware partner. In this role we were responsible for making Team GB's base in Rio a comfortable home-from-home for our athletes. It was naturally a source of particular pride and pleasure that all our participating Brand Ambassadors – Adam Peaty, Laura Trott and Max Whitlock – won gold medals during the games: successes which we were able to celebrate on digital billboards across the UK highlighting our partnership.

As well as helping to enhance the profile of DFS through connected advertising, the partnership enabled us to engage our staff with the athletes' philosophy of how marginal gains in many areas can add up to a noticeable improvement in overall performance. We held a number of internal events to drive staff engagement across the business, including holding our very own DFS Olympics in Doncaster, and were grateful to our Brand Ambassador Denise Lewis, the 2000 gold medallist in the heptathlon, for helping to build excitement and support in the run-up to the games by undertaking a nationwide tour of our stores and factories.

Outlook

The relatively short trading period inevitably makes it hard to predict the impact of the EU Referendum on the furniture retail market however we are reassured that the Group's trading in the last fourteen weeks has not indicated any weakening of demand to date. We recognise that in 2017 retailing of furniture in the UK faces an increased risk of a market slowdown with additional cost pressures from foreign exchange movements, whilst it is likely that the retail environment will remain intensely competitive. However, with its proven resilient operating model the Group remains very well positioned to mitigate economic headwinds and achieve continued growth in its share of the UK retail furniture market.

Overall we believe DFS enjoys excellent prospects to deliver long-term profitable growth, strong cash generation and a progressive dividend policy as one of the UK's best-known brands, a major British manufacturer and the country's leading retailer of upholstered furniture.

Ian Filby
Chief Executive Officer
5 October 2016

Measuring performance

FINANCIAL KPIS

Continued growth in sales and EBITDA

Gross sales (£m)

+7.4%

2016	980.4
2015	913.1
2014	853.4
2013	804.3
2012	748.7

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.

Adjusted EBITDA[1] (£m)

+5.8%

2016	94.4
2015	89.2
2014	82.3
2013	83.8
2012	81.2

Adjusted EBITDA means underlying earnings before interest, taxation, depreciation and amortisation, as adjusted for certain material, unusual or non-recurring items which the Directors believe are not indicative of the Group's underlying performance.

1 No adjusted items in FY16 or FY15. £2.3m of adjusted items in FY14 relating to start-up operating losses of acquired businesses and prior period bonus adjustments.

Consistently strong rates of return

Free cash flow (£m)

+6.9%

2016	75.6
2015	70.7
2014	75.2

Free cash flow is Adjusted EBITDA, less gross capital expenditure and changes in working capital.

Cash conversion (%)

2016	80.1
2015	79.2
2014	91.4

Cash conversion is free cash flow expressed as a percentage of Adjusted EBITDA.

Return on capital employed (%)

2016	21.2
2015	21.2
2014	20.9

Return on Capital Employed (ROCE) is post-tax operating profit before non-underlying items plus operating lease charges expressed as a percentage of the sum of: property, plant & equipment, computer software, working capital and 8x operating lease charges.

NON-FINANCIAL KPIS

Number of DFS stores

+4

2016	109
2015	105
2014	100

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

Net promoter score (%) Post purchase customer satisfaction

+5.1% pt

2016	83.9
2015	78.8
2014	64.8

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

Net promoter score (%) Established customer satisfaction

+9.3% pt

2016	31.2
2015	21.9
2014	23.8

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

Online growth rate (%)

15.6%

2016	15.6
2015	17.5
2014	6.7

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

Growth in exclusive brand sales (%)

35%

2016	35
2015	75
2014	55

Year-on-year change in value of sales orders of exclusive brand product ranges.

Stores with converted warehouse space

19

2016	19
2015	8
2014	3

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

Reporting record results

"I am delighted to present my first financial review as CFO and to report on another successful year for DFS. My thanks to my predecessor Bill Barnes and to the rest of the Board for their support in achieving a smooth handover of responsibilities."

This review covers the financial year to 30 July 2016, our first full financial year since becoming a public company in March 2015. As a different pre-IPO capital structure was in place for the majority of the previous year, the table below is presented in order to show an underlying comparative position:

	FY16 Underlying £m	Non-underlying £m	FY16 Total £m	**FY15 Underlying £m**	Non-underlying £m	FY15 Total £m
EBITDA	**94.4**	–	94.4	**89.2**	(11.6)	77.6
Depreciation and amortisation	**(18.6)**	–	(18.6)	**(17.0)**	–	(17.0)
Operating profit	**75.8**	–	75.8	**72.2**	(11.6)	60.6
Net finance expense	**(11.3)**	–	(11.3)	**(38.9)**	(11.0)	(49.9)
Profit/(loss) before tax	**64.5**	–	64.5	**33.3**	(22.6)	10.7
Taxation	**(14.1)**	9.9	(4.3)	**(10.4)**	2.9	(7.5)
Profit/(loss) for the year	**50.4**	9.9	60.2	**22.9**	(19.7)	3.2
Adjusted for:						
Shareholder loan interest	**–**			**16.6**		
Adjusted profit after tax	**50.4**			**39.5**		
Earnings per share	**23.7p**			**18.5p**		

Sales and revenue

Group gross sales for the full year increased by 7.4% to £980.4 million (FY15: £913.1 million), including a 6.1% increase in DFS sales as well as increased contributions from Dwell and Sofa Workshop. This growth was ahead of the 7.0% reported at the half year as a result of the acceleration of the conversion of in-store warehouses into new retail space, predominantly new Dwell stores.

Group revenue grew by 7.1% to £756.0 million (FY15: £706.1 million). The slightly different growth rate to gross sales reflects increased uptake of interest free credit by Dwell and Sofa Workshop customers and a change in the rate of insurance premium tax increasing the cost of certain aftercare services.

Gross margin

Gross profit has continued to increase at a faster rate than revenue, up 9.9% to £134.3 million (FY15: £122.3 million). This reflects a small improvement in gross margin on goods sold, consistent with our previous guidance that planned investments in price points is now complete. We also continue to benefit from the spreading of our marketing over a wider revenue base as the business continues to grow.

Currently prevailing US Dollar and Euro foreign exchange rates, particularly the US Dollar which is the currency denomination in which we purchase c.\$120.0 million annually of finished goods, present us with some challenges in sustaining this progress. Active management of our sourcing, cost base and range mix will, we believe, already offset approximately two thirds of the gross impact in the financial year, with a £4 million adverse net impact remaining to be addressed. We continue to work to seek to offset the remainder of the impact within the financial year.

Looking further ahead, the actions we are taking together with the scale of our operations, the geographical mix of our sourcing and our significant UK own-manufacturing capability provide us with significant advantages compared to many other retailers in our sector.

Central costs

Underlying administrative expenses rose by £6.8 million to £39.9 million for the full year. This arose from a number of factors:

In line with our accounting policy, in FY15 £2.8 million of first year costs relating to international and acquired business start-up activity were included within non-underlying items, reducing reported underlying administrative costs by this amount last year. These businesses are now presented entirely within underlying operations.

The accelerated expansion of our subsidiary businesses through our ongoing retail space optimisation programme has also resulted in increased costs of c.£1.3 million arising in advance of sales growth.

The remaining increase is due to additional costs associated with our new status as a publicly listed company, including employee share based remuneration charges, performance-related bonuses and additional training and compliance costs.

For the new financial year, we anticipate a further increase in share based payment charges and some continuation of investment for growth, totalling c.£2 million.

Operating profit and EBITDA

The net impact of the sales and margin effects noted above was a 5.8% increase in underlying EBITDA for the year to £94.4 million (FY15: £89.2 million), with the underlying EBITDA margin decreasing slightly to 12.5% (FY15: 12.6%) as a result of the increase in central costs noted above. Underlying operating profit rose 5.0% to £75.8 million (FY15: £72.2 million).

Finance costs

Interest payable primarily relates to the Group's senior bank facility of £200.0 million (together with an undrawn revolving credit facility of £30.0 million). As we noted in last year's annual report, the new capital structure in place following the IPO has significantly reduced underlying finance costs.

Tax

As reported at the half year, the Group has now concluded a long-running negotiation with HMRC in respect of the amount of shareholder loan interest allowable for corporation tax in the period of Advent International's ownership. The potential benefit of this had not previously been recognised and accordingly a prior year tax credit of £9.9 million has been recognised in the income statement for the current year and is shown as a non-underlying item. Corporation tax due in respect of historical periods in relation to this of £5.9 million has been received in full and is included in the cash flow statement.

Excluding this one-off credit, and the impact of a change in the tax rate applied in the calculation of the Group's deferred tax asset, the underlying effective tax rate for the year was 20.5% (FY15: 21.5%), slightly higher than the UK Corporation Tax rate applicable in the period of 20.0% (FY15: 20.7%).

Earnings per share

Underlying earnings per share ("EPS") for the year was 23.7 pence. Basic earnings per share was 28.3 pence (FY15: 4.3 pence). The statutory EPS figures for last year were impacted by the pre-IPO capital structure being in place for the majority of the year. Using the more comparable adjusted earnings of £39.5 million as shown in the table above and the same number of shares in issue as for this year's EPS calculation results in an adjusted underlying EPS for the year to July 2015 of 18.5 pence per share.

Capital expenditure

Cash capital expenditure for the year was £24.5 million (FY15: £20.8 million). We have continued our programme of new store openings and maintained our ongoing investment in the refit of existing stores to sustain a high quality retail environment. Additional capital expenditure was made in FY16 in support of the accelerated roll out of the CDC programme, including the expansion of Dwell. We have also undertaken further development of our market-leading retail website and made significant investments in new in-store technologies such as 'Swoosh'.

We anticipate that capital expenditure will show a similar increase in the year ahead to £28-30 million (and reducing thereafter) reflecting significantly more CDC and retail space conversions than in FY16, as well as maintaining our current rate of new store openings (3-5 new stores per annum) and investment in other growth initiatives.

Cash flow and balance sheet

The Group continues to maintain a robust balance sheet to support future growth. We closed the year with cash of £66.7 million (FY15: £40.7 million), giving a net debt position of £137.1 million (FY15: £162.2 million) and achieving a gearing ratio of 1.45 times underlying EBITDA. This strong performance included the payment of a total of £27.3 million in dividends (comprising interim and final dividends for FY15 as well as the interim dividend for FY16) and £3.7 million for the purchase of 1.5 million of our own shares. The shares bought back are held in treasury for the purposes of satisfying employee share awards.

Dividend

The continued strength of our cash flow allows DFS consistently to both reduce leverage and to return cash to shareholders as part of our total shareholder return. In line with our previously stated dividend policy of a pay-out ratio of 45-50% of profit after tax the Board has therefore proposed a final dividend of 7.5 pence per share taking total dividends for FY16 to 11.0 pence per share, an increase on the prior year of 18.3%.

Over the medium term the Board intends to operate leverage broadly in the range of 1.0 to 1.5 times net debt to underlying LTM EBITDA. To the extent there is surplus cash within the business, after taking into account capital requirements of the business, the Board expects to return this to shareholders.

As outlined in the Chairman's statement, the Board's current intention is to undertake a special capital return during FY17 while targeting net debt to underlying EBITDA at approximately 1.5 times at the end of the financial year. The final amount and form of this return will be announced alongside the interim results and will be subject to the likely capital needs of the business.

The Board's intention is for this return to form a sustainable and recurring increment to the Group's Total Shareholder Return.

Nicola Bancroft
Chief Financial Officer
5 October 2016

Making a positive impact

As an established British business with stores all over the UK and parts of Europe, DFS has an incredible opportunity to be an environmental leader and to help our customers live better. We know that retailers can sometimes be part of the problem and that achieving a sustainable society is a long journey.

We want to effectively and efficiently deliver real value for our customers, employees, shareholders, suppliers, and the people in the communities in which we operate. Throughout our interaction with all these parties, we aim to make a positive impact on society and the environment in support of the Group's longer term commercial and strategic objectives.

ENVIRONMENT

DFS aims to improve the environmental performance of our operations year on year, especially focusing on energy efficiency, reducing waste and managing climate change risks. We also work hard to reduce the impacts of our distribution.

The Group has an Energy Management Policy to support the reduction of the Group's energy use where practical and consistent with the operational needs of the business. Last year we achieved ISO 14001 accreditation for our head office operations and this year successfully extended this across our retail operations in the UK and Republic of Ireland.

Greenhouse gas data

	Tonnes CO_2e		Intensity measure (Tonnes CO_2e per employee)	
	2016	2015	**2016**	2015
Scope 1	**10,969**	11,888	**2.8**	3.2
Scope 2	**17,122**	19,123	**4.3**	5.2
Total	**28,091**	31,011	**7.1**	8.4

Electricity use is a significant contributor to the Group's CO_2 emissions. We have continued to invest in low energy LED lighting for our stores, both retro-fitting across our existing estate and introducing as standard in new stores opened during the period. We have also introduced energy efficient lighting in two of our UK factories. These initiatives have delivered a significant contribution to the decrease in our overall emissions figures.

Waste management remains an important consideration for the Group and we have introduced internal store league tables for waste volumes to further encourage and promote this. Biomass systems installed at our wood mills allow us to use waste wood to heat our factories. We are pleased to have this year achieved zero waste to landfill from our head office operations and an overall 92.1% landfill diversion across our UK and Republic of Ireland operations. Our long term goal remains zero waste to landfill from all of our operations.

OUR PEOPLE

The continuing success of DFS owes a great deal to the exceptional team of people that we employ.

We remain strongly committed to helping all our employees to make the most of their talents through our continuing programmes of training and development. Internal training courses are accredited to National Standards and this year we delivered more than 5,000 days of formal training in a wide variety of areas from core skills in sales and administration and practical health and safety training to real behavioural development through our management development programme.

Our apprenticeship programme continues to go from strength to strength, with seven of our first Service Manager intake group now having full time permanent positions with DFS. The programme has been expanded during the year with separate groups of approximately ten apprentices recruited in our retail and manufacturing operations as well as a second intake of service manager apprentices. We were pleased to receive the Youth Employment, Talent Management & Recruitment award at the UK Employee Experience Awards for the second year running, recognising the high quality of the programme.

DFS firmly believes in the benefits of a diverse workforce. The gender analysis of employee numbers is reported to the operating board on a monthly basis and we have a number of strategic initiatives underway to enhance our gender balance. The gender balance of employees at July 2016 is as follows:

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

	July 2016				July 2015			
	Female		Male		Female		Male	
Directors	2	33%	4	67%	2	29%	5	71%
Senior managers	2	22%	7	78%	3	19%	13	81%
All employees	1,378	34%	2,702	66%	1,216	33%	2,501	67%

As our business goes from strength to strength, we recognise the importance of effective communication. We want to improve all our employees' experience while they work for us, making sure that every team member has the information that they need at their fingertips, whether that's the latest DFS news, employee benefits and special offers or to simply check their employment details.

During the year we were pleased to be able to launch our own employee APP, 'My DFS', which allows us to keep all employees informed about what's going on in the organisation more quickly and easily, particularly for those colleagues who are field based. My DFS also hosts information relevant to employees, and allows the user to tailor the information they see.

Our employee APP complements our existing routes for communication with employees which include manager briefings, company presentations and conferences, as well as regular newsletters, including a monthly update directly from the Chief Executive. Employee views are sought through regular feedback sessions with directors and an active programme of employee engagement surveys, the results of which are communicated back to staff.

DFS aims to support the health and welfare of our employees and their families through a variety of initiatives including life and critical illness cover, and an employee assistance service. It is the policy of the Group to support the employment of disabled people, wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Group as well as generally through training and career development.

Management development

We have reinforced our commitment to the ongoing development of our employees through the introduction of an Effective Management Programme. This programme is targeted at managers, specialists and business partners right across the Group and is delivered in small group forums designed to bring people from diverse parts of our organisation together. The programme, which has been approved and validated by the Chartered Management Institute, includes comprehensive 360 degree feedback and more than five days of dedicated workshops.

The Effective Management Programme is complemented by a growing portfolio of one day management skills workshops to form part of a personal development toolkit. To date some 79 individuals have successfully completed the programme and we have already seen improved collaboration and synergies throughout the Group, with better communication and an interdependent approach to projects.

We were delighted to once again obtain external recognition for excellence in employee conditions by the award for the third year running of Top Employer certification from the Top Employers Institute.

Health and Safety

The health and well-being of our employees, customers and partners is extremely important to DFS, and we have placed an increased focus on continuing improvement in managing health and safety risks across all of the Group's operations. The Board receives regular updates on performance, including reporting of any significant issues at each meeting. Unfortunately, in 2015 an incident occurred in one of our factories which resulted in the injury of one of our employees. During the year the Health & Safety Executive have verbally advised us that they are intending to prosecute the Group in relation to this incident. No formal proceedings have commenced as at the date of this report and we have made appropriate provision in our accounts in the event of an adverse outcome.

This year has seen our biggest ever investment in health and safety training with more than 120 managers and supervisors passing the level 2 IOSH Managing Safely course. In addition there has been extensive training in manual handling, fire marshalling and vehicle management, plus enhanced job-specific training with a focus on our manufacturing and supply chain operations. We have also launched a bespoke health and safety e-learning programme to enhance the consistency of induction and refresher training.

Team GB partnership

However talented the individuals, we firmly believe that we can achieve more as a team and our partnership with Team GB provided an engaging and inspiring platform to bring our employees together.

DFS employees experienced a variety of Team GB themed events from our company conference through to a head office team-building Olympics. Our three participating Brand Ambassadors visited DFS sites, at key milestones like 100 Days to go, and former athlete and Brand Ambassador Denise Lewis spent a week travelling around the business meeting the teams and sharing her sporting experiences.

We also launched a reward and recognition programme across the whole business to celebrate the achievements of the DFS team on the back of our Team GB partnership. Individuals were rewarded regularly for exemplifying our company values and going the extra mile. Four hardworking employees got to experience the Olympics in person with the ultimate prizes being packages to Rio, inspiring all our employees to be world class in everything they do.

OUR CUSTOMERS

Our customers are at the very heart of our business so in pursuit of our vision of DFS being a world-class British business we need to deliver an outstanding experience for our customers, at all times.

We make significant investment in employee training and incentivisation to deliver the highest levels of customer service and ensure that we treat our customers well. Staff performance and customer satisfaction are monitored though regular inspections, surveys and mystery shoppers, which are carried out through an independent consumer research group.

Customer referral is the perfect indicator of excellent customer satisfaction and we use Net Promoter Score ("NPS") as a measure of recommendation, which provides us with an internationally recognised predictor with proven links to business success. Established Customer NPS forms a component of remuneration for employees throughout the business, including salespeople, management and head office teams and Executive Directors.

OUR PRODUCTS AND SUPPLIERS

DFS goes to great lengths to ensure the quality and safety of all the products it sells. Our own detailed quality checks are supported by the use of independent safety specialists, and all upholstered furniture items are offered with a 15 year guarantee.

We have longstanding relationships with our upholstery suppliers and close contact with them is maintained through frequent visits by our operational and senior management. DFS has led the industry in establishing quality level agreements with all suppliers; these set targets for ways of working and service outcomes together with a dedicated forum for working in partnership with supplies to monitor and improve performance, including compliance with our ethical trading requirements.

COMMUNITY

DFS has worked in partnership with the British Heart Foundation since 2012, implementing an innovative sofa recycling scheme to give our customers a means of disposing of their old sofa while simultaneously raising money for the charity. We are very proud that since its inception in 2012 this scheme has raised more than £10 million to help fund vital research into coronary heart disease.

In addition, our association with the British Heart Foundation has supported the training of more than 600 new and existing employees in CPR skills and defibrillator awareness that will help more people survive an out of hospital cardiac arrest.

We have also continued our support for BBC Children in Need for a third year, raising £750,000 through a variety of activities including offering customers a chance to win their entire order for free by entering a monthly draw.

DFS remains a Gold Partner of the Duke of Edinburgh's Award, supporting young people to develop new skills for work and life and contribute to their communities. This includes our apprentices, who complete the Gold award as part of their apprenticeship programme. A similar arrangement is in place in the Republic of Ireland where DFS is a Gold Partner of Gaisce – The President's Award.

In addition to the major national charities above, DFS supports a number of charities and initiatives based locally to our operations, particularly those promoting opportunities for young people. Charitable donations made by the Group during the year amounted to £263,099 (FY15: £264,011).

AMOUNT RAISED FOR BBC CHILDREN IN NEED

£750,000

This Strategic Report was approved by the Board on 5 October 2016.

On behalf of the Board

Ian Filby
Chief Executive Officer

Nicola Bancroft
Chief Financial Officer

BOARD OF DIRECTORS

Richard Baker (54) Non-Executive Chairman	**Ian Filby (57)** Chief Executive Officer	**Nicola Bancroft (52)** Chief Financial Officer
DATE OF JOINING DFS July 2010	September 2010	January 2013
COMMITTEE MEMBERSHIP N*	–	–
EXPERIENCE Richard has 30 years of experience in the consumer and retail sector and previously served as Chairman of Virgin Active Group, Chief Executive of Boots Group and Alliance Boots (overseeing the merger between Boots Group and Alliance Unichem in 2005) and Chief Operating Officer at Asda Group plc.	Ian has 35 years of retail experience, primarily at Alliance Boots, where his most recent roles were Retail Brand Development Director and Trading Director. He was also previously Interim Chief Executive Officer of Nectar and Non-Executive Chairman of Shoe Zone plc.	Nicola has 28 years of experience in the retail sector and previously worked for Alliance Boots where she held a series of senior finance roles, including Commercial Finance Director and Retail & Transformation Finance Director. Since joining DFS, as Commercial Finance Director, she established the commercial finance function and was responsible for strategic planning, financial planning, business intelligence and finance partnering providing support to all business areas.
QUALIFICATIONS MA (Hons) in Engineering Science from Cambridge University and a Diploma in Strategic Retail Management from Harvard	MA (Hons) in Chemistry from Cambridge University	BA (Hons) in Accounting and Finance and fellow of the Chartered Institute of Management Accountants
EXTERNAL APPOINTMENTS • Chairman of Whitbread plc[1] • Chairman of the British Retail Consortium • Operating Partner at Advent International plc • Advisor to Aimia • Non-Executive Director of the Lawn Tennis Association • Non-Executive Director of AELTC Grounds plc	• Member of the British Retail Consortium Board • Chairman of the British Retail Consortium Policy Board • Trustee of Pennies charity • Director of IFF Life and Business Solutions Ltd	None

N Member of the Nomination Committee **A** Member of the Audit Committee **R** Member of the Remuneration Committee * Denotes Chairman of Committee

Luke Mayhew (63)
Senior Independent Non-Executive Director

DATE OF JOINING DFS

October 2014

COMMITTEE MEMBERSHIP

N R A

EXPERIENCE

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

QUALIFICATIONS

BA (Hons) in Politics, Philosophy and Economics from Oxford University and a Masters in Economics from the University of London

EXTERNAL APPOINTMENTS

- Independent Non-Executive Director of InterContinental Hotels Group plc[2]
- Trustee of BBC Children in Need
- Director of the National Youth Orchestra of Great Britain
- Director of Platinum Sports Management Limited

Gwyn Burr (53)
Independent Non-Executive Director

DATE OF JOINING DFS

December 2014

COMMITTEE MEMBERSHIP

N R* A

EXPERIENCE

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

QUALIFICATIONS

BA (Hons) in Economics and History from Bradford University

EXTERNAL APPOINTMENTS

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

Julie Southern (56)
Independent Non-Executive Director

DATE OF JOINING DFS

February 2015

COMMITTEE MEMBERSHIP

N R A*

EXPERIENCE

Julie was previously with Virgin Atlantic for 13 years, firstly as CFO for ten years before taking on the role of Chief Commercial Officer. Prior to joining Virgin Atlantic, she was Group Finance Director of Porsche Cars GB and Finance and Operations Director of WH Smith's subsidiary HJ Chapman & Co.

QUALIFICATIONS

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

EXTERNAL APPOINTMENTS

- Independent Non-Executive Director of NXP Semiconductors N.V.
- Independent Non-Executive Director of Gate Group Holdings AG[3]
- Independent Non-Executive Director of Cineworld Group plc[4]
- Independent Non-Executive Director of Rentokil Initial plc[4]

In preparation for the IPO in March 2015, all of the above Directors were appointed to the Board of DFS Furniture plc in February 2015 with the exception of Nicola Bancroft who was appointed in August 2016 (following the retirement of Bill Barnes in July 2016).

1. Chair of the Nomination Committee
2. Chair of the Remuneration Committee
3. Chair of the Nomination and Compensation Committee
4. Chair of the Audit Committee

Introduction

The Directors present their Annual Report and audited financial statements for the 52 weeks ended 30 July 2016, in accordance with section 415 of the Companies Act 2006. Certain disclosure requirements for inclusion in this report have been incorporated by way of cross reference to the Strategic report and the Directors' remuneration report, and should be read in conjunction with this report.

The following also form part of this report:

- greenhouse gas emissions, which can be found on page 28;
- employees, which can be found on pages 28 to 29;
- the Corporate governance statement, set out on pages 36 to 42; and
- our strategy and objectives, set out on pages 12 to 15.

Information regarding the Group's charitable donations can be found in the corporate responsibility report on page 31.
No political donations were made in 2016 (FY15: £nil).

The Company

DFS Furniture plc (the "Company") is a company incorporated and domiciled in the UK, with registration number 07236769.

The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 52 weeks ended 30 July 2016. The Company has no overseas subsidiaries but operates branches in the Republic of Ireland, Spain and the Netherlands.

Results and dividends

The Group's results for the year are set out in the consolidated financial statements on pages 66 to 90. The Company only results of DFS Furniture plc are set out on pages 91 to 94.
The Directors have declared an interim dividend of 3.5 pence per share, which was paid on 22 June 2016, and also proposed a final dividend of 7.5 pence per share to be paid in respect of the 52 weeks ended 30 July 2016. It is intended that the final dividend will be paid on 28 December 2016 to all shareholders on the register on 9 December 2016. The Company's shares will trade ex-dividend from 8 December 2016.

Directors

The Directors of the Company who held office at the date of this Annual Report and their biographical details can be found on pages 32 to 33. Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and able to devote sufficient time to discharge their responsibilities.

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

Directors' interests

Information about the Directors' interests in the Ordinary Shares of the Company on 30 July 2016, or date of appointment if later, and any subsequent changes as at 4 October 2016 is set out in the Directors' remuneration report on pages 50 to 62.

Directors' indemnities and insurance

In accordance with the Companies Act 2006 and the Company's Articles, the Company has purchased and maintains directors' and officers' liability insurance cover which remains in place as at the date of this report. A review is carried out on an annual basis to ensure that the Board remains satisfied that an appropriate level of cover is in place.

Employees

As at the year end the Group employed 4,080 employees (as set out in the gender analysis table on page 29.

Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders. No amendments are proposed at the 2016 AGM.

Annual General Meeting ("AGM")

The Company's next AGM will take place on 2 December 2016 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA at 2.30pm, and the Chairs of each of the Board's Committees will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM, including the resolutions to be proposed, will be sent to shareholders at least 21 clear days prior to the date of the meeting.

To encourage shareholders to participate in the AGM process, the Company proposes to offer electronic proxy voting through the CREST service and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced through the Regulatory News Service and made available on the Company's corporate website.

Share capital

Details of the Company's share capital are set out in Note 21 to the consolidated financial statements. The Company has one class of Ordinary Shares and, as at 4 October 2016, the Company had an issued share capital of 213,030,601 Ordinary Shares of £1.50 each.

The rights and obligations attached to these shares are governed by UK law and the Company's Articles of Association. Holders of Ordinary Shares of the Company are entitled to receive notice and to attend and speak at general meetings. On a show of hands, every shareholder present in person or by proxy (or duly authorised corporate representatives) shall have one vote and, on a poll, every member who is present in person or by proxy shall have one vote for every share held.

Other than the general provisions of the Articles of Association and prevailing legislation, there are no specific restrictions on the size of a holding or on the transfer of the Ordinary Shares. The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority to purchase own shares
At the last AGM of the Company on 4 December 2015, the Company was authorised to purchase a maximum of 10% of the Company's issued share capital. This authority will expire at the close of the next AGM on 2 December 2016 unless revoked, varied or renewed prior to that meeting.

As at the date of this Annual Report, 1,500,000 Ordinary shares of £1.50 each have been purchased and are held by the Company as treasury shares with the expectation that they will be utilised to satisfy future share-based employee-award obligations.

A resolution will be proposed at the 2016 AGM to renew this authority.

Authority to allot shares
At the last AGM of the Company on 4 December 2015, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £106,515,300 (or up to £213,030,601 in connection with an offer by way of a rights issue).

As at the date of this Annual Report, no shares have been issued under this authority. This authority will expire at the conclusion of the 2016 AGM unless revoked, varied or renewed prior to that meeting.

A resolution will be proposed at the 2016 AGM to renew this authority.

Major interests in shares
As at 4 October 2016, the Company had been advised of the following notifiable interests in the Company's voting rights:

Shareholder/notifier	Number of voting rights	% voting rights
Advent Diamond (Luxembourg) Sarl	51,361,259	24.3
Jupiter Asset Management	12,391,391	5.9
Pelham Long / Short Small Cap Master Fund Ltd	12,292,942	5.8
Franklin Templeton Fund Management Ltd	11,950,000	5.6
Royal London Asset Management Ltd	8,275,848	3.9
Richard Baker[1]	4,824,402	2.3

1. Deemed to be an active concert party with Advent Diamond (Luxembourg) Sarl.

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

Financial risk management
The Group's objectives and policies on financial risk management, including information on credit, liquidity and market risks can be found in note 23 to the financial statements.

Going concern
The Group remains highly cash generative and currently has sufficient medium and long-term facilities in place, including £200.0 million of a senior loan facility maturing in 2020 and a £30.0 million revolving credit facility in place until March 2020 which is as yet unutilised. Further details of these facilities and the Group's financial management objectives are detailed in the financial statements.

On the basis of their assessment of the Group's financial position, forecasts and projections, the Company's Directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditor and disclosure of information to auditor
Each of the Directors at the date of this report confirms that:

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

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

KPMG LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it as the Company's auditor will be proposed at the forthcoming AGM.

Subsequent events
Between 30 July 2016 and the date of signing of this report there have been no reportable subsequent events.

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

Paul Walker
Group Company Secretary
5 October 2016

"Our vision is to be a world class British company in all respects including corporate governance."

Key governance activities:

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

- managing the selection process and transition of our new Chief Financial Officer, Nicola Bancroft, in preparation for the retirement of Bill Barnes in July 2016. Details of the appointment processes can be found in the Nomination Committee report on pages 48 and 49;
- performing the first evaluation of the Board, and its various Committees, in order to ensure its effectiveness. Further details on this process and its outcomes can be found on page 41;
- reviewing the Board composition following the stepping-down of Advent's Nominee Director, Andy Dawson, in April 2016; and
- reviewing the written Terms of Reference for all three of the Board Committees and amending where appropriate.

STATEMENT FROM THE CHAIRMAN

Introduction

Dear Shareholder

I am pleased to introduce DFS Furniture plc's Corporate governance report for the year, being the Group's first full financial year since the IPO in March 2015.

During this time, the Board has been fully committed to continually developing the highest standards of corporate governance for the Group and, in particular, addressing the areas of non-compliance with the UK Corporate Governance Code noted last year.

In this report, we include a description of how the Group has applied the principles and provisions of the Governance Code and provide details of the Governance structure and framework, highlighting the enhancements from last year.

Board composition

Following the movement in Board members during the year, the Board is currently comprised of a Non-Executive Chairman and two Executive Directors along with three independent Non-Executive Directors. The Governance Code recommends that at least half the board of directors of a UK listed company, excluding the Chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. As a result, we continue to be compliant with the Governance Code in this regard and have achieved our previously stated objective regarding Board composition and independence.

In last year's Annual Report, we noted an area of ongoing non-compliance with the Governance Code due to fact that I, the Company's Non-Executive Chairman, am, for the purposes of the Governance Code, not considered to have been independent on my appointment as Chairman back in 2010 due to my role as an Operating Partner at Advent. As a consequence, this non-compliance continues, as indeed will the independence safeguards put in place at the time of the IPO to counter any potential issues. These safeguards prohibit me from acting on behalf of Advent in respect of its investment in the business and also prevent me from receiving any remuneration from Advent in respect of my role at DFS. Furthermore, the other members of the Board are unanimously of the opinion that I can continue to be a valuable asset to the Group, bringing a wealth of experience in public companies and a keen understanding of retail businesses, as well as being independent in character and judgement.

GOVERNANCE FRAMEWORK

DFS Furniture plc Board

Members:
Non-Executive Chairman
3 Independent Non-Executive Directors
2 Executive Directors

Audit Committee

Members:
3 Independent Non-Executive Directors

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting.

Remuneration Committee

Members:
3 Independent Non-Executive Directors

The Remuneration Committee recommends the Group's policy on executive remuneration and determines the levels of remuneration for Executive Directors, the Chairman and senior management.

Nomination Committee

Members:
Non-Executive Chairman
3 Independent Non-Executive Directors

The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board.

Executive Committee

Our vision is to be a world class British company in all aspects including corporate governance. As stated last year, we view measurement of performance, targeting improvement and reporting results to be as important for us as a Board as it is for our business.

Richard Baker
Chairman
5 October 2016

Compliance with the UK Corporate Governance Code 2014: Introduction

The Board is wholly committed to upholding high standards of corporate governance and following a rigorous structure for the supervision, control and management of the Group.

The UK Corporate Governance Code ("Governance Code"), published by the Financial Reporting Council in September 2014, applies to financial years beginning on or after 1 October 2014. A copy of the Governance Code can be found at www.frc.co.uk.

The corporate governance report that follows, which incorporates reports from the Audit and Nomination Committees on pages 43 to 49 together with the Strategic report on pages 2 to 31, the Directors' remuneration report on pages 50 to 62 and the Directors' report on pages 34 and 35, describes and explains how the Company has applied the relevant provisions and principles of the Governance Code, and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules throughout the year.

Compliance statement

The Company adopted the "Governance Code" since admission of the Company's shares to the main market of the London Stock Exchange on 11 March 2015. During the financial year ended 30 July 2016, the Company has applied all of the main principles of the Code with the ongoing exception of "A.3.1 The Chairman was not independent on appointment", the explanation for which is noted in the Chairman's introduction to Corporate Governance.

The role of the Board

The Board currently consists of three Independent Non-Executive Directors, a Non-Executive Chairman and two Executive Directors. Biographies of all members of the Board appear on pages 32 to 33.

The Board is collectively responsible for the long-term success of the Group and for leading and controlling the Group and has overall authority for the management and conduct of the Group's business, strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Group.

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") sit on the Board and two levels of management sit below the Board: the Executive Committee and the Operating Board, each of which are led by the CEO. The CEO and CFO therefore act as a bridge between Management and the Board. The Board delegates to management the day-to-day running of the business within defined parameters and Board meetings are scheduled to coincide with key events in the corporate and trading calendar.

The Board has adopted a formal schedule of matters reserved for its approval and has delegated other specific responsibilities to its Committees. This schedule sets out key aspects of the affairs of the Group which the Board does not delegate, including:

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

All Directors have access to the advice and services of the Group Company Secretary, who has responsibility for ensuring compliance with the Board's procedures. All the Directors have the right to have their opposition to, or concerns over, any Board decision noted in the minutes. During the year, no such opposition or concerns were noted. The Board has adopted guidelines by which Directors may take independent professional advice at the Company's expense in the performance of their duties.

The Chairman and the Non-Executive Directors met several times throughout the year without the Executives present.

Board committees

Subject to those matters reserved for its decision, the Board has delegated to its Audit, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees, all of which have been reviewed and amended, where appropriate, during the year. The revised terms of reference were adopted by the Board on 17 June 2016 and are available on the Group's corporate website, www.dfscorporate.co.uk. Separate reports for each Committee are included in this Annual Report from pages 43 to 62.

ROLE OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

ROLE OF THE CHAIRMAN

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

ROLE OF THE CHIEF EXECUTIVE OFFICER

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

ROLE OF THE SENIOR INDEPENDENT DIRECTOR ("SID")

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

Board balance and independence

As mentioned in the Chairman's introduction, DFS cannot be fully compliant with the recommendations of the Governance Code in this area, but will continue to mitigate any perceived risks with appropriate safeguards.

The Company has a relationship agreement ("the Relationship Agreement") in place with its principal shareholder, Advent, and with the current Chairman, Richard Baker.

The principal purposes of the Relationship Agreement are to ensure that:

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

The Company confirms that the terms of the Relationship Agreement have been fully complied with during the year.

Under the terms of the Relationship Agreement, Advent is entitled to nominate for appointment to the Board one Nominee Director who is approved as being suitable by the Nomination Committee. This entitlement will remain in force for so long as Advent holds, in the aggregate, at least 15% of the ordinary share capital or voting rights of the Company. Up to 25 April 2016, the Nominee Director appointed by Advent was Andy Dawson who stepped-down from Board on that date. At the date of this Annual Report, while Advent's shareholding is still sufficient to exercise this entitlement, no further Nominee Director has been nominated.

Length of appointments

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

Information, meetings and attendance

During the year, the Board met on seven occasions to review operational, trading and strategic performance, including the approval of the updated strategic four year plan and budget for the next financial year. In addition, two telephone meetings were held to review important trading periods and market announcements.

A summary of meeting attendance for the year is as follows:

	Date of appointment	Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings in financial year		**9**	**3**	**3**	**4**
Richard Baker	3 February 2015	8/9[1]	–	–	3/4[1]
Ian Filby	3 February 2015	9/9	–	–	–
Bill Barnes	3 February 2015	9/9	–	–	–
Andy Dawson[4]	3 February 2015	5/7[2]	–	–	–
Luke Mayhew	3 February 2015	8/9[3]	3/3	3/3	4/4
Gwyn Burr	3 February 2015	9/9	3/3	3/3	4/4
Julie Southern	3 February 2015	9/9	3/3	3/3	4/4

Notes:

1. Richard Baker was unable to attend one Board meeting/Nomination Committee meeting (due to family illness) but received the papers and provided advance input for the relevant meetings.
2. Andy Dawson was unable to attend one Board meeting (due to illness) and one telephone Board meeting (due to a prior commitment) but received the papers and provided advance input for the relevant meetings.
3. Luke Mayhew was unable to attend one telephone Board meeting (due to a prior commitment) but received the papers and provided advance input for the relevant meeting.
4. Andy Dawson stepped down from the Board on 25 April 2016 and therefore was only eligible to attend seven meetings in the year.

Members of the executive team and the Chairman attended committee meetings as appropriate. Nicola Bancroft was appointed as CFO on 1 August 2016 and was therefore not required to attend any Board meetings during the year. However, as part of the planned handover process from Bill Barnes, she attended all of the meetings since confirmation as CFO designate.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet seven times, with two additional telephone meetings to review important trading periods. At these meetings, the Board will monitor the Group's performance against the agreed strategy and business plan and review specific business areas, including health and safety and regulatory matters, in order to maintain and enhance a broad and thorough understanding of the business model.

The Chairman, in conjunction with the Group Company Secretary, is responsible for ensuring that the Directors receive accurate, timely and clear information. Prior to each scheduled Board meeting, a pack is circulated in respect of the most recent financial period which includes an update on key performance targets, trading performance against budget and includes detailed financial and non-financial data and analysis. Board packs are distributed in the week prior to each meeting to provide sufficient time for Directors to review their papers in advance. If Directors are unable to attend a Board meeting for any reason, they nonetheless receive the relevant papers and are consulted prior to the meeting and their views are made known to the other Directors.

Conflicts of interest

The duties to avoid potential conflicts and to disclose such situations for authorisation by the Board are the personal responsibility of each Director. All Directors are required to ensure that they keep these duties under review and to inform the Group Company Secretary on an ongoing basis of any change in their respective positions.

The Company's conflict of interest procedures are reflected in its Articles of Association ("Articles"). In line with the Companies Act 2006, the Articles allow the Directors to authorise conflicts and potential conflicts of interest, where appropriate. The decision to authorise a conflict can only be made by non-conflicted Directors. The Board considers conflicts or potential conflicts at each Board meeting.

The Articles require the Company to indemnify its officers, including officers of wholly-owned subsidiaries, against liabilities arising from the conduct of the Group's business, to the extent permitted by law. For a number of years, the Group has purchased Directors' and officers' liability insurance and this is anticipated to continue.

Development

As noted in last year's Annual Report, all Directors received an induction briefing from the Group's legal advisers on their duties and responsibilities as Directors of a publicly quoted company as part of the preparations for the IPO. Furthermore, the Non-Executive Directors have all met key members of senior management and advisors to the Group, many of whom have given presentations to the Board and Committee members during various Board and Committee meetings, in order to continue the development of their understanding of the Group and the issues it faces.

During the year, the Chairman reviewed and agreed with each Director their individual training and development needs. In particular, with regard to the recent appointment of Nicola Bancroft as CFO, a bespoke development programme was implemented during her time as CFO designate in order to complement the existing experience acquired during her previous 3½ years as Commercial Finance Director.

Board evaluation

As disclosed last year, an evaluation of the Board, and its various Committees, was deferred until it had been working together for a reasonable length of time to enable meaningful conclusions to be drawn.

As a result, following the first anniversary of the IPO, the Board carried out its first review of its own effectiveness, and that of its various Committees, during the year. This review, which covered the period from the IPO to the end of the current financial year, was facilitated by the Chairman, and the Group Company Secretary, and involved:

- each Director completing a formal questionnaire on the performance of the Board and each of the Board committees, considering the balance of skills, diversity, independence and knowledge of the Group on the Board, how the Board works together, and other factors relevant to its effectiveness; and
- the Chairman speaking to all Directors on a one-to-one basis.

The consensus was that the Board, and its Committees, which were newly formed just prior to the time of the IPO, had performed effectively. Nevertheless, the Board recognised areas for on-going development which should form the focus for the following year including:

- certain aspects of talent management and succession planning;
- the evaluation process of the CEO's performance; and
- the evolution of the Board's forward agendas.

The Governance Code provides that evaluation of the Board of FTSE 350 companies should be externally facilitated at least every three years. Therefore, it is envisaged such a review will take place either in the next financial year or the year after that.

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

Election of Directors

The Board can appoint any person to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following AGM and shall then be eligible for election by shareholders. In accordance with the Articles, Nicola Bancroft will be offering herself for election, along with all the other Directors for re-election, at the AGM to be held at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA, on 2 December 2016, full details of which are set out in the notice of meeting accompanying this Annual Report.

As noted above, following the formal internal evaluation process of the effectiveness of the Board, the Board is satisfied that each Director remains competent to discharge his/her responsibilities as a member of the Board.

External appointments

The Executive Directors may accept outside appointments provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Group. Up to 21 June 2016, Ian Filby was Non-Executive Chairman of Shoezone plc and also continues to be a director of IFF Life and Business Solutions Limited and the British Retail Consortium. The Board considers that these appointments do not adversely impact his ability to carry out his role. Bill Barnes did not hold any outside appointments during the year and Nicola Bancroft does not currently hold any outside appointments.

The Non-Executive Directors' appointment letters anticipate a minimum time commitment of two days per month, recognising that there is always the possibility of an additional time commitment and ad hoc matters arising from time to time, particularly when the Group is undergoing a period of increased activity. The average time commitment inevitably increases where a Non-Executive Director assumes additional responsibilities such as being appointed to a Board Committee.

Relations with shareholders

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

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

In particular, the Company communicates with both the institutional and private shareholders through the following means:

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

- Interaction with institutional shareholders
  - The Chief Executive Officer, Chief Financial Officer and Director of Corporate Finance hold meetings with institutional investors following the full-year and interim results.
  - The Chairman meets with institutional shareholders on request.

- Interaction with private shareholders
  - Dial-in facility to live presentations of the full-year and interim results.
  - Dedicated email point of contact to answer shareholder questions and queries.

The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise. Investor relations activity, analysis of the share register, views of major shareholders and advice from the Company's brokers are all ongoing items of review by the Board.

The Chairman and Non-Executive Directors are available to attend investor relations meetings or to request meetings with investors or analysts independently of the Group's management, if required.

"I have been particularly pleased with the development of the Internal Audit function."

CHAIRMAN'S INTRODUCTION

The principal role of the Audit Committee is to monitor and review the integrity of the Group's financial results, to review the Group's internal controls and risk management systems, to monitor and review the effectiveness of the Group's internal audit function and to make recommendations to the Board in relation to the external auditor.

In this report, I explain how the Committee discharged these responsibilities, with specific reference to the requirements of the Governance Code, therefore assisting the Board in determining this Annual Report is fair, balanced and understandable.

The composition of the Committee has remained unchanged since the last annual report, due the continuing independence of its members, and three meetings have been held during the year, in-line with its terms of reference.

During the last twelve months I have been particularly pleased with the development of the Internal Audit function which has expanded its focus away from being a largely store based compliance team to encompass a focus on the wider business and head office functions. The team have also started to work with Dwell and Sofa Workshop to ensure that consistent and appropriate internal controls are applied across the whole of the Group. The initial expanded Internal Audit reports reflecting this wider remit have highlighted some useful areas where control improvements can be made which the business is addressing.

As always there is a need for continued change and the Committee will continue to support the Internal Audit function in line with the operational needs of the business.

The Committee has also ensured that appropriate internal policies are in place. This covers a variety of areas including non-audit work, whistleblowing and litigation review.

I would like to thank the Company and my fellow Committee members for their engagement during the year and look forward to continued progress in the coming 12 months.

Julie Southern
Chairman of the Audit Committee
5 October 2016

Composition

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

The Governance Code recommends that all members of the Audit Committee are Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience. The Board considers that, by virtue of her current and former executive and non-executive roles, details of which are set out on page 33, Julie Southern has recent and relevant financial experience and the Company complies with the requirements of the Governance Code in this respect. Similarly, both Luke Mayhew and Gwyn Burr have extensive relevant commercial and operational experience in large organisations which benefit the Committee. Biographies of the Independent Non-Executive Directors are included on pages 32 and 33.

The Chief Executive Officer, Chief Financial Officer and Chairman attend meetings of the Audit Committee by invitation, as do KPMG LLP and other members of management or the Board as appropriate. The Group Company Secretary also attends by invitation in order to maintain a record of the meetings.

Roles and responsibilities

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

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

In particular, this includes:

- monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance including a review of any significant financial reporting judgements contained therein;
- reviewing the Group's processes and procedures for ensuring that material business risks are properly identified and managed;
- reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems;
- receiving regular reports on significant litigation and compliance issues;
- reviewing the Group's arrangements with regard to employee/contractor whistleblowing, fraud detection, prevention of bribery and money-laundering;
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- overseeing the Group's relationship with its external auditor, including their appointment, remuneration, independence and the effectiveness of the audit process; and
- developing and implementing a policy on the supply of non-audit services.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The Audit Committee will give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

The Audit Committee reviews the content of the Annual Report and Accounts and advises the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Activities of the Audit Committee

The Audit Committee of the Group met three times during the year and attendance at those meetings is shown on page 40. At each meeting, standing agenda items relating to whistleblowing and litigation issues were reviewed.

At the October 2015 meeting, the Committee discussed and approved the full year results for 2014/15 including a review of the full year external audit and KPMG LLP's subsequent re-appointment. It also reviewed and approved a non-audit services policy and, following a review of the 2014/15 internal control environment, reviewed and approved the internal audit scope and programme for 2015/16.

At the March 2016 meeting, the Committee reviewed a summary of internal audit reports, reviewed and approved an updated whistleblowing policy and considered the updated risk register and risk profile of the Group, including HMRC's annual risk review.

At the June 2016 meeting, the Committee reviewed and approved KPMG LLP's continuing appointment, audit strategy and fees for the audit of the 2015/16 full year results. In addition, it reviewed a further summary of internal audit reports, an updated risk profile and the results of the first evaluation of the Committee's effectiveness. Furthermore, it approved a policy for the accounting of non-underlying items and also approved updates to the Committee's terms of reference following their annual review.

The updated terms of reference were adopted by the Board on 17 June 2016 and are available on the Company's corporate website at www.dfscorporate.co.uk.

Following the 2015/16 year end, at the September 2016 meeting, the Committee reviewed and approved, for consideration by the Board, the financial results for the 52 weeks ended 30 July 2016 including a review of the full year external audit. As part of that review process, the members of the Committee reviewed the Annual Report, the adequacy of the disclosure with respect to going concern and whether the Annual Report taken as a whole was fair, balanced and understandable.

This additional review by the Audit Committee, supplemented by advice received from external advisors during the drafting process, assisted the Board in determining that the report was fair, balanced and understandable at the time that it was approved. The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans and supporting assumptions and concluded that the Group's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

Significant issues considered in relation to the financial statements

The Committee, together with management and the Group's external auditor, considered the following significant matters in relation to the financial statements and how these were addressed.

Impairment of intangible assets

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

Share-based incentives

The Group has continued to implement share-based incentive schemes for senior management and a Save As You Earn scheme for all employees. The valuation methods and the related assumptions for these schemes are subject to management judgement. There is a risk that these instruments are not valued correctly and therefore an incorrect charge is recognised in the financial statements. The Group's external auditor has independently audited the valuation models used by management and the assumptions used in calculating the Group's IFRS 2 charge.

Provisions and long-term accruals

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

Assessment of effectiveness of the external audit process

The Audit Committee oversees the relationship with the external auditor and considers the re-appointment of the Group's auditor, KPMG LLP, before making a recommendation to the Board to be put to shareholders. As part of this responsibility, the Committee approved the audit plan for the 52 weeks ended 30 July 2016 and reviewed the auditor's findings and management representation letters. Prior to recommending the appointment of KPMG LLP at the forthcoming AGM to the Board, the Audit Committee reviewed the extended audit process, the performance of the auditor and its ongoing independence, taking into consideration input from management, responses to questions from the Committee and the audit findings reported to the Committee. Based on this review, the Committee concluded that the external audit process had been run efficiently and that KPMG LLP has been effective in its role as external auditor.

Approach to appointing the external auditor and how objectivity and independence are safeguarded relative to non-audit services

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

The Audit Committee has a previously established policy intended to maintain the independence and integrity of the Company's auditor when acting as auditor of the Group's accounts. The policy governs the provision of audit, audit-related assurance and non-audit services provided by the auditor. In summary, this requires approval by the Committee for all individual non-audit engagements:

- with an expected cost in excess of £50,000; and
- where it is expected the annual cost for all non-audit engagements will be in excess of £150,000.

The policy detailed the types of non-audit services which are prohibited as they could directly threaten auditor objectivity and independence. It also describes permissible services, which would generally be acceptable (subject to the monetary limits above) and possible services which require Audit Committee approval on a case-by-case basis.

This policy has been followed during the 52 weeks ended 30 July 2016. However, following the EU Audit reforms which came into effect from 17 June 2016, the Committee notes, for future financial periods, the external auditor is now prohibited from undertaking certain non-audit engagements. In particular, this prohibits the provision of tax services to which, historically, the majority of recurring non-audit engagements have related. As a result, alternative tax advisors will be appointed in due course.

Independence safeguards

The current audit firm was appointed while the Group was under private ownership and has served for a number of years. In accordance with best ethical standards, external auditors are required to adhere to a rotation policy whereby the audit engagement partner is rotated after five years but can only serve for up to two years following the initial listing of the Group. Therefore, our current external auditor, KPMG LLP, has introduced a new engagement partner who, as part of the transitional process, has shadowed this year's audit in preparation for the handover of responsibilities next year.

The Audit Committee notes that FTSE 250 companies must put the audit out to tender at least every ten years and therefore KPMG LLP may remain as external auditor until the completion of the 2025 annual audit. However, the Committee will continue to consider annually the need to tender the audit for audit quality or independence reasons. There are no contractual obligations in place that restrict the choice of statutory auditor.

The external auditor is also required periodically to assess whether, in its professional opinion, it is independent and those views are shared with the Audit Committee.

The Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditor independence. No such advice has been required to date.

Independence assessment by the Audit Committee

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

The Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of KPMG LLP as auditor until the AGM in 2017.

Internal audit

Following the recommendation to the Board, the scope and focus of the internal audit function was reviewed during the year and a programme agreed at the October 2015 meeting. As a result, guided by a biannual review of the risk register, more emphasis has been placed on:

- head office functions, with direct focus on regulatory compliance and perceived areas of high risk;
- the store environment, particularly in relation to conduct risk;
- new store/CDC openings, to ensure consistent implementation of operational/compliance procedures; and
- the subsidiary trading companies, by integrating them into the Group internal audit programme.

Appropriate resources have been put in place to support the implemented changes.

Internal audit reports continue to be issued to key management highlighting significant issues and making relevant recommendations. High level reporting is made to the Operating Board on a monthly basis, and to the Audit Committee on a biannual basis, ensuring that appropriate remedial actions are in place to address unsatisfactory performance.

Internal control and risk management

The Board is responsible for the overall system of internal controls for the Group and for reviewing its effectiveness. In accordance with FRC guidance, it carries out such a review at least annually, covering all material controls including financial, operational and compliance controls and risk management systems.

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

In particular, a reputational risk committee, comprising management from all relevant areas of the business, meets on a monthly basis to review key regulatory areas including:

- complaints management relating to legacy payment protection insurance issues;
- FCA regulated credit broking activities relating to the provision of interest-free credit to customers;
- data protection in all areas of the business; and
- health and safety across all business activities and premises.

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

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

- holding regular Board meetings to consider the matters reserved for its consideration;
- receiving regular management reports which provide an assessment of key risks and controls;
- scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- ensuring there is a clear organisational structure with defined responsibilities and levels of authority;
- ensuring there are documented policies and procedures in place; and
- scheduling regular Board reviews of financial budgets and forecasts with performance reported to the Board monthly.

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

- review the risk register compiled and maintained by senior managers within the Group and question and challenge where necessary;
- regularly review the system of financial and accounting controls; and
- report to the Board on the risk and control culture within the Group.

In respect of the Group's financial reporting, the Finance Department is responsible for preparing the Group financial statements using a well-established process and ensuring that accounting policies are in accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee.

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

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal controls and risk management is in place which enable the Group to identify, evaluate and manage key risks and which accord with the guidance published by the FRC. These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 16 to 19.

Whistleblowing

The Group is committed to the highest standards of openness, honesty, integrity and accountability and, as a result, has a whistleblowing policy in place. This policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. Examples include fraud, breakdown in internal controls, misleading customers, bribery, dishonesty, corruption and breaches of data protection or health and safety. This facility was reviewed during the year and it was agreed that appropriate arrangements are in place for proportionate and independent investigation of such matters.

During the year, there were two instances of whistleblowing both of which were fully investigated and addressed in accordance with the policy.

Control environment

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

- anti-bribery;
- equal opportunities; and
- gifts and entertainment.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on page 63. As set out in the Directors' report, the Directors consider the Group's business to be a going concern.

Julie Southern
Chairman of the Audit Committee
5 October 2016

NOMINATION COMMITTEE REPORT

"We have now achieved a 50:50 gender balance on the Board."

CHAIRMAN'S INTRODUCTION

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

During the year, we had the challenge of replacing Bill Barnes, our Group Finance Director for the past 13 years, in preparation for his retirement in July 2016. On behalf of the Board, I would like to express our sincere gratitude to Bill for his dedicated and diligent service over the years and, at the same time, following a rigorous market-wide selection process, welcome Nicola Bancroft to the Board.

Further Board movements during the year included the stepping down of Advent's Nominee Director, Andy Dawson, in line with their investment strategy. Once again, on behalf of the Board, I would like to express our sincere gratitude to Andy for his support as representative of DFS's largest shareholder since their initial investment in 2010.

As mentioned in my introduction to the corporate governance statement, it is not possible to fully comply with the provisions of the Governance Code, because of my deemed lack of independence on appointment back in 2010. However, with the appropriate safeguards in place, and the fact that at least half of the Board's members are now independent Non-Executive Directors, we believe any perceived risk has been satisfactorily mitigated.

As a result of the above Board changes, it is very pleasing to note that we have now achieved a 50:50 gender balance on the Board.

During the forthcoming year, it is my intention the Committee will continue to be proactive in assessing and managing an orderly evolution of the membership of the Board and to make recommendations to the Board on its composition and balance where appropriate.

Richard Baker
Chairman of the Nomination Committee
5 October 2016

Composition

The Nomination Committee is chaired by Richard Baker and its other members are Luke Mayhew, Gwyn Burr and Julie Southern. The Governance Code recommends that a majority of the Nomination Committee be non-executive directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. As such, the Board considers that the Company complies with the Governance Code.

Only members of the Committee have the right to attend Committee meetings, but the Committee may invite others, including the Chief Executive Officer, the Head of Human Resources and external advisers, to attend all or part of any meeting if it thinks it is appropriate or necessary or pursuant to the terms of any agreement with shareholders.

The Nomination Committee will meet as often as it deems necessary but in any event at least once a year.

Roles and responsibilities

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and its committees (including an appraisal of skills, knowledge, experience and diversity, including gender) and for making recommendations to the Board with regard to any changes.

It is also responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Committee's terms of reference were reviewed, and amended where appropriate, during the year and the revised terms of reference adopted by the Board on 17 June 2016, details of which are available on the Company's corporate website at www.dfscorporate.co.uk.

Activities of the Nomination Committee

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

- management of the market-wide selection process, engaging the services of Calibro (who are independent of the Group), for the replacement of Bill Barnes as CFO resulting in the appointment of Nicola Bancroft (including coordination of the transitional process);
- review of the Board size, structure and composition following the stepping-down of Advent's Nominee Director, Andy Dawson;
- review of the talent and succession planning for the Board, taking into account the challenges and opportunities facing the business resulting in the restructuring of the Executive Board within the senior leadership team;
- internal review of the Committee's effectiveness; and
- consideration of the re-election of Directors at the AGM.

Diversity

The Group pursues diversity, including gender diversity, throughout the business. The Board has set specific targets for the coming year in relation to the proportion of female retail colleagues which will be reported upon in due course. Furthermore, following the recent appointment of Nicola Bancroft, our Board now has three female Directors and therefore a 50:50 gender split. We will continue to give due consideration to Board balance and diversity when making new appointments to the Board but will continue to apply the overarching principle of appointing talented people at every level to deliver high performance.

Richard Baker
Chairman of the Nomination Committee
5 October 2016

Gwyn Burr
Chairman of the Remuneration Committee

About this report

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

Remuneration Committee members

- Gwyn Burr (Chairman)
- Luke Mayhew
- Julie Southern

PART A: ANNUAL STATEMENT

Dear Shareholders,

In my letter last year I set out the Remuneration Committee's (the "Committee") rationale behind our first Directors' Remuneration Policy ("Policy"), which received significant support at the 2015 AGM (99.91% voted for). At this moment in time we do not believe there is a need to make any changes to Policy at the 2016 AGM, but we will continue to monitor emerging best practice to ensure our Policy is acting in the best interests of the Company and our shareholders.

It has been a record year for DFS and our remuneration outcomes reflect this. As we continue into 2017 the Board recognises that, following the EU Referendum, our business and the industry faces increased challenges. As a result of this we have sought to ensure that the operation of prospective short- and long-term incentive arrangements is suitable for the challenging environment we will be operating in.

In this letter I have provided a summary of year-end decisions, remuneration decisions we made in relation to Bill Barnes and the appointment of Nicola Bancroft, and those made for FY17.

What remuneration decisions did we make as a result of performance over 2016?

You will have read earlier in this Annual Report that the Company delivered very strong results for 2016 with:

- Gross sales up 7.4% to £980.4 million;
- Underlying EBITDA up 5.8% to £94.4 million;
- Continuing strong cash flow with net debt closing just below 1.5x EBITDA; and
- Very positive progress on customer satisfaction scores with average established customer Net Promoter Score increasing from 21.9% to 31.2%.

This robust and consistent performance reflects the implementation of DFS's proven growth strategy, building on its established market leadership to further broaden product and brand appeal. Growth initiatives include a measured programme of store expansion in the UK and overseas, retail space release, continued development of the Group's omnichannel proposition and constant enhancement of its product range. This growth strategy is delivering ahead of the Board's expectations in a number of areas and generating revenue growth above that seen in the retail furniture market. Our incentive arrangements for the Executive Directors are closely aligned to business performance with a high proportion of remuneration delivered through incentive arrangements designed to reward achievement of short- and long-term strategic objectives.

We assessed the Executive Directors' 2016 Annual Bonus against gross sales, PBT, cash flow, NPS and personal performance targets (each measure has 20% weighting) at year-end. As a result of the strong results delivered for 2016 and also the excellent leadership and personal performance of both Ian Filby and Bill Barnes, the Committee determined that they would receive a cash bonus award equal to 71.9% of the maximum (equating to £305,575 for Ian Filby and 74.4% of the maximum £223,326 for Bill Barnes). Full details of the performance measures and targets can be found on page 54.

Under our LTIP, we granted our first awards upon IPO and subsequent awards at the start of FY16. These awards will be assessed against the performance targets at the end of FY17 (for the IPO awards) and FY18 (for the 2016 awards). We will provide full details on how we performed against the IPO award performance targets in next year's report.

Appointment of Nicola Bancroft as Chief Financial Officer and Bill Barnes retirement

Nicola Bancroft, previously our Commercial Finance Director, was appointed as Chief Financial Officer and an Executive Director with effect from 1 August 2016. Nicola replaces Bill Barnes, who retired from the Board on 30 July 2016. Bill continued as an employee of the Group through August 2016 in order to complete a smooth handover during the year end period. We have provided full details on Bill's leaving arrangements on page 62 of this report.

On appointment to the role of Chief Financial Officer, the Committee determined that Nicola's salary would be £240,000, which will be reviewed annually. Over time the Committee intends, in line with policy and subject to performance, to align Nicola's salary to a more market competitive positioning. This may result in increases greater than those given to the wider employee group. In addition, Nicola will be entitled to participate in the Annual Bonus Plan and the LTIP.

Looking forward to 2017

We reviewed Ian Filby's base salary at year end taking into consideration business performance, personal performance and increases provided to employees across the Group, and determined that his salary will be increased by 1.2% to £430,100 (in line with the average increase across the Company).

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

In October 2016 we plan to grant annual awards under the LTIP equal to 130% of salary to Ian Filby and 100% of salary Nicola Bancroft. In setting the performance conditions for these awards, we considered a number of factors including the EU Referendum result which has increased the risk of a market slowdown with additional cost pressures from foreign exchange movements. Alongside this, our expectation is that the wider retail environment will remain intensely competitive. Overall the Group remains very well positioned to mitigate any economic headwinds. Taking these factors into account, to ensure that the LTIP awards due to be granted act as an appropriate incentive to motivate and retain our executive team and execute our strategy we have:

- Set EPS growth targets so that threshold vesting occurs at 4% p.a. and maximum vesting occurs at 13% p.a. When converted into absolute EPS figures, the targets are higher than the targets for awards granted previously. The EPS targets will continue to have a 50% weighting on LTIP outcomes.
- Decided to use two relative TSR peer groups for the 2017 and future LTIP awards. 25% of the total LTIP award will continue to be measured against the FTSE 250 Index (excluding Investment Trusts), while the balance (25% weighting) will be measured against the FTSE 350 General Retailers Index.

The use of two TSR peer groups will ensure that participants are focused on outperforming a basket of other General Retailers, as well as companies in the main index of which we are a member.

Overall the Committee is comfortable that the performance targets have been designed such that achievement of truly stretching performance targets would result in maximum rewards, whilst reward at the lower end of the scale is also attainable, subject to the appropriate level of performance. Full details of the performance measures and targets can be found on page 56.

Matters to be approved at the 2016 AGM

We have not presented our Policy in this report since, as noted earlier, it is not subject to a shareholder vote at the 2016 AGM. The Policy is available to view in full on the Company's website at dfscorporate.co.uk.

We have, however, improved the 'Our Remuneration at a Glance' section to provide shareholders with a concise overview of our Policy, our performance over FY16 and respective remuneration outcomes along with information on how the Committee intends to implement Policy for 2017. The 2016 Annual Report on Remuneration together with this letter is subject to an advisory shareholder vote at the AGM on 2 December 2016.

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

Gwyn Burr
Chairman of the Remuneration Committee
5 October 2016

PART B: OUR REMUNERATION AT A GLANCE

Ahead of the detailed 2016 Annual Report on Remuneration, we have summarised below the key elements of our Policy, the key remuneration outcomes for 2016 and how we intend to implement Policy in 2017.

(i) Summary of our Directors' Remuneration Policy

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

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

(ii) How did we perform in 2016?
Key FY16 business highlights

- Gross sales up 7.4% to £980.4 million.
- Underlying EBITDA up 5.8% to £94.4 million.
- Continuing strong cash flow with net debt closing at 1.5x EBITDA.
- Positive progress on customer satisfaction scores with average established customer Net Promoter Score increasing from 21.9% to 31.2%.

2016 annual bonus assessment: At the start of the 2016 Financial Year, we set stretching performance targets for the Annual Bonus plan. Below we summarise the targets and the outcomes for both Ian Filby and Bill Barnes.

Measure (weighting)	Target	Actual	% of maximum achieved
Gross sales (20%)	£985.7m	£980.4m	75.2%
PBT (20%)	£62.3m	£64.6m	96.7%
Cash flow (20%)	£46.7m	£49.2m	100.0%
NPS (20%)	36%	31.2%	–
Personal (20%)	–	–	87.5%/100%

Based on an assessment against the 2016 bonus scorecard the Committee determined that Ian Filby would receive a bonus of £305,575 (71.9% of maximum) and £223,326 for Bill Barnes (74.4% of maximum).

The 2016 bonuses for Ian Filby and Bill Barnes will be paid in cash.

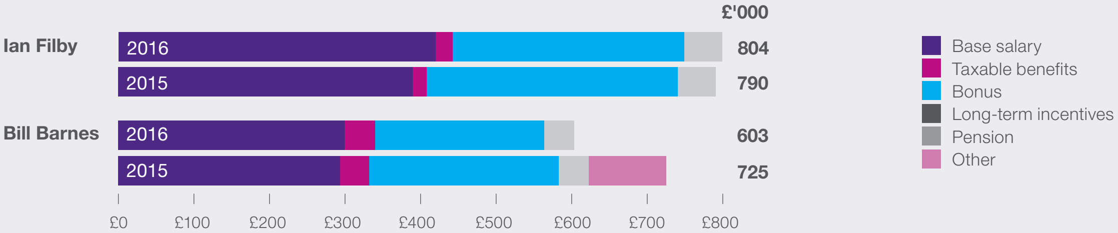
LTIP vesting: No LTIP awards vested during the year.

The first award under the LTIP, which was granted at the time of the IPO, will vest; subject to the achievement of the performance targets at the end of FY17.

(iii) Levels of remuneration for 2016 and executive shareholdings

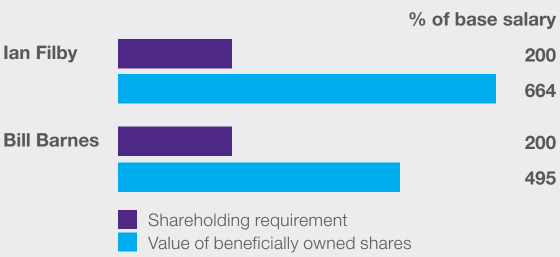
Single figure remuneration

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



Level of shareholdings

Below we present a summary of the level of shareholdings for both the Executive Directors at 30 July 2016:



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

(iv) Implementation of Policy for 2017

Executive Directors

Element	Ian Filby	Nicola Bancroft
Base salary	£430,100	£240,000
Pension and benefits	£50,000	£40,000
	Benefits will be provided in line with Policy for 2017	
Annual bonus	100% of salary maximum	100% of salary maximum
2017 measures	Group gross sales, Group underlying profit before tax, Group underlying cash flow, growth in Established Net Promoter Score, personal objectives	
LTIP – to be granted in October	130% of salary	100% of salary
2017 measures	Total Shareholder Return and earnings per share targets	
Shareholding requirement	200% of salary	200% of salary

Non-Executive Directors

Fees	£50,000; additional £10,000 for Senior Independent Director

Full details on how we plan to implement Policy in 2017 are set out on pages 55 to 56.

PART C: 2016 ANNUAL REPORT ON REMUNERATION

This 2016 Annual Report on Remuneration contains details of how the Company's Policy for Directors was implemented during the Financial Year ended 30 July 2016. This report has been prepared in accordance with the provisions of the Companies Act 2006 and the Regulations. An advisory resolution to approve this report and the Annual Statement will be put to shareholders at the AGM on 2 December 2016.

1 Executive Director Remuneration

Single figure remuneration table – audited

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

		Base salary £000	Taxable benefits £000	Bonus £000	Long-term Incentives £000	Pension £000	Other £000	Total £000
Ian Filby	**2016**	**425**	**23**	**306**	**–**	**50**	**–**	**804**
	2015	390	18	332	–	50	–	790
Bill Barnes	**2016**	**300**	**40**	**223**	**–**	**40**	**–**	**603**
	2015	294	38	251	–	40	102	725

Notes

1. Taxable benefits comprise car and fuel allowance, private medical insurance (including cover for spouses and dependants), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses – the values of which has been included in the taxable benefits column.
2. The Executive Directors' are entitled to receive a contribution to a personal pension scheme or cash in lieu – the value of which has been included in the pension column for Bill Barnes. Ian Filby waived his entitlement to a pension contribution from the Group and a charitable donation of £50,000 (2015: £50,000) has been made as an alternative.
3. Mike Ristaino was a Director of the Company until 3 February 2015 in an administrative capacity on behalf of Advent Diamond (Luxembourg) Sarl. He received no remuneration in 2015 for his services to the Company.
4. Other – represents the amounts reported in relation to the Management Equity Plan in the 2015 Annual Report on Remuneration.
5. Nicola Bancroft did not serve as a Director during FY15 or FY16 and is therefore is not included in the table above.

Annual bonus outcomes for the financial year ending 30 July 2016 – audited

For 2016 the Chief Executive Officer and the Finance Director (Bill Barnes) had a maximum annual bonus opportunity of 100% of salary. For each Executive Director, the 2016 annual bonus determination was based on performance against five performance measures namely; gross sales, underlying PBT, underlying cash flow, NPS and personal objectives.

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

Performance measure	Weighting (% of maximum bonus opportunity)	Threshold performance target (0% of performance measure maximum opportunity earned)	Target level of performance	Maximum performance target (100% of performance measure maximum opportunity earned)	Actual performance outcome	% of performance measure maximum opportunity earned
Gross sales	20%	£924.0m	£985.7m	£999.0m	£980.4m	75.2%
Underlying PBT	20%	£53.0m	£62.3m	£65.0m	£64.6m	96.7%
Underlying cash flow	20%	£39.2m	£46.7m	£49.2m	£50.7m	100.0%
NPS	20%	32%	36%	37%	31.2%	–
Personal objectives	20%	See summary of assessment below				87.5%/100.0%
Overall extent to which the bonus targets were achieved			**71.9% of maximum for the Chief Executive Officer 74.4% of maximum for the Finance Director**			

Notes

1. Between threshold, target and maximum, pay-out for the measures was calculated on a straight-line basis.
2. Gross sales and underlying PBT are presented on the income statement on page 66. Underlying cash flow means the net movement in cash and cash equivalents during the Financial Year as adjusted for cash flows associated with non-underlying items.

Director	Personal objectives set at the start of the year	Assessment against the targets
Ian Filby	• Develop a long term Group property plan. • Increase gross sales of new brands and extended ranges through use of in-store technology. • Launch new customer charter and demonstrate positive impact.	• Property strategy developed and presented to the Board, forming the basis of the space growth strategic initiative. • Gross sales of new brands exceeded targets, sales of extended ranges grew but below target performance. • Customer charter launched internally and externally as our "Customer Promise".
Bill Barnes	• Successfully complete first full year of public company report and compliance. • Develop management information including enhanced Board performance report. • Create clear plan for use of capital, including investing for profitable growth in the business.	• All reporting requirements achieved and effective investor relations function developed. • Extension of business intelligence platform and enhanced Board reporting developed. • Successful delevering of the business, share buyback programme established and capital needs of the business supported.

As a result of the performance results shown above, the bonuses awarded to the Executive Directors are £305,575 for Ian Filby (71.9% of maximum) and £223,326 for Bill Barnes (74.4% of maximum). No part of the bonus will be subject to deferral and no discretion was exercised by the Committee when determining the bonus outcomes.

LTIP
No LTIP awards vested during the year. The first award under the LTIP, which was granted at the time of the IPO will vest, subject to the achievement of the performance targets, at the end of the 2017 Financial Year.

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

Payments to past Directors or for loss of office – audited
During the year there were no payments to past Directors and no payments for loss of office.

2 Implementation of remuneration policy for the Executive Directors for 2017
Base salary
In setting salary levels for the 2017 Financial Year for the Executive Directors, the Committee considered a number of factors, including individual performance and experience, pay and conditions for employees across the Group, the general performance of the Company, pay levels in other comparable companies and the economic environment. The salaries for 2017 and the relative increases are set out below.

	Base salary £000		
	2017	2016	% change
Ian Filby	£430,100	£425,000	+1.2%
Nicola Bancroft	£240,000	–	–

Nicola Bancroft was appointed to the role of Chief Financial Officer with effect from 1 August 2016 on a salary of £240,000.

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

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

PART C: 2016 ANNUAL REPORT ON REMUNERATION CONTINUED

Annual bonus

Consistent with the Policy the maximum and threshold bonus potentials for 2017 are:

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

For FY17, performance measures comprise Group gross sales, Group underlying profit before tax, Group underlying cash flow, growth in Established Customer Net Promoter Score and personal objectives. Each performance measure shall have a 20% weighting.

The Committee is of the opinion that the precise performance targets for the Annual Bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the Financial Year. Actual targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs as we have done for the 2016 bonus scorecard in this report.

LTIP Awards

Details of the LTIP Awards to be made in October 2016 are provided below.

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

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

Measure	Performance period	Performance target	Vesting (% of Award)
Total Shareholder Return versus FTSE 250 Index (excluding Investment Trusts)[1] and FTSE 350 General Retailers Index	3 financial years ending FY19	Below Index return Equal to Index return 12% p.a. above the Index return	0% 20% 100%
Adjusted Earnings per Share[2]	3 financial years ending FY19	Less than 4% per annum 4% per annum 13% per annum	0% 20% 100%

Notes
1. Growth in Total Shareholder Return will be calculated on a simple average annual growth rate and the measurement of TSR will be split evenly between the two peer group indices (i.e. 25% weighting each).
2. Adjusted Earnings per Share will be calculated on a compound annual growth basis. The basis of the EPS targets for the 2017 LTIP awards is set out in full in the Annual Statement from the Remuneration Committee Chairman.

3 Consideration by the Committee of matters relating to Directors' remuneration for 2016

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

		Committee meeting			
Members of the Committee during 2016	Independent	October 2015	January 2016	June 2016	Attendance
Gwyn Burr (Chair)	Yes	√	√	√	100%
Luke Mayhew	Yes	√	√	√	100%
Julie Southern	Yes	√	√	√	100%

All Committee members attended all Remuneration Committee meetings that took place while they were members of the Committee. None of the Committee members has any personal financial interest (other than as shareholders) in the decisions made by the Committee, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Chairman, Chief Executive Officer and the Finance Director may attend meetings at the invitation of the Committee, but are not present when their own remuneration is being discussed. The Committee is supported by the HR Director, Finance and Company Secretariat functions.

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

October 2015	January 2016	June 2016
• Salary review for Executive Board members. • 2015 bonus scorecard assessment. • Approving the 2016 bonus scorecard. • Approving the 2016 LTIP Awards. • Approving the 2015 Directors' Remuneration Report. • Reviewed levels of shareholding.	• Guidelines for operation of DFS share plans. • Adoption of Irish SAYE scheme. • Remuneration benchmarking. • Bill Barnes retirement arrangements.	• Review of Remuneration Committee Terms of Reference. • Initial discussions on the 2016 Director's Remuneration Report. • Annual bonus and in-flight LTIP performance updates. • Update on corporate governance, 2016 AGM season and market trends.

The Committee received external advice in 2016 from PwC during the year. The Committee appointed PwC as its advisors after a tender process in July 2015. PwC are considered by the Committee to be objective and independent. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee reviewed the nature of all the services provided during the year by PwC and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to PwC in respect of services to the Committee during the year were £119,250. Fees were determined based on the scope and nature of the projects undertaken for the Committee.

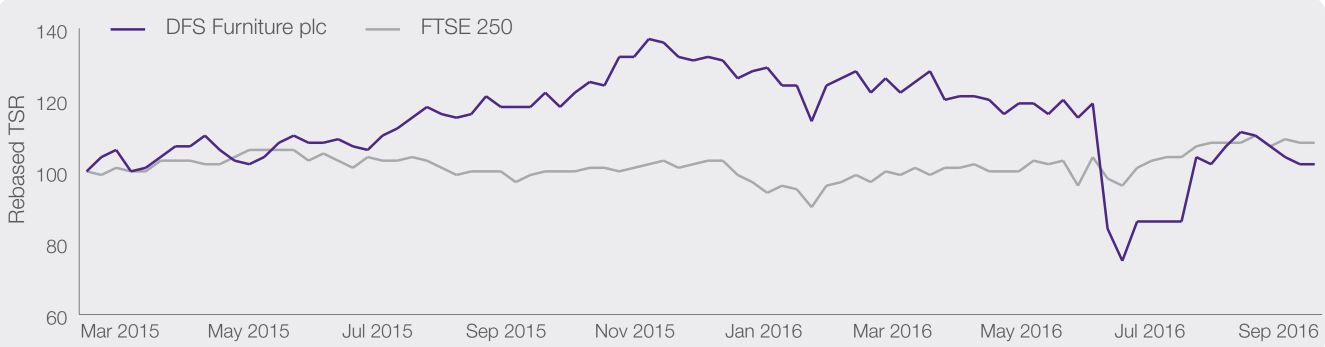
PART C: 2016 ANNUAL REPORT ON REMUNERATION CONTINUED

4 Chief Executive Officer and employee pay

Total Shareholder Returns and Chief Executive Officer pay since IPO

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

The chart below illustrates our Total Shareholder Return performance against the FTSE 250 Index since 5 March 2015, the date of IPO, to 30 September 2016. The Group's share price fell at the end of June 2016 as part of the general market response to the result of the UK EU Referendum, impacting reported TSR, but has since significantly recovered.



Chief Executive Officer	2016	2015
Single figure of total remuneration (£000)	798	790
Bonus pay-out (% maximum)	71.9%	85.2%
Long-term incentive vesting rates (% maximum)	n/a	n/a

No LTIP awards vested during the year – the first award, which was granted at the time of the IPO will vest, subject to the achievement of the performance targets, at the end of the 2017 Financial Year.

Percentage change in the Chief Executive Officer's remuneration

The table below compares the percentage increase in the Chief Executive Officer's pay with the wider employee population. The Company considers DFS employees other than those whose remuneration includes piecework or commission, and excluding the Executive Directors, to be an appropriate comparator group.

% change from 2015 to 2016	Base salary	Benefits	Annual bonus
Chief Executive Officer	+9.0%	+27.8%	-8.0%
Employee pay	+1.2%	–	+7.0%

Relative importance of spend on pay

The table below sets out the overall spend on pay for all employees compared with the returns distributed to shareholders.

Significant distributions	2016	2015	% change
Employee spend	£132.9m	£125.0m	+6.3
Distributions to shareholders	£31.0m	–	–

Notes
1. The above figures are taken from notes 4, 20 and 21 to the financial statements.

5 Non-Executive Director Remuneration

Single figure remuneration table – audited

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

Director		Fees £000	Other £000	Total £000
Richard Baker	**2016**	**210**	**–**	**210**
	2015	210	–	210
Luke Mayhew	**2016**	**60**	**–**	**60**
	2015	50	50	100
Gwyn Burr	**2016**	**50**	**–**	**50**
	2015	33	25	58
Julie Southern	**2016**	**50**	**–**	**50**
	2015	25	20	45
Andy Dawson	**2016**	**–**	**–**	**–**
	2015	–	–	–

Notes
1. Andy Dawson did not receive a fee for his role as Non-Executive Director. He resigned from the Board on 25 April 2016.
2. Other amounts include additional payments made in respect of contributions to the Admission process.

Fees to be provided in 2017 to the Non-Executive Directors

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

	2017	2016	% change
Chairman fee	£210,000	£210,000	–
Independent Non-Executive Director fee	£50,000	£50,000	–
Senior Independent Director fee	£10,000	£10,000	–

Fees for Non-Executive Directors have not been changed for 2017, but will be kept under review for future periods.

PART C: 2016 ANNUAL REPORT ON REMUNERATION CONTINUED

6 Directors' shareholdings and share interests

Shareholding and other interests at 30 July 2016 – audited

Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain (as relevant) a personal shareholding equal to 200% of their base salary in the Company.

	Shareholding at 30 July 2016			Interests in shares under the LTIP (Conditional Shares)			
Director	Number of beneficially owned shares[1]	% of salary held	Shareholding requirement met	Subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 30 July 2016
Ian Filby	1,313,208	664%	Yes	384,350	–	3,429	1,700,987
Bill Barnes	690,526	495%	Yes	216,200	–	3,429	910,155
Richard Baker	4,824,402	n/a	n/a	n/a	n/a	n/a	4,824,402
Luke Mayhew	31,621	n/a	n/a	n/a	n/a	n/a	31,621
Gwyn Burr	–	n/a	n/a	n/a	n/a	n/a	–
Julie Southern	3,921	n/a	n/a	n/a	n/a	n/a	3,921
Total	**6,863,678**	**–**	**–**	**600,550**	**–**	**6,858**	**7,471,086**

Notes
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Shareholding requirement calculation is based on the share price at the end of the year (£2.15 at 30 July 2016).
3. Nicola Bancroft did not serve as a Director during FY16 and is therefore not included in the table above.

At 5 October 2016 there had been no movement in Directors' shareholdings and share interests from 30 July 2016.

LTIP Awards granted in 2016 – audited

The table below sets out the details of the LTIP Awards granted on 23 October 2015 where vesting will be determined according to the achievement of certain performance measures. Non-Executive Directors do not receive awards under the plan.

Director	Type of award	Face value / Maximum value of award at grant date (£/% of salary)	Number of shares	Percentage of award receivable for threshold performance	Vesting date	Exercise price
Ian Filby	Conditional Share Award	£552,500 130%	185,527	20%	23 October 2018	Nil
Bill Barnes	Conditional Share Award	£300,169 100%	100,795	20%	23 October 2018	Nil

Notes
1. In line with the Rules of the plan, awards were determined using an average share price prior to grant of £2.978.
2. Awards will only vest subject to the achievement of the performance conditions which will be measured at the time the Group publishes its full year financial results.

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

Measure	Performance period	Performance target	Vesting (% of Award)
Total Shareholder Return versus FTSE 250 Index (excluding Investment Trusts)	3 financial years ending FY18	Below Index return	0%
		Equal to Index return	20%
		12% p.a. above the Index return	100%
Adjusted Earnings per Share	3 financial years ending FY18	Less than 8% per annum	0%
		8% per annum	20%
		18% per annum	100%

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

SAYE Awards – audited

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

Director	Number of awards	Date of grant	Vesting date	Exercise Price
Ian Filby	3,429	10 December 2015	31 January 2019	£2.62
Bill Barnes	3,429	10 December 2015	31 January 2019	£2.62

Dilution

The Company funds its share incentives through a combination of new issue and market purchased shares. The Company monitors the levels of share grants and the impact of these on the ongoing requirement for shares. In accordance with guidelines set out by the Investment Association ("IA") the Company can issue a maximum of 10% of its issued share capital in a rolling ten year period to employees under all its share plans.

7 Service contracts and letters of appointment

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

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

Details of external appointments of Executive Directors are provided on pages 32 to 33.

The Non-Executive Directors do not have service contracts but are appointed under letters of appointment which provide for a review after an initial three year term terminable by either the Non-Executive Director or the Company with one month's prior written notice. Each Non-Executive Director is subject to annual re-election at the Company's AGM.

PART C: 2016 ANNUAL REPORT ON REMUNERATION CONTINUED

The table below sets out the dates that each Non-Executive Director was first appointed as a Group Director (all Directors were subsequently appointed to the current parent company, DFS Furniture plc on 2 February 2015 as part of the IPO process).

Director	Date of appointment
Richard Baker	27 July 2010
Luke Mayhew	1 October 2014
Gwyn Burr	1 December 2014
Julie Southern	2 February 2015

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

8 Bill Barnes retirement remuneration

Bill Barnes stepped down from the Board on 30 July 2016 and continued to serve as employee until 31 August 2016 (the "Leaving Date") in order to maintain a smooth transition following Nicola Bancroft's appointment as the new Chief Financial Officer.

Bill Barnes has not and will not receive any loss of office payments. Bill Barnes continued to receive his salary, benefits and pension package during the period between ceasing to be a Board member and his Leaving Date.

In line with the Policy and plan rules, the Committee decided that Bill should be treated as a good leaver for the 2016 Annual Bonus Plan and his outstanding LTIP awards, details of which are described below.

Annual bonus: Bill received a bonus for FY16 as disclosed on page 54 of this report. However, he will not be entitled to a bonus for the proportion of FY17 which he served as an employee.

LTIP awards: The Committee determined that awards held by Bill Barnes that were outstanding under the LTIP (those granted on 16 March 2015 and 23 October 2016) would be treated in accordance with the rules of the plan for good leavers as follows:

- LTIP awards will vest on the normal vesting date to the extent to which performance conditions are met at the end of the relevant performance period.
- His LTIP awards will be pro-rated for the time that has elapsed from the grant date to his Leaving Date.

Outstanding options held under the all-employee Sharesave may be exercised in accordance with the rules of the plan. Bill Barnes was also contractually entitled to a payment in lieu of holiday accrued but not taken by 1 August 2016.

9 Shareholder voting

The table below shows the binding vote approving the Policy and the advisory vote to approve the 2015 Annual Report on Remuneration at the AGM on 4 December 2015.

	Votes for	%	Votes against	%	Votes withheld
Directors' Remuneration Policy	174,166,632	99.91	153,151	0.09	0
2015 Annual Report on Remuneration	174,187,560	99.92	132,223	0.08	0

By order of the Board

Gwyn Burr
Chairman of the Remuneration Committee
5 October 2016

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

Ian Filby
Chief Executive Officer
5 October 2016

Nicola Bancroft
Chief Financial Officer

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

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of DFS Furniture plc for the 52 week period ended 30 July 2016 set out on pages 66 to 94. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 July 2016 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Guarantee provision (£7.9 million (2015: £8.8 million)) and other provisions (£1.8 million (2015: other provisions and long term accruals £1.2 million)), Risk vs 2015

Refer to page 45 Audit Committee report, page 74 (accounting policy) and page 84 (financial disclosures).

The risk – The guarantee provision totals £7.9 million (2015: £8.8 million) and reflects the estimated cost of fulfilling the obligations arising from the product guarantee provided to the retail customers. The directors apply judgement in determining the provision model and make assumptions in respect of its key variables: average cost per claim, volume of claims and period over which the guarantee is likely to be called.

The other provisions of £1.8 million (2015: £1.2 million included in long term accruals) represent the best estimate of the value of refunds to customers in respect of payment protection insurance policies and other regulatory costs. We focused on these areas as significant judgement is required by the directors in determining the assumptions.

Our response – Our procedures included critically assessing the assumptions applied in calculating the value of the guarantee provision. We compared expected volume of calls and average cost per claim included in the provision model against historical data. We inspected the guarantee record to evaluate the period over which the guarantee is likely to be called.

For the provision for refunds in respect of payment protection policies, we challenged the assumptions used to determine the expected volume and value of claims through a comparison with historical trends and our assessment of the volume of claims yet to be filed. We tested the assumptions over the volume and settlement value of claims by agreeing it to supporting documentation.

For the provision for other regulatory costs we inspected correspondence between the Group and other parties, such as legal advisers, and challenged the reasonableness of the key assumptions made by the directors taking into consideration our own expectations based on our experience of similar risks.

We continue to perform procedures over property related provisions and long term accruals (2015:£4.7m). However, following a reassessment of the level of judgment applied to the key assumptions used in determining those amounts they have not been assessed as one of the risks that had the greatest effect on our audit and, therefore, are not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £3.2 million (2015: £3.0 million) determined with reference to a benchmark of Group profit before tax of £64.5 million. Materiality represents 5.0% of the Group profit before tax (2015: Group profit before tax excluding non-underlying items, 5.0%).

We report to the Audit Committee any corrected or uncorrected misstatements exceeding £160,000 (2015: £150,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's nine (2015: eight) reporting components, the Group audit team subjected all nine (2015: eight) to audits for group reporting purposes. The audits undertaken at the reporting components was performed to a materiality level which ranged from £0.1 million to £2.4 million (2015: £0.1 million and £3.0 million), having regard to the size and risk profile of the Group across the components.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of viability on page 19, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the four years to 2020; or
- the disclosures in note 1 of the financial statements on page 71 concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit and risk committee does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 19 and 71, in relation to going concern and longer-term viability.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Greg Watts (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
5 October 2016

CONSOLIDATED INCOME STATEMENT

for 52 weeks ended 30 July 2016 (52 weeks ended 1 August 2015)

		2016			2015		
	Note	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Gross sales	1,2	**980.4**	**–**	**980.4**	913.1	–	913.1
Revenue	2	**756.0**	**–**	**756.0**	706.1	–	706.1
Cost of sales		**(621.7)**	**–**	**(621.7)**	(583.8)	–	(583.8)
Gross profit		**134.3**	**–**	**134.3**	122.3	–	122.3
Administrative expenses		**(39.9)**	**–**	**(39.9)**	(33.1)	(11.6)	(44.7)
Operating profit before depreciation and amortisation		**94.4**	**–**	**94.4**	89.2	(11.6)	77.6
Depreciation		**(16.4)**	**–**	**(16.4)**	(14.3)	–	(14.3)
Amortisation		**(2.2)**	**–**	**(2.2)**	(2.7)	–	(2.7)
Operating profit	2,3	**75.8**	**–**	**75.8**	72.2	(11.6)	60.6
Finance income	5	**0.3**	**–**	**0.3**	0.1	–	0.1
Finance expenses	5	**(11.6)**	**–**	**(11.6)**	(39.0)	(11.0)	(50.0)
Profit before tax		**64.5**	**–**	**64.5**	33.3	(22.6)	10.7
Taxation	6	**(14.1)**	**9.9**	**(4.2)**	(10.4)	2.9	(7.5)
Profit/(loss) for the year		**50.4**	**9.9**	**60.3**	22.9	(19.7)	3.2
Attributable to:							
Owners of the Company		**50.4**	**9.9**	**60.3**	24.4	(19.7)	4.7
Non-controlling interests		**–**	**–**	**–**	(1.5)	–	(1.5)
		50.4	**9.9**	**60.3**	22.9	(19.7)	3.2
Statutory earnings per share							
Basic	7	**23.7p**	**4.6p**	**28.3p**	22.4p	(18.1)p	4.3p
Diluted	7	**23.5p**	**4.6p**	**28.1p**	22.3p	(18.0)p	4.3p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for 52 weeks ended 30 July 2016 (52 weeks ended 1 August 2015)

	2016 £m	2015 £m
Profit for the year	**60.3**	3.2
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**(0.6)**	7.0
Net change in fair value of cash flow hedges reclassified to profit or loss	**(4.1)**	(2.3)
Income tax on items that are or may be reclassified subsequently to profit or loss	**0.9**	(0.9)
Other comprehensive income/(expense) for the year, net of income tax	**(3.8)**	3.8
Total comprehensive income/(expense) for the year	**56.5**	7.0
Attributable to:		
Owners of the Company	**56.5**	8.5
Non-controlling interests	**–**	(1.5)
	56.5	7.0

CONSOLIDATED BALANCE SHEET

at 30 July 2016 (1 August 2015)

	Note	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment	8	**65.1**	57.6
Intangible assets	9	**491.2**	489.3
Other financial assets	11	**–**	1.3
Deferred tax assets	12	**9.1**	12.1
		565.4	560.3
Current assets			
Inventories	13	**34.9**	28.3
Other financial assets	11	**3.1**	1.1
Trade and other receivables	14	**26.4**	25.3
Cash and cash equivalents		**66.7**	40.7
		131.1	95.4
Total assets		**696.5**	655.7
Current liabilities			
Trade payables and other liabilities	15	**(159.3)**	(145.2)
Provisions	19	**(6.6)**	(6.1)
Other financial liabilities	16	**(0.1)**	(0.8)
Current tax liabilities		**(3.0)**	(8.2)
		(169.0)	(160.3)
Non-current liabilities			
Interest bearing loans and borrowings	17	**(198.3)**	(197.9)
Provisions	19	**(5.1)**	(4.4)
Other financial liabilities	16	**(6.1)**	–
Other liabilities	15	**(67.4)**	(69.2)
		(276.9)	(271.5)
Total liabilities		**(445.9)**	(431.8)
Net assets		**250.6**	223.9
Equity attributable to equity holders of the parent			
Share capital	21	**319.5**	319.5
Share premium	21	**40.4**	40.4
Merger reserve	21	**18.6**	18.6
Treasury shares	21	**(3.7)**	–
Cash flow hedging reserve	21	**(3.0)**	1.7
Retained earnings		**(121.2)**	(156.3)
Equity attributable to owners of the Company		**250.6**	223.9
Non-controlling interests		**–**	–
Total equity		**250.6**	223.9

These financial statements were approved by the Board of Directors on 5 October 2016 and were signed on its behalf by:

Ian Filby
Chief Executive Officer

Nicola Bancroft
Chief Financial Officer

Company registered number: 7236769

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Cash flow hedging reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 2 August 2014	**42.6**	**–**	**–**	**–**	**(3.0)**	**(113.5)**	**(0.9)**	**(74.8)**
Loss for the year	–	–	–	–	–	4.7	(1.5)	3.2
Other comprehensive income/(expense)	–	–	–	–	4.7	(0.9)	–	3.8
Total comprehensive income/(expense) for the year	–	–	–	–	4.7	3.8	(1.5)	7.0
Reorganisation on IPO	219.3	–	18.6	–	–	(47.2)	3.3	194.0
Equity raised on IPO	57.6	40.4		–	–	–	–	98.0
Dividends	–	–	–	–	–	–	(0.9)	(0.9)
Share based payments	–	–	–	–	–	0.6		0.6
Balance at 1 August 2015	**319.5**	**40.4**	**18.6**	**–**	**1.7**	**(156.3)**	**–**	**223.9**
Profit for the year	–	–	–	–	–	60.3	–	60.3
Other comprehensive income/(expense)	–	–	–	–	(4.7)	0.9	–	(3.8)
Total comprehensive income/(expense) for the year	–	–	–	–	(4.7)	61.2	–	56.5
Dividends	–	–	–	–	–	(27.3)	–	(27.3)
Purchase of own shares	–	–	–	(3.7)	–	–	–	(3.7)
Share based payments	–	–	–	–	–	1.2	–	1.2
Balance at 30 July 2016	**319.5**	**40.4**	**18.6**	**(3.7)**	**(3.0)**	**(121.2)**	**–**	**250.6**

CONSOLIDATED CASH FLOW STATEMENT

for 52 weeks ended 30 July 2016 (52 weeks ended 1 August 2015)

	Note	2016 £m	2015 £m
Operating profit		**75.8**	60.6
Adjustments for:			
Depreciation, amortisation and impairment		**18.6**	17.0
Gain on sale of property, plant and equipment		**(0.6)**	(0.8)
Share based payment expense		**1.2**	0.6
Increase in trade and other receivables		**(1.1)**	(1.6)
(Increase)/decrease in inventories		**(6.6)**	0.5
Increase in trade and other payables		**11.6**	2.4
Increase in provisions		**1.2**	0.2
		100.1	78.9
Tax paid		**(11.4)**	(8.4)
Non-underlying prior year tax credit received		**5.9**	–
Net cash from operating activities		**94.6**	70.5
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**0.8**	0.9
Interest received		**0.3**	0.1
Acquisition of subsidiaries		**(1.5)**	–
Acquisition of property, plant and equipment		**(21.9)**	(19.0)
Acquisition of other intangible assets		**(2.6)**	(1.8)
Net cash from investing activities		**(24.9)**	(19.8)
Cash flows from financing activities			
Interest paid		**(8.7)**	(41.9)
Exceptional finance costs		**–**	(10.4)
Proceeds from new loan		**–**	200.0
Repayment of borrowings		**–**	(310.0)
Proceeds on issue of new shares		**–**	98.0
Settlement of partly paid share capital		**–**	2.3
Payment of deferred consideration on acquisition		**(2.3)**	–
Payment of finance lease liabilities		**(1.7)**	(0.9)
Purchase of own shares		**(3.7)**	–
Dividends paid		**(27.3)**	(0.9)
Net cash from financing activities		**(43.7)**	(63.8)
Net increase/(decrease) in cash and cash equivalents		**26.0**	(13.1)
Cash and cash equivalents at beginning of year		**40.7**	53.8
Cash and cash equivalents at end of year	26	**66.7**	40.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 30 July 2016

1 Accounting policies

DFS Furniture plc ("the Company") is a company incorporated and domiciled in the United Kingdom.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.16.

1.1 Basis of preparation

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 30 July 2016 (last year 52 weeks to 1 August 2015).

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 91 to 94.

Going concern

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including £200.0 million of a senior loan facility maturing in 2020 and a £30.0 million revolving credit facility in place until March 2020 which is as yet unutilised. Further details of these facilities and the Group's financial management objectives are detailed in the financial statements.

On the basis of their assessment of the Group's financial position, forecasts and projections, the Company's directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Group is exposed to or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date that control commences until the date that control ceases. The acquisition method is used to account for the acquisition of subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

1.3 Gross sales and revenue

Gross sales represent the total amounts payable by external customers, without adjustment for the time value of money, 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.

Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods and services to external customers, being gross sales less: value added and other sales taxes, the costs of obtaining interest free credit on behalf of customers and the amounts payable to third parties relating to services for which the Group acts as an agent. For services where the Group acts as an agent, the amount recognised in revenue is the net fee receivable by the Group.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised when goods have been delivered to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured.

1 Accounting policies continued

1.4 Expenses

Non-underlying and exceptional items

Items that are material in size, unusual or non-recurring in nature are disclosed separately in the income statement in order to provide an indication of the Group's underlying business performance. The principal items which may be included as non-underlying are:

- significant profit or loss on the disposal of non-current assets;
- impairment charges;
- significant non-recurring tax charges or credits; and
- costs associated with significant corporate, financial or operating restructuring, including acquisitions or the establishment of operations in new geographical territories.

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

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance expenses comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method and unwinding of the discount on provisions. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

1.5 Employee benefits

Defined contribution plans

Payments to defined contribution pension plans are recognised as an expense in the income statement as they fall due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Share based payments

The fair value of equity settled share based payments is recognised as an expense over the vesting period of the related awards, with a corresponding increase in equity. Fair values are calculated using option pricing models appropriate to the terms and conditions of the awards. The amount charged as an expense is regularly reviewed and adjusted to reflect the achievement of service and non-market based performance conditions.

1.6 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

At interim reporting periods the tax charge is calculated in accordance with IAS 34, adjusted for material non-taxable items.

A deferred tax asset is recognised on deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.7 Foreign currency
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

1.8 Business combinations
Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions prior to 31 July 2011 (date of transition to IFRSs)
IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group and Company elected not to restate business combinations that took place prior to 31 July 2011. In respect of acquisitions prior to transition, goodwill is included at 31 July 2011 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that goodwill was amortised. On transition, amortisation of goodwill ceased as required by IFRS 1.

1.9 Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described in 1.4 above.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:
- buildings 50 years
- plant and equipment 4 to 10 years
- motor vehicles 4 years
- computer equipment 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.10 Intangible assets and goodwill
Goodwill
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Other intangible assets
Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

1 Accounting policies continued

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Estimated useful lives are as follows:

- computer software and website costs — 3 years
- acquired brand names — 20 years

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods manufactured by the Group includes direct materials, direct labour and appropriate overhead expenditure.

1.12 Impairment

The carrying amounts of the Group's tangible and intangible assets other than goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Details of provisions recognised are in note 19 and the related significant estimates and judgments in note 1.16.

1.14 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1.15 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For other cash flow hedges the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.16 Significant areas of estimation and judgment

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, but may differ from actual results. Significant areas of estimation for the Group include the costs of meeting customer guarantees and property related provisions (note 19), the selling prices applied in determining net realisable values of inventories (note 13) and the assumptions underlying the value in use calculation for the impairment of goodwill (note 9).

1.17 New accounting standards

A number of new or revised standards and interpretations have been issued which are not yet effective or endorsed by the EU, including IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and IFRS 16 *Leases*, and which have not therefore been applied by the Group in these financial statements.

Of these, only IFRS 16 is expected to have a material impact on the future financial statements of the Group since it would require the substantial majority of the Group's operating lease commitments (c£67.0m on an undiscounted basis as shown in note 25 of the financial statements) to be brought on to the balance sheet, resulting in the recognition of significant lease assets and liabilities which would be depreciated and amortised separately. IFRS 16 would first apply to the Group for the financial year ending July 2020.

2 Segmental analysis

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

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

	External sales		**Internal sales**		**Total gross sales**	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Retail	**980.4**	913.1	**1.2**	0.6	**981.6**	913.7
Other segments	**–**	–	**91.0**	92.7	**91.0**	92.7
Eliminations	**–**	–	**(92.2)**	(93.3)	**(92.2)**	(93.3)
Gross sales	**980.4**	913.1	**–**	–	**980.4**	913.1

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2 Segmental Analysis continued

	2016 £m	2015 £m
Total segments gross sales	**980.4**	913.1
Less: value added and other sales taxes	**(152.0)**	(141.4)
Less: costs of interest free credit and aftercare services	**(72.4)**	(65.6)
Revenue	**756.0**	706.1

	2016 £m	2015 £m
Retail underlying EBITDA	**87.4**	82.4
Other segments underlying EBITDA	**7.0**	6.8
	94.4	89.2
Depreciation & amortisation	**(18.6)**	(17.0)
Non-underlying items (note 3)	**–**	(11.6)
Operating profit	**75.8**	60.6
Finance income	**0.3**	0.1
Finance expenses	**(11.6)**	(39.0)
Exceptional refinancing costs	**–**	(11.0)
Profit before tax	**64.5**	10.7

A geographical analysis of revenue is presented below:

	2016 £m	2015 £m
United Kingdom	**734.2**	689.7
Europe	**21.8**	16.4
Total revenue	**756.0**	706.1

3 Operating profit

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

	2016 £m	2015 £m
Depreciation on tangible assets	**16.4**	14.3
Net gain on disposal of property, plant and equipment	**(0.6)**	(0.8)
Amortisation of intangible assets	**2.2**	2.7
Cost of inventories recognised as an expense	**315.2**	295.8
Write down of inventories to net realisable value	**0.4**	0.8

Non-underlying items

	2016 £m	2015 £m
Costs in respect of IPO	**–**	8.5
International and acquired business set-up costs	**–**	2.8
Other legal and professional costs	**–**	0.3
	–	11.6

3 Operating profit continued

Auditor's remuneration:

	2016 £m	2015 £m
Audit of these financial statements	**0.1**	0.1
Audit of the financial statements of Group subsidiaries	**0.1**	0.1
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	**0.1**	0.1
Other corporate finance services	**–**	0.8
	0.3	1.1

4 Staff numbers and costs

The average number of persons employed by the Group during the year, analysed by category, was as follows:

	Number of employees	
	2016	2015
Production	**1,100**	1,059
Warehouse and transport	**796**	727
Sales and administration	**2,027**	1,914
	3,923	3,700

The aggregate payroll costs of these persons were as follows:

	2016 £m	2015 £m
Wages and salaries	**117.7**	111.0
Social security costs	**11.6**	11.2
Other pension costs	**2.4**	2.2
	131.7	124.4
Share based payment expense (equity settled)	**1.2**	0.6
	132.9	125.0

5 Finance income and expense

	2016 £m	2015 £m
Finance income		
Interest income on bank deposits	**0.3**	0.1
Total finance income	**0.3**	0.1
Finance expense		
Interest payable on senior secured notes	**–**	(14.2)
Interest payable on senior loan facility	**(7.9)**	(2.8)
Bank fees	**(0.3)**	(0.5)
Fair value lease adjustment unwind	**(3.0)**	(3.0)
Interest payable on parent company loan	**–**	(17.0)
Interest payable on 17% cumulative redeemable preference shares	**–**	(0.1)
Interest payable on 8% vendor loan notes	**–**	(0.2)
Unwind of discount on provisions	**(0.1)**	(0.1)
Finance lease interest	**(0.3)**	(0.3)
Other interest	**–**	(0.8)
Total finance expense	**(11.6)**	(39.0)

Exceptional finance costs of £11.0m were incurred during the previous year as a consequence of the refinancing undertaken in connection with the Company's admission to the London Stock Exchange (note 16). These costs primarily related to the redemption premium and write off of remaining unamortised issue costs on the Group's £310.0m senior secured notes.

6 Taxation

Recognised in the income statement

	2016 £m	2015 £m
Current tax		
Current year	**10.6**	9.3
Non-underlying prior year tax credits	**(9.9)**	–
Adjustments for prior years	**(0.4)**	–
Current tax expense	**0.3**	9.3
Deferred tax		
Origination and reversal of temporary differences	**2.8**	(1.6)
Deferred tax rate change	**1.0**	–
Adjustments for prior years	**0.1**	(0.2)
Deferred tax expense	**3.9**	(1.8)
Total tax expense in income statement	**4.2**	7.5

Reconciliation of effective tax rate

	2016 £m	2015 £m
Profit before tax for the year	**64.5**	10.7
Tax using the UK corporation tax rate of 20% (2015: 20.67%)	**12.9**	2.2
Non-deductible expenses	**0.5**	5.5
Deferred tax not recognised	**1.0**	–
Non-underlying prior year tax credits	**(9.9)**	–
Adjustments in respect of prior years	**(0.3)**	(0.2)
Total tax expense	**4.2**	7.5

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

Reductions in the UK Corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 30 July 2016 has been calculated based on these rates.

An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. this will reduce the Group's future tax charge accordingly and reduce the deferred tax asset at 30 July 2016 by £0.5m.

Income tax recognised in other comprehensive income

	2016 £m	2015 £m
Effective portion of changes in fair value of cash flow hedges	**(0.1)**	1.4
Net change in fair value of cash flow hedges reclassified to profit or loss	**(0.8)**	(0.5)
	(0.9)	0.9

7 Earnings per share

Statutory earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the financial period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period. The weighted average number of shares reflects the movements in share capital detailed in note 21 and the impact of movements in treasury shares held by the Company. Changes in the Company's capital structure with no corresponding change in resources are reflected as if they had occurred at the beginning of the earliest period presented.

Diluted earnings per share is calculated using the same net profit or loss for the financial period attributable to ordinary equity holders of the parent company, but increasing the weighted average number of ordinary shares by the dilutive effect of potential ordinary shares.

	2016 pence	2015 pence
Basic total earnings per share	**28.3**	4.3
Diluted total earnings per share	**28.1**	4.3

	2016 £m	2015 £m
Profit for the year attributable to equity holders of the parent company	**60.3**	4.7

	2016 No.	2015 No.
Weighted average number of shares in issue for basic earnings per share	**212,896,904**	108,753,074
Dilutive effect of employee share based payment awards	**1,222,417**	380,479
Weighted average number of shares in issue for diluted earnings per share	**214,119,321**	109,133,553

Underlying earnings per share

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

	2016 £m	2015 £m
Profit for the year attributable to equity holders of the parent company	**60.3**	4.7
Non-underlying items	**–**	22.6
Tax effect of non-underlying items	**(9.9)**	(2.9)
Underlying profit for the year attributable to equity holders of the parent company	**50.4**	24.4

	2016 pence	2015 pence
Underlying basic earnings per share	**23.7**	22.4
Underlying diluted earnings per share	**23.5**	22.3

8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
Cost				
Balance at 2 August 2014	3.8	63.8	15.0	82.6
Additions	1.7	13.7	5.7	21.1
Disposals	–	–	(3.8)	(3.8)
Balance at 1 August 2015	5.5	77.5	16.9	99.9
Additions	1.0	17.7	5.4	24.1
Disposals	–	–	(2.5)	(2.5)
Balance at 30 July 2016	6.5	95.2	19.8	121.5
Depreciation and impairment				
Balance at 2 August 2014	0.5	26.3	4.9	31.7
Depreciation charge for the year	0.3	9.1	4.9	14.3
Disposals	–	–	(3.7)	(3.7)
Balance at 1 August 2015	0.8	35.4	6.1	42.3
Depreciation charge for the year	0.1	11.3	5.0	16.4
Disposals	–	–	(2.3)	(2.3)
Balance at 30 July 2016	0.9	46.7	8.8	56.4
Net book value				
At 2 August 2014	3.3	37.5	10.1	50.9
At 1 August 2015	4.7	42.1	10.8	57.6
At 30 July 2016	**5.6**	**48.5**	**11.0**	**65.1**

Leased plant and machinery

Included in the total net book value of motor vehicles is £4.3m (2015: £4.1m) in respect of assets held under finance leases. Depreciation for the year on these assets was £1.9m (2015: £1.5m).

Capital commitments

At 1 August 2015 the Group had contracted capital commitments of £3.4m (2015: £2.1m) for which no provision has been made in the financial statements.

9 Intangible assets

	Computer software £m	Brand names £m	Goodwill £m	Total £m
Cost				
Balance at 2 August 2014	7.6	2.5	484.0	494.1
Additions	1.8	–	–	1.8
Balance at 1 August 2015	9.4	2.5	484.0	495.9
Additions	2.6	–	–	2.6
Acquisition	–	0.5	1.0	1.5
Balance at 30 July 2016	**12.0**	**3.0**	**485.0**	**500.0**
Amortisation and impairment				
Balance at 2 August 2014	3.8	0.1	–	3.9
Amortisation charge for the year	2.6	0.1	–	2.7
Balance at 1 August 2015	6.4	0.2	–	6.6
Amortisation charge for the year	2.1	0.1	–	2.2
Balance at 30 July 2016	**8.5**	**0.3**	**–**	**8.8**
Net book value				
At 2 August 2014	3.8	2.4	484.0	490.2
At 1 August 2015	3.0	2.3	484.0	489.3
At 30 July 2016	**3.5**	**2.7**	**485.0**	**491.2**

Acquisition

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

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

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

	Goodwill	
	2016 £m	2015 £m
DFS Trading Limited	**479.6**	479.6
The Sofa Workshop Limited	**4.4**	4.4
DFS Spain	**1.0**	–
	485.0	484.0

Goodwill is tested annually for impairment on the basis of value in use. The key assumptions underlying the calculations are those regarding expected future sales volumes, changes in selling prices and direct costs and the discount rate applied.

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations. Selling prices and related costs are based on past practice and expected future changes in the market. These forecasts were extrapolated for six more years with no further growth assumed and discounted at a pre-tax discount rate of 10.2% (2015: 9.0%). The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. Even with an assumption of no further growth beyond the four year budgeted period, a discount rate in excess of 18% would need to be applied in order for there to be any indication of an impairment. The directors have therefore concluded that no reasonably possible change in assumptions would result in an impairment of the assets and accordingly none has been recognised.

10 Investments in subsidiaries

The following companies are incorporated in England & Wales, are wholly owned by the Group and have been consolidated:

	Principal activity
Diamond Holdco 2 Limited	Intermediate holding company
Diamond Holdco 7 Limited	Intermediate holding company
DFS Furniture Holdings plc	Intermediate holding company
DFS Furniture Company Limited	Intermediate holding company
DFS Trading Limited	Furniture retailer
Coin Retail Limited (Jersey)	Intermediate holding company
Coin Furniture Limited	Furniture retailer
The Sofa Workshop Limited	Furniture retailer
DFS Spain Limited	Furniture retailer

11 Other financial assets

	2016 £m	2015 £m
Non-current		
Interest rate derivatives	**–**	1.3
Current		
Foreign exchange contracts	**3.1**	1.1

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23).

Interest rate derivatives are used to hedge interest rate risk on the Group's floating rate debt (note 23).

12 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2016 £m	2015 £m
Accelerated capital allowances	**2.7**	1.9
Fair value lease creditor	**4.3**	4.9
Revaluation of derivatives to fair value	**0.6**	(0.3)
Tax losses carried forward	**0.7**	0.4
Other temporary differences	**0.8**	5.2
Net tax assets	**9.1**	12.1

The deferred tax movement in the year is as follows:

	2016 £m	2015 £m
At start of period	**12.1**	11.2
Charged to the income statement:		
Accelerated capital allowances	**0.8**	1.2
Fair value lease creditor	**(0.6)**	(0.1)
Tax losses carried forward	**0.4**	0.4
Other temporary differences	**(4.5)**	0.3
Recognised in the statement of comprehensive income	**0.9**	(0.9)
At end of period	**9.1**	12.1

13 Inventories

	2016 £m	2015 £m
Raw materials and consumables	**4.2**	4.7
Finished goods and goods for resale	**30.7**	23.6
	34.9	28.3

14 Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**12.5**	11.3
Prepayments and accrued income	**13.1**	13.3
Other receivables	**0.8**	0.7
	26.4	25.3

No interest is charged on trade receivables; the Group bears no credit risk in respect of amounts due from retail customers under interest free credit arrangements. Prepayments and accrued income do not include impaired assets.

15 Trade payables and other liabilities

	2016 £m	2015 £m
Current		
Payments received on account	**24.9**	23.6
Trade payables	**76.3**	64.8
Other creditors including other tax and social security	**25.1**	22.8
Accruals and deferred income	**31.2**	30.4
Other loans & borrowings	**–**	2.2
Finance lease liabilities	**1.8**	1.4
	159.3	145.2

	2016 £m	2015 £m
Non-current		
Fair value lease creditor	**20.6**	21.2
Accruals and deferred income	**43.1**	44.4
Finance lease liabilities	**3.7**	3.6
	67.4	69.2

Trade payables do not bear interest and are paid within agreed credit terms. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the reporting date.

16 Other financial liabilities

	2016 £m	2015 £m
Non-current		
Interest rate derivatives	**6.1**	–
Current		
Foreign exchange contracts	**0.1**	0.8

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23). Interest rate derivatives are used to hedge interest rate risk on the Group's floating rate debt (note 23).

17 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

	2016 £m	2015 £m
Senior loan facility	**200.0**	200.0
Unamortised issue costs	**(1.7)**	(2.1)
	198.3	197.9

The senior loan facility bears interest at a rate of 3 month LIBOR plus 2.5% and is repayable in full on 12 March 2020. The senior loan facility is secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Company and DFS Furniture Holdings plc.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2016			2015		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**2.0**	**(0.2)**	**1.8**	1.6	(0.2)	1.4
Between one and five years	**3.9**	**(0.2)**	**3.7**	3.7	(0.1)	3.6
More than five years	**–**	**–**		–	–	–
	5.9	**(0.4)**	**5.5**	5.3	(0.3)	5.0

18 Employee benefits

Defined contribution pension plans

The Group operates a number of defined contribution pension plans under which contributions by the employees and the Group are administered by trustees in funds separate from the Group's assets. The costs of these schemes are charged to the income statement as they become payable under the rules of the scheme. The total pension cost of the Group for the year was £2.4m (2015: £2.2m).

19 Provisions

	Guarantee provision £m	**Property provisions £m**	**Other provisions £m**	**Total £m**
Balance at 1 August 2015	8.8	1.7	-	10.5
Provisions made during the year	5.0	0.4	0.8	6.2
Reclassification from accruals	–	–	1.0	1.0
Provisions used during the year	(5.4)	(0.2)	–	(5.6)
Provisions released during the year	(0.5)	–	–	(0.5)
Unwind of discount	–	0.1	–	0.1
Balance at 30 July 2016	**7.9**	**2.0**	**1.8**	**11.7**
Current	5.3	0.2	1.1	6.6
Non-current	2.6	1.8	0.7	5.1
	7.9	**2.0**	**1.8**	**11.7**

The guarantee provision reflects the estimated cost of the guarantee provided to retail customers. Property provisions relate to onerous contracts and other obligations in respect of the Group's property leases including an estimate of dilapidation costs based on anticipated lease expiries and renewals. Other provisions relate to payment of refunds to customers for payment protection insurance policies and other regulatory costs.

20 Dividends

The following dividends were recognised and paid during the year:

	Pence per ordinary share	**2016 £m**	2015 £m
Interim ordinary dividend for the period ended 1 August 2015	**3.1p**	**6.6**	–
Final ordinary dividend for the period ended 1 August 2015	**6.2p**	**13.2**	–
Interim ordinary dividend for the period ended 30 July 2016	**3.5p**	**7.5**	–
		27.3	–

20 Dividends (continued)
Dividends paid to non-controlling interests in the year were £nil (2015: £0.9m).

The Directors recommend a final dividend of 7.5p in respect of the financial period ended 30 July 2016, resulting in a total proposed dividend of £15.9m. Subject to shareholder approval it is intended that this dividend will be paid on 28 December 2016. DFS Furniture plc shares will trade ex-dividend from 8 December 2016 and the record date will be 9 December 2016. This dividend has not therefore been recognised as a liability in these financial statements.

21 Capital and reserves

Share capital

	Number of shares		Ordinary shares	
Ordinary shares of £1 each	**2016 '000**	2015 '000	**2016 £m**	2015 £m
Allotted, called up and fully paid				
At the start of the financial period	**–**	42,615	**–**	42.6
Issued during the year	**–**	192,708	**–**	192.7
Consolidation to ordinary shares of £1.50 each	**–**	(235,323)	**–**	(235.3)
At the end of the financial period	**–**	–	**–**	–

	Number of shares		Ordinary shares	
Ordinary shares of £1.50 each	**2016 '000**	2015 '000	**2016 £m**	2015 £m
Allotted, called up and fully paid				
At the start of the financial period	**213,030**	–	**319.5**	–
Consolidation of ordinary shares of £1 each	**–**	156,882	**–**	235.3
Issued during the period	**–**	56,148	**–**	84.2
At the end of the financial period	**213,030**	213,030	**319.5**	319.5

At 3 August 2014 the Company had in issue 42,615,218 ordinary shares of £1 each. On 17 February 2015 a further 192,708,003 £1 ordinary shares were issued to capitalise principal and accrued interest on outstanding loans from parent companies. No gain or loss arose from this transaction as the carrying value of the shareholder debt reflected its fair value. One further £1 ordinary share was issued on 22 February 2015 and the resulting total of 235,323,222 ordinary shares of £1 each were then consolidated to 156,882,148 ordinary shares of £1.50 each.

On 10 March 2015 a total of 17,717,081 ordinary shares of £1.50 each were issued to senior management and certain other employees of the Group in exchange for their minority interests in the issued share capital of DFS Investments Limited, a subsidiary undertaking of the Company which has subsequently been placed into Members Voluntary Liquidation.

On 11 March 2015 a further 38,431,372 ordinary shares of £1.50 each were issued for cash consideration of £98.0m, conditional to the Admission of the Company's shares to trading on the London Stock Exchange. This brought the total shares in issue at 2 August 2015 to 213,030,601 ordinary shares of £1.50 each.

Share premium
The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. The balance of £59.0m arose during the year on the issue ordinary shares on 11 March 2015 as noted above.

Merger reserve
The merger reserve arose on the issue of shares in the Company in exchange for minority interests in the issued share capital of a subsidiary company on 10 March 2015 as noted above.

Treasury shares
Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

During the period ending 30 July 2016 the Company purchased 1,500,000 of its own ordinary shares at a total cost of £3.7m for the purpose of satisfying employee share based payment awards.

Cash flow hedging reserve
The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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22 Financial instruments: categories and fair value

	2016 £m	2015 £m
Financial assets		
Derivatives in designated hedging relationships	**3.1**	2.4
Loans and receivables	**13.3**	12.0
Cash	**66.7**	40.7
Financial liabilities		
Derivatives in designated hedging relationships	**(6.2)**	(0.8)
Senior loan facility	**(198.3)**	(197.9)
Amortised cost	**(162.3)**	(150.0)
Finance lease obligations	**(5.5)**	(5.0)

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

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

23 Financial instruments: risk management

The objectives, policies and processes governing the treasury activities of the Group are reviewed and approved by the Board. The Group's documented treasury policy includes details of authorised counterparties, instrument types and transaction limits and principles for the management of liquidity, interest and foreign exchange risks. As part of its strategy for the management of these risks the Group uses derivative financial instruments. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Liquidity risk

The Group manages its cash and borrowing requirements to ensure that it has sufficient liquid resources to meet its obligations as they fall due while making efficient use of the Group's financial resources.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities:

2016

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	**152.4**	**–**	**–**	**–**	**152.4**
Finance lease liabilities	**2.0**	**1.7**	**2.2**	**–**	**5.9**
Senior loan facility	**5.6**	**5.6**	**209.9**	**–**	**221.1**
Other liabilities	**5.4**	**2.8**	**0.6**	**2.1**	**10.9**
	165.4	**10.1**	**212.7**	**2.1**	**390.3**
Derivatives: net settled	**1.4**	**1.3**	**2.2**	**–**	**4.9**
Derivatives: gross settled					
Cash inflows	**(37.4)**	**–**	**–**	**–**	**(37.4)**
Cash out flows	**34.0**	**–**	**–**	**–**	**34.0**
Total cash flows	**163.4**	**11.4**	**214.9**	**2.1**	**391.8**

23 Financial instruments: risk management (continued)

2015

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	139.5	–	–	–	139.5
Finance lease liabilities	1.6	1.6	2.1	–	5.3
Senior loan facility	6.1	6.1	216.9	–	229.1
Other liabilities	6.0	3.1	0.6	1.9	11.6
	153.2	10.8	219.6	1.9	385.5
Derivatives: net settled	2.8	2.8	7.6	–	13.2
Derivatives: gross settled					
Cash inflows	(72.4)	–	–	–	(72.4)
Cash out flows	72.0	–	–	–	72.0
Total cash flows	155.6	13.6	227.2	1.9	398.3

The Group has a £30.0m revolving credit facility in place until March 2020 which is as yet unutilised.

Interest rate risk management

The Group's operating profit is affected by the cost of providing interest free credit to its customers. A fall in LIBOR rates would have a positive impact on operating profit and a rise in LIBOR rates would impact operating profit negatively. An increase by one percentage point would reduce the Group's revenue by 0.4 percentage points. However, any fall in LIBOR rates at present would largely be offset by LIBOR 'floor' mechanisms used by the external providers of credit to the Group's customers.

The Group is exposed to interest rate risk on its senior loan facility, which bears interest at a floating rate of 3 month GBP LIBOR plus 2.50%. In order to provide some certainty over the future cash flows associated with this debt, the Group has entered into four participating interest rate swaps. The effect of these instruments is to fix the interest rate payable on the senior loan facility to a maximum level while allowing the Group to retain some benefit on a proportion of the facility where 3 month LIBOR remains below 1.39%. The swaps cover the full £200.0m of the senior loan facility for its duration until March 2020. The fair values of the Group's interest rate derivatives are as follows:

	2016 £m	2015 £m
Interest rate swaps		
Derivatives in designated hedging relationships	**(6.1)**	1.3

Foreign exchange risk management

The Group is exposed to the risks of exchange rate fluctuations on the purchase of products denominated in foreign currencies. Currency requirements are assessed by analysis of historic purchasing patterns by month, adjusted as appropriate to take into account current trading expectations. The Group's treasury policy allows for the use of forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases between 9 and 18 months in advance. These contracts are designated as cash flow hedges.

The table below summarises the forward foreign exchange contracts outstanding at the period end:

	2016		2015	
	Notional amount £m	**Fair value £m**	Notional amount £m	Fair value £m
Derivatives in designated hedging relationships				
US Dollar	**34.0**	**3.0**	72.0	0.3

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

	Assets		**Liabilities**	
	2016 £m	2015 £m	**2016 £m**	2015 £m
US Dollar	**–**	0.1	**(1.7)**	(0.8)
Euro	**2.7**	8.0	**(0.3)**	(0.3)

23 Financial instruments: risk management (continued)

Foreign currency sensitivity analysis

The Group's primary foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% weakening of these currencies against Sterling, assuming all other variables were unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the cash flow hedging reserve in equity.

Positive figures represent an increase in profit or equity.

	Income statement		Equity	
	2016 £m	2015 £m	**2016 £m**	2015 £m
US Dollar	**0.2**	0.1	**(3.9)**	(7.2)
Euro	**(0.2)**	(0.8)	**–**	–

A 10% strengthening of the above currencies against the Sterling at the period end would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

Investments of cash, borrowings and derivative instruments are transacted only through counterparties meeting the credit rating and investment criteria specified in the Group's treasury policy. The Group's exposure and the credit ratings of its counterparties are regularly reviewed. Concentrations of risk are mitigated through the use of multiple counterparties and by counterparty limits which are reviewed and approved by the Board.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Capital management

The capital structure of the Group consists of debt, as analysed in note 26, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shown in the consolidated statement of changes in equity. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not restricted by any externally imposed capital requirements.

24 Share based payments

The Group has three share based payment schemes in operation:

Long Term Incentive Plan (LTIP)

The LTIP is a discretionary executive reward plan that allows the Group to grant conditional share awards or nil-cost options to selected executives at the discretion of the Remuneration Committee. The scheme is focused on the senior leadership roles in the Group, including Executive Directors. The maximum value of LTIP awards granted to an individual is 150% of base salary, although the Remuneration Committee may in exceptional circumstances increase this to 300%.

LTIP awards vest after a three year performance period (other than those granted shortly after Admission which will vest in July 2017) subject to the achievement of performance measures based on earnings per share and total shareholder return targets. Further information on LTIP performance targets and awards made to Directors is given in the Directors' Remuneration Report on pages 50 to 62.

Restricted Share Plan (RSP)

The RSP is also a discretionary reward plan under which conditional share awards or nil-cost options may be granted to individuals in key executive roles in the Group, excluding Executive Directors and other recipients of LTIP awards. Awards may not exceed 50% of an individual's salary for a particular financial year.

RSP awards vest after a three year performance period (other than those granted shortly after Admission which will vest in July 2017) and are not subject to other performance conditions.

24 Share based payments (continued)

Save as Your Earn (SAYE)

SAYE schemes are currently available to all employees in the UK and Republic of Ireland, with invitations to participate generally issued on an annual basis and subject to HMRC rules. The current maximum monthly savings limit for the schemes is £250. Options are granted at the prevailing market rate less a discount of 20% and vest three years from the date of grant.

The movements in outstanding awards under each of the schemes are summarised below; no awards vested or were exercised during the year and at 30 July 2016 no outstanding awards were exercisable.

	LTIP No.	RSP No.	SAYE No.
Outstanding at the beginning of the year	625,603	131,414	–
Granted	569,322	633,210	1,670,678
Forfeited	(223,868)	(57,855)	(29,620)
Outstanding at the end of the year	**971,057**	**706,769**	**1,641,058**
Weighted average remaining contractual life (months)	**17.9**	**21.7**	**30.2**

Fair value calculations

The LTIP, RSP and SAYE awards are all accounted for as equity-settled under IFRS 2. The fair value of LTIP awards which are subject to a market based performance condition (total shareholder return) is calculated using a stochastic (Monte Carlo) option pricing model. RSP awards, SAYE awards and LTIP awards subject to a non-market based performance condition (earnings per share) are valued using a Black-Scholes option pricing model. The inputs to these models for awards granted during the financial period are detailed below:

	LTIP	RSP	SAYE
Grant date	23 October 2015	18 November 2016	10 December 2015
Share price at date of grant	£3.14	£3.31	£3.35
Exercise price	Nil	Nil	£2.62
Volatility	23.8%	–[2]	24.0%
Expected life	3 years	2.7 years	3 years
Risk free rate	0.75%	–[2]	0.75%
Dividend yield	–[1]	2.8%	3.0%
Fair value per share			
Market based performance condition	£1.82	–	–
Non-market based performance condition/no performance condition	£3.14	£3.07	£0.75

1. LTIP participants are entitled to receive dividend equivalents on unvested awards therefore dividend yield does not impact the fair value calculation
2. Volatility and risk free rates do not impact the fair value calculation for awards with no exercise price or market based performance condition

As the Company had only limited share price history at the date of grant, expected volatility was based on a proxy volatility determined from the median volatility of a group of appropriate comparator companies within the FTSE All Share index. For the same reason, a similar approach was followed to derive the dividend yield. Expected life has been assumed to equate to the vesting period of the awards.

The total share based payment expense included in administration costs in respect of the above schemes was £1.2m (2015: £0.6m). In the previous year there was an additional £0.4m of accelerated charges in connection with the Company's IPO which were presented as non-underlying costs.

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £m	2015 £m
Less than one year	**62.6**	58.1
Between one and five years	**237.9**	222.5
More than five years	**366.4**	382.4
	666.9	663.0

The Group has entered into operating leases in respect of stores, warehouses and equipment. These non-cancellable leases have remaining terms of between three months and 20 years. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

During the year £58.9m was recognised as an expense in the income statement in respect of operating leases (2015: £56.7m). At 1 August 2015, future rentals receivable under non-cancellable leases where the Group is the lessor were £12.7m (2015: £13.6m).

26 Net debt

	2015 £m	Cash flow £m	Other non-cash changes £m	**2016 £m**
Cash in hand, at bank	40.7	26.0	–	**66.7**
Cash and cash equivalents	40.7	26.0	–	**66.7**
Senior loan facility	(197.9)	–	(0.4)	**(198.3)**
Finance lease liabilities	(5.0)	1.7	(2.2)	**(5.5)**
Total net debt	(162.2)	27.7	(2.6)	**(137.1)**

27 Related parties

Key management personnel

At 30 July 2016, Directors of the Company held 3.2% of it issued ordinary share capital (2015: 3.2%), and a further 0.4% (2015: 1.6%) was held by other key management personnel.

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

	2016 £m	2015 £m
Emoluments	**2.7**	2.7
Company contributions to money purchase schemes	**0.2**	0.2
	2.9	2.9

Majority shareholder

During the financial period the Group paid £nil (2015: £66,667) in management fees to its majority shareholder, Advent Diamond (Luxembourg) Sarl.

COMPANY BALANCE SHEET

at 30 July 2016

	Note	2016 £m	2015 £m
Fixed assets			
Investments	29	**236.7**	235.5
Current assets			
Amounts due from group companies	30	**198.0**	98.0
Current liabilities			
Amounts due to group companies	31	**(3.7)**	–
Net assets		**431.0**	333.5
Capital and reserves			
Called up share capital		**319.5**	319.5
Share premium		**40.4**	40.4
Merger reserve		**18.6**	18.6
Treasury shares	32	**(3.7)**	–
Retained earnings		**56.2**	(45.0)
Equity shareholders' funds		**431.0**	333.5

These financial statements were approved by the board of directors on 5 October 2016 and were signed on its behalf by:

Ian Filby
Chief Executive Officer

Nicola Bancroft
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

at 30 July 2016

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Retained earnings £m	Total equity £m
Balance at 2 August 2014	**42.6**	**–**	**–**	**–**	**–**	**42.6**
Loss for the year	–	–	–	–	(45.2)	(45.2)
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive expense for the year	–	–	–	–	(45.2)	(45.2)
Reorganisation on IPO	219.3	–	18.6	–	–	237.9
Equity raised on IPO	57.6	40.4	–	–	–	98.0
Dividends	–	–	–	–	–	–
Share based payments	–	–	–	–	0.2	0.2
Balance at 1 August 2015	**319.5**	**40.4**	**18.6**	**–**	**(45.0)**	**333.5**
Profit for the year	–	–	–	–	127.3	127.3
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive income/(expense) for the year	–	–	–	–	127.3	127.3
Dividends	–	–	–	–	(27.3)	(27.3)
Purchase of own shares	–	–	–	(3.7)	–	(3.7)
Share based payments	–	–	–	–	1.2	1.2
Balance at 30 July 2016	**319.5**	**40.4**	**18.6**	**(3.7)**	**56.2**	**431.0**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

at 30 July 2016

28 Accounting policies

Basis of preparation

The financial statements are the first for the Company to have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). In the transition to FRS101 the Company has made no measurement and recognition adjustments.

In these financial statements the Company has applied the exemption available under FRS101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management; and
- the impact of new but not yet effective IFRSs.

As the consolidated accounts of the Company include the equivalent disclosures, the Company has also taken the exemption available under FRS 1010 in respect of IFRS 2 *Share Based Payments* disclosures of group settled share based payments. Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account. The Company's profit for the period was £127.3m (2015: loss of £45.2m).

The Company proposes to continue to adopt he reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 3 August 2014 for the purposes of the transition to FRS 101.

Going concern

The Company heads a group which is highly cash generative, with sufficient medium and long term facilities in place to enable it to meet its obligations as they fall due. The directors are therefore satisfied that the Company will be able to continue in operational existence for the foreseeable future and have therefore continued to prepare the Company's financial statements on the going concern basis.

Investments

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

Amounts due from and to group companies

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income. Deferred tax is provided on temporary differences between the carrying amounts if assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Share based payments

Awards (options or conditional shares) granted by the Company over its own shares to the employees of subsidiary companies are recognised in the Company's own financial statements as an increase in the cost of investment in subsidiaries. The amount recognised is equivalent to the equity-settled share based payment charge recognised in the consolidated financial statements. The corresponding credit is recognised directly in equity.

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

at 30 July 2016

29 Investments

	Shares in subsidiary undertakings	
	2016 £m	2015 £m
Cost and net book value		
At the start of the financial period	**235.5**	42.6
Additions	**1.2**	192.9
At the end of the financial period	**236.7**	235.5

Details of the Company's investments are given in note 10. The increase in shares in subsidiary undertakings in the prior year arose on the group reorganisation that took place in connection with the Admission of the Company's ordinary shares to trading on the London Stock Exchange. Additions in the current year relate to capital contributions made in respect of share based payments schemes for the Group's employees.

30 Debtors

	2016 £m	2015 £m
Amounts due from subsidiary undertakings	**198.0**	98.0

31 Creditors: amounts due in less than one year

	2016 £m	2015 £m
Amounts due to subsidiary undertakings	**3.7**	–

32 Treasury shares

During the period ended 30 July 2016 the Company purchased 1,500,000 of its own ordinary shares at a total cost of £3.7m for the purpose of satisfying employee share based payment awards.

SHAREHOLDER INFORMATION

CONTACTS

Chief Executive Officer
Ian Filby

Chief Financial Officer
Nicola Bancroft

Group Company Secretary
Paul Walker

Investor Relations
Mike Schmidt

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KPMG LLP

Remuneration adviser
PricewaterhouseCoopers LLP

Brokers
UBS Limited & Jefferies International Limited

Solicitor
Weil, Gotshal & Manges

Registrar
Equiniti

SHAREHOLDER ENQUIRIES

The Company's registrar is Equiniti. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them of your change of address or other personal information. Their address details are:

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Equiniti is a trading name of Equiniti Limited.

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Lines are open 8.30am to 5.30pm, Monday to Friday (excluding public holidays).

Shareholders are able to manage their shareholding online and facilities include electronic communications, account enquiries, amendment of address and dividend mandate instructions.

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FINANCIAL CALENDAR

2016 full year results	6 October 2016
Record date for 2016 final dividend	9 December 2016
Annual General Meeting	2 December 2016
Payment date for 2016 final dividend	28 December 2016
2017 half year results	March 2017
Payment date for 2016 interim dividend	June 2017

NOTES

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