10 March 2020 **For immediate release**

DFS Furniture plc (“DFS” and the “Group”)

Interim Results Announcement

CONTINUED STRATEGIC PROGRESS

HALF-YEAR PROFITS AS EXPECTED AGAINST A STRONG COMPARATIVE PERIOD

DFS Furniture plc (the “Group”), the market leading retailer of living room and upholstered furniture in the United Kingdom, today announces its interim results for the 26 weeks ended 29 December 2019 (prior year comparative period is the 26 weeks ended 30 December 2018).

	H1 FY20 (unaudited) £’m	**H1 FY19[1] (unaudited) £’m**	**Change**	**LTM[1] Jun-19 £’m**
Gross Sales[1]	629.7	668.8	(5.8%)	1,287.2
Revenue	488.0	517.6	(5.7%)	996.2
Underlying PBT(A) pre IFRS 16[1]	**20.5**	**38.0**	**(17.5)**	**50.2**
Adoption of IFRS16	(3.9)	n/a	n/a	n/a
PBT(A)[1]	**16.6**	**n/a**	**n/a**	**n/a**
PBT pre IFRS 16[1]	19.8	35.3	(15.5)	43.6
PBT	15.9	n/a	n/a	n/a
Basic underlying EPS pre IFRS16[1]	7.4p	13.9p	(46.8%)	18.4p
Basic EPS	6.0p	n/a	n/a	n/a
Dividends per share	3.7p	3.7p	-	11.2p
Net debt[1] (pre IFRS16)	160.4	158.1	(2.3)	176.3
Leverage[1] (pre IFRS16)	2.17x	1.88x	(0.29x)	1.95x

[1] Definitions and reconciliations of KPIs including Alternative Performance Measures (“APMs”) are provided at the end of this statement in Note 13 to the condensed consolidated financial statements

Financial Summary:

- Group revenue for H1 FY20 down 5.7% as expected given the strong comparative period was bolstered by latent demand and a higher opening order bank. Over a two year period (including Sofology on a pro forma basis) revenue is up 2.6%

- Year on year performance compounded by challenging market conditions with consumer confidence and political uncertainty impacting footfall, which was partially offset through increased conversion
- Online growth continued with Group gross sales up 4.5% to £117m (FY19 £112m). Group gross online sales were £222m over the last 52 weeks to 29 December 2019
- PBT(A)[1] pre IFRS 16 of £20.5m for H1 FY20 reflects revenue trends and investment in operations; post IFRS 16 PBT for the period was £15.9m
- Net debt remained broadly flat year on year
- Interim dividend of 3.7p declared (FY19: 3.7p)

Operational and Strategic Highlights:

Drive the DFS core

- Focus on digital and showroom investment to drive DFS omnichannel journey; showroom conversion up 118bps and another year of online revenue growth (+4.8%) with LTM online gross sales for the DFS brand of £172m (19% participation)
- Effective use of data and root cause analysis to drive established customer NPS, up 24% year on year to 40.9% (H1 FY19 32.9%)

Build the Platforms

- New delivery operation 'The Sofa Delivery Co' launched in Belfast covering all our sofa brands: roll-out opportunity to deliver £3m+ of annualised savings from end of FY22 and further improve customer experience
- Property savings on track to deliver £6-8m annualised saving by FY23: a further £0.4m of annualised savings secured since June 2019 taking the total to £3.4m to date

Unlock New Growth

- Sofology roll-out accelerates with three new showrooms opened in this year and five secured for FY21
- Isolated systems related disruption in Sofa Workshop with a one-off annual impact to profit before tax of £4-5m expected; review of cost base and business model underway

Tim Stacey, Group Chief Executive Officer said:

"We continue to make progress on our strategic agenda focused on driving the DFS core business, further developing our Group platforms and setting Sofology up for future growth. Despite the challenging retail environment, and excluding some isolated systems disruption in Sofa Workshop, our performance over the first half has been as expected, given the exceptional prior year comparative driven by latent demand. In particular we have seen a good performance by the DFS brand in driving conversion and margins and continued online sales growth.

Trading in the second half for the Group has also started satisfactorily with performance in the DFS brand particularly encouraging, with order intake growth year-on-year and good gross margins.

However, given the uncertainty as to how the current COVID-19 situation will develop it is not possible to give guidance with any certainty for the full-year out-turn. At present we believe our supply chain position should normalise before the financial year end, and it is only in very recent days that we have observed any change in consumer footfall to our showrooms.

While any disruption to order intake over the key trading periods of Easter and the May Bank Holidays is likely to impact our financial year 2020 results, it is reasonable to believe this may ultimately be transitory in nature; following periods of subdued demand we typically see much of that latent demand returning.

Notwithstanding the uncertain short-term outlook, we remain confident in the Group's financial strength and relative track record of performance in all environments. Furthermore, we believe our leading market position will allow us to drive long term attractive value creation for our shareholders."

Enquiries:

DFS (enquiries via Tulchan)	**Tulchan**
Tim Stacey (Group CEO)	James Macey-White
Mike Schmidt (Group CFO)	Jessica Reid
Liz McDonald (Group Company Secretary)	Amber Ahluwalia
Phil Hutchinson (Investor Relations)	+44 (0)20 7353 4200
	dfs@tulchangroup.com

Analysts presentation

DFS will be hosting an analyst presentation at 9.00am today in London. A live audio webcast and the presentation slides will be available on the Group's website: www.dfscorporate.co.uk.

About DFS Furniture plc

The Group is the clear market leading retailer of living room furniture in the United Kingdom. We design, manufacture, sell and deliver to our customers an extensive range of furniture products. The business operates an omnichannel retail network of living room furniture showrooms and web sites in the United Kingdom and other European countries, trading through four leading brands. The Group has been established and developed gradually over 50 years of operating history. We attract customers through our substantial and continued investment in nationwide marketing activities and our reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options.

CHIEF EXECUTIVE'S OPERATING REVIEW

Overview

Trading performance in the first half of our financial year reflected not only the strength of the comparative period but also the challenges of a market environment that saw political uncertainty and low consumer confidence levels feeding through into lower footfall. We mitigated some of the footfall decline by converting a higher percentage of customers, particularly in DFS and Sofology, relative to the prior year and by growing our Group online revenues. However, these trading conditions have ultimately fed through into our results for the first half.

We have continued to invest in the business to strengthen our market leading position and further develop the foundations for long-term profit growth. We have progressed our strategy to lead sofa retailing in the digital age having delivered a number of key initiatives to strengthen our DFS omnichannel proposition, further improve the quality of our customer service, improve the service and efficiency of our delivery operations and accelerate the pace of roll-out of new Sofology showrooms.

Results

Revenue was down 5.7% year on year, as expected given the strong comparative period which was boosted by deferred purchases as a result of hot weather in the final quarter of the preceding year. Looking over a two-year time horizon and including Sofology on a pro forma basis (i.e. as if we had owned the business for the full 6 months to December 2017) our revenue was up 2.6%.

Our online channels continued to perform well, benefitting from our sustained investment with Group online gross sales up 4.5% year on year, and total Group online gross sales reaching £222m for the 52 weeks to 29 December 2019. Independent market research data continues to demonstrate that we are the clear market leader in the sale of sofas online in the UK.

Underlying profit before tax and brand amortisation (excluding the impact of IFRS 16) reduced from £38.0m to £20.5m for the first half period, largely as a result of lower revenues, with gross margins flat year on year despite the highly promotional market. Tight cost control including reduced marketing spend, whilst maintaining appropriate 'share of voice' helped to partially mitigating the revenue shortfall. Profit before tax for the first half following the adoption of IFRS 16 was £15.9m.

With a satisfactory start overall to the second half and confidence in the Group's long-term outlook, the Board has declared an interim dividend of 3.7 pence per share (FY18: 3.7 pence), payable on 17 June 2020 to shareholders on the register at 29 May 2020.

Strategic Update

To implement our strategy of leading sofa retailing in the digital age we focus on three key themes: (i) drive the DFS core brand, (ii) build Group platforms to maximise efficiency, and (iii) unlock new profitable channels of growth.

Drive the DFS core

From our consumer research, we know that over 85% of our potential customers start their sofa-buying journey online, seeking out the latest style trends, colours and inspiration. We also know that comfort is the number one factor for customers when deciding which sofa to buy. As such, we observe that around 90% of customers choose to visit a nearby showroom to sit on and touch the product before committing to a purchase. To succeed in this sector, we therefore believe that it is essential to have the combination of both a strong web offer and showrooms within reach of most customers, offering the ability to transition seamlessly between channels. We believe that the DFS business model is well set up to be truly omnichannel.

The DFS brand has a well invested nationwide portfolio of showrooms and a market leading website. DFS was one of the first sofa retailers to sell online and we continually invest in our online platform to ensure it remains at the forefront for the sector. It is not just the ability to transact easily online that is important. It is also about generating high quality consumer traffic to the website and then encouraging those consumers to visit us in our showrooms, by making the search process straightforward and efficient, displaying the product with high quality visuals and having key product information easily accessible.

The DFS brand is famous for its television adverts and whilst TV continues to represent a large proportion of advertising spend, investment is increasingly shifting towards digital marketing. Recently we've had success working with Facebook, Instagram and Pinterest to develop advertising formats targeted at specific consumer segments and have seen uplifts in awareness, consideration and sentiment regarding quality and reputation. We've also been trialing a new digital display advertising platform, based on our proprietary customer segmentation, have utilised new search engine functionality to improve our targeting and launched a new visual search tool on our mobile website which enables a customer to point their camera at a real life sofa and find a close match from the DFS range. These all help ensure we get the right products and messages in front of the right customers at the right time and in the right format.

During the first half we re-platformed the DFS website onto Google Cloud, enabling improved functionality, a faster user experience and with far greater user capacity. Furthermore, having been the first sofa retailer to launch augmented reality on an iPhone mobile browser, enabling a customer to view a sofa in their own home, we've launched a second generation service with a new software partner, and have been increasing the number of ranges this service is available on. These initiatives have had a positive impact, contributing to continued growth in DFS online revenues of 4.8%.

Showrooms are however at the heart of the customer journey and it is critical they provide an attractive environment in which to engage our customers. We continue to invest in our showrooms and although always hard to measure, the financial results and post purchase NPS scores from our recently refurbished showrooms do outperform the rest of the portfolio. We've also equipped our sales colleagues across the whole showroom estate with 1,200 new chrome tablets enabling rapid access to key information in a convenient and secure way including utilising customer data from their online account to direct them to the products they've been browsing and similar products that may match their requirements. Working with our artificial intelligence partner, Satalia, we've also developed a model to predict footfall, based on local market trends, weather, promotional campaigns to ensure we can act at short notice to optimise our sales team scheduling to meet demand.

All these initiatives have helped contribute to an increase in DFS's showroom conversion by 118 bps, which has gone some way to mitigating the reduced footfall levels experienced as a result of market conditions.

In the first half of this year we've made significant improvements to our Established Customer Net Promoter scores (NPS). We believe that this is the most effective measure of customer satisfaction as it captures their experience four months post purchase. Overall, our established customer NPS score for the six months to December 19 has risen by +24% year on year to 40.9%.

This improvement is a result of a business culture of customer focus, captured by our first value of "Think Customer". Initiatives across the business including relentless focus on product quality, improved customer communication post sale, self service delivery booking and greater efficiency and effectiveness of our sofa service and repair teams which have combined to deliver ever improving customer experience scores.

Build the platforms for growth

We continue to make good progress securing property savings through a combination of rent reductions on leases approaching renewal and downsizing some showrooms. We have secured a further £0.4m of annualised savings since the previous year end, which will start to be realised from the second half of this financial year onwards. This brings the total annualised saving since the program began to £3.4m and we are confident of achieving the £6-8m targeted savings by Financial Year 2023 as previously communicated. In order to secure the maximum value benefit over the longer term, we only commit to new leases where appropriate terms are available, reflecting the rental market trend and the Group's strength as an anchor tenant on many retail parks.

In Belfast we have relocated our DFS customer distribution centre (CDC) from being connected to the retail showroom to an alternative location. This has enabled us to repurpose the space to house a newly re-furbished DFS as well as new Sofology, Dwell and Sofa Workshop showrooms with minimal incremental rent for the Group. We have a pipeline of further opportunities to introduce new Sofology showrooms in locations where we have an existing retail space, for minimal incremental rent and rates.

Our relocated Belfast CDC operation will now deliver DFS, Sofology and Sofa Workshop products to customers homes on the same vehicles under our new Group delivery network which we have branded the 'The Sofa Delivery Co'. This new Group customer delivery model will enable us to provide better and more consistent service to our customers and at a lower cost to the Group by increasing utilisation of our delivery fleet, reducing CDC operating costs and leveraging DFS's proprietary routing and scheduling optimisation software whilst also enabling us to reduce carbon emissions. Our goal is to create the best sofa delivery and installation service in the UK and Republic of Ireland and we have the opportunity to transition all the Group's sofa delivery operations to this model by the end of Financial Year 2022 with annualised savings of £3m+.

Other initiatives undertaken to improve the customer experience post purchase include a trial to extend our customer delivery offer at the DFS Glasgow CDC to 7 days a week and later in the evening resulting in customers being given more choice as to when they take delivery of their sofa. Feedback has been positive on two fronts. First, by providing increased flexibility to our customers we have seen an increase in NPS scores from those taking delivery on a Sunday and secondly through altering shift patters for our CDC warehouse and driver colleagues we have had positive feedback relating to work life balance and rest periods and have received an unprecedented level of job applications for new roles advertised. We are considering extending this trial to other CDCs over the next 24 months.

In November 2019 we enabled DFS customers to book their delivery and installation slots online. We have seen a fast take up of this convenient service with around fifty percent of our customers now using this online functionality, resulting in both higher NPS scores and increased efficiency. More recently, in February of this year, we have enabled customers to track where their delivery vehicle is, in real-time, on the day of delivery. This service is planned to be fully rolled out and available nationally by the end of March this year.

Unlock new growth

Sofology has made good operational progress in the first half of this year. After a year of stabilisation in Financial Year 2019 we have accelerated the pace of showroom roll out. Three new showrooms opened towards the end of the first half expanding the brands presence across the UK including the first Sofology showroom in Northern Ireland and although not opened for long, trading has been encouraging. Total showroom count now stands at 45, up from 39 when the business was acquired in November 2017, and we currently have five new showrooms scheduled to be opened in the first half of the next financial year. We see clear potential to increase the estate to around 65-70 showrooms in the UK and Ireland.

Sofology has led the sector in creating a seamless omnichannel journey for quite some time and the innovation has continued through the first half of this year. Recent developments include website enhancements such as a 'go-in-store' trial where a customer browsing online can be connected to a colleague in a showroom via video to see the product live and have any questions answered and the introduction of a 'sofa sizer', enabling a customer to enter the maximum height, width and depth of a sofa with the range immediately refined and presented to the customer.

These initiatives have helped contribute to improved web and showroom conversion, which across the six month period are up 7% and 2% respectively and have helped to partially mitigate the subdued market demand and footfall levels experienced.

Development hasn't been just in digital space. We've seen good success in product development with twenty brand new Sofology ranges launched in November of which ten are currently sitting in the top thirty best-selling ranges. A number of existing ranges have also been refreshed through the launch of new coverings which are proving to be very popular.

Investment in product quality and after sales service has been a focus with investment made in the service technician and customer service teams enabling a faster reaction to customer needs. This investment along with actions taken from data driven quality reviews with all suppliers has helped improve the overall NPS score for the brand, up 10% year on year and it is pleasing to see all NPS measurements taken throughout the customer journey increasing year on year.

Colleague engagement has also been a real focus. Numerous initiatives are in play and collectively these have helped contribute to a significant reduction in employee turnover, down 12% year on year, and an increase in colleague engagement score, up 8% year on year. It is clear that there is a passionate workforce that is very proud to work for Sofology.

Sofa Workshop, Dwell and International

Sofa Workshop's trading performance in the period has been significantly impacted by disruption following a number of changes implemented to remove dependence on legacy systems, and to move to a shared Group technical infrastructure. We believe the brand, which is at the premium end of the market, has also been impacted the most from the weak market conditions. Overall revenues fell for the first six months of the year by c. 30%, leading to a £2.4m fall in Sofa Workshop's brand contribution for the first half. Furthermore, based on order intake in the second half to date we expect that by the end of the financial year, we will see a year on year reduction in profit before tax of £4-5m.

We are actively reviewing the cost structure of this business to ensure profits can be consistently achieved at varying revenue levels and in particular ensuring the brand fully leverages the benefits from common Group systems recently implemented. The cash costs of changes to the operating structure and business model to drive positive long-term returns will primarily consist of supporting the ongoing trading losses while the turnround is completed.

We have been reviewing opportunities to develop the Dwell brand and have identified capital light opportunities to drive the top line through selling Dwell sourced accessories across some of our other brands and trialing a concession model with Homebase. We have also identified opportunities to reduce the cost base, having recently contracted to outsource final mile logistics. These initiatives should help drive an improved return on capital generated by the brand.

Trading in our nascent Spain activities, where we have two showrooms, has been good, and we continue to see satisfactory profit generation despite potential uncertainty from the EU exit process. The Netherlands market has been subdued and this has limited our year-on-year progress in the country.

Potential impact of COVID-19

The Group is monitoring how the COVID-19 situation evolves and it is hard to predict with any certainty what may happen.

Our priority is the health and wellbeing of our colleagues and maintaining our high standards of service to our customers. We have clear business continuity plans in place to deal with a range of scenarios and we have taken appropriate preventative steps, such as minimising all non-essential business travel, and activating alternative working locations.

There have been some limited operational impacts to date. Our four Chinese finished goods supplier factories did not re-commence production immediately after the Chinese New Year holiday period and production lead times are currently 2-3 weeks longer than usual. Production volumes are increasing, and when at full capacity our suppliers should be able to rapidly 'catch-up' the current output deficit.

Across the remainder of the financial year we would usually import an average of just less than £10m (gross sales value) of finished goods from China per week with those goods spending 5-6 weeks being shipped to our UK and European operations for delivery to customers. If the production shortfall cannot be made up and delivered ahead of our year end this would result in revenue and profit recognition being deferred to the following year. For every £10m of gross sales deferred approximately £4m of profit would be deferred and due to the working capital cycle of the business, cash flows would be impacted by around half this amount assuming orders continue to be placed with usual deposit levels.

The remainder of our finished goods are sourced from continental Europe, the UK or produced from our owned manufacturing facilities in the UK. Our internal manufacturing operations have sufficient raw material stock on hand or already in transit to see production of orders for a number of months. We understand our European suppliers of finished goods have similar levels of raw material stocks. Two of our Group's smaller European suppliers are based in the South of Italy and their operations have not been affected to date.

Assuming production lead times are normalised and goods delivered ahead of our financial year end it is prudent to assume that we will incur approximately £1m of incremental delivery costs as a result of the volatility in volumes needing to be absorbed across our delivery network.

This remains a 'live' situation with the risk of the outbreak spreading, potentially causing non-Chinese suppliers (including our internal operations) to halt production.

Furthermore, if the virus spreads across the markets in which we operate and this impacts the willingness of customers to visit public spaces such as retail parks then this would most likely have an impact on our financial performance. As stated above, order intake to date in the second-half has been positive, and it is only within recent days that we have seen any impact on consumer footfall to our showrooms.

In the previous financial year, the Group's order intake in the last 16 weeks of the year at gross sales value was approximately £330m, of which the final c.6 weeks of orders would be received after cut-off dates for manufacture and delivery within the period.

We have modelled the impact of a severe bookings reduction over a sustained period on our financial covenants and bank facility limits and we are comfortable that we are well positioned in this environment, with mitigants available and considered in the more severe scenarios where headroom is more limited.

However, we have taken some limited appropriate additional protective measures such as deferring commitments in our current growth capital expenditure programme, and increasing the flexibility we have in our marketing spend.

We believe any impact should be most likely transitory in nature with the large majority of customer purchases being deferred into the future rather than not being made at all. By way of example, despite the negative revenue performance as a result of the hot spring/summer of 2018, the DFS brand grew by 2.6% in the twelve months to the end of December 2018 relative to the twelve months to December 2017, having seen strong demand return in the period between August and December 2018.

Environmental, Social and Governance (ESG)

Over the past twelve months we have been working to develop an ESG strategy that builds on the 'Think Customer' value already embedded in our business and integrates our sustainability considerations firmly into the way we do business in future. Our rationale for focusing a significant amount of resource on this is to support the long-term sustainability of the Group. Our ambition as market leader is to leverage our category influence to help drive a more circular economy for mass-market sofa manufacturing and retailing. We believe that we can meet consumer expectations, stakeholder demands and continue to deliver strong margins and good levels of growth while fulfilling and embracing our social and environmental obligations.

We will adopt a circular approach from sourcing, supply chain and manufacturing through to the retailing, delivery and lifecycle of the sofa and create sustainable and ethical products and services which will make us more efficient, competitive and innovative.

This is a journey and we are working on our ESG foundations across the spectrum of our businesses. This will ensure that we have a clear view, independently audited, on the current situation in terms of sourcing, energy consumption, waste product and our people. Concurrently we are developing our medium-term targets together with the plans to achieve what we believe will be stretching but realistic.

During the past six months we have launched two key initiatives. Firstly, we have launched a 'sofa rescue' service in DFS. This is a not for profit sofa removal and landfill diversion service allowing customers to dispose of their old sofas in a more environmentally friendly manner. We've partnered with Clearabee, a carbon neutral waste removal firm with a strong environmental conscience, and trialed this initiative in 2019. The service was launched nationally in DFS on Boxing day and has proved popular, at the time of writing over 6,500 sofa collections have been booked.

Secondly, we have also launched a tree planting initiative in Sofology. Initially Sofology ran a "Green Friday", rather than Black Friday promotion where a tree was planted for every sofa order taken. Working in partnership with the Woodland Trust we have since rolled out this initiative to apply to all Sofology orders and we are reviewing group participation.

I look forward to launching our ESG strategy this summer and sharing with you our targets across all elements of ESG and the other initiatives we have underway.

Outlook

We continue to make progress on our strategic agenda focused on driving the DFS core business, further developing our Group platforms and setting Sofology up for future growth. Despite the challenging retail environment, and excluding some isolated systems disruption in Sofa Workshop, our performance over the first half has been as expected, given the exceptional prior year comparative driven by latent demand. In particular we have seen a good performance by the DFS brand in driving conversion and margins and continued online sales growth.

Trading in the second half for the Group has also started satisfactorily with performance in the DFS brand particularly encouraging, with order intake growth year-on-year and good gross margins.

However, given the uncertainty as to how the current COVID-19 situation will develop it is not possible to give guidance with any certainty for the full-year out-turn. At present we believe our supply chain position should normalise before the financial year end, and it is only in very recent days that we have observed any change in consumer footfall to our showrooms.

While any disruption to order intake over the key trading periods of Easter and the May Bank Holidays is likely to impact our financial year 2020 results, it is reasonable to believe this may ultimately be transitory in nature; following periods of subdued demand we typically see much of that latent demand returning.

Notwithstanding the uncertain short-term outlook, we remain confident in the Group's financial strength and relative track record of performance in all environments. Furthermore, we believe our leading market position will allow us to drive long term attractive value creation for our shareholders.

Tim Stacey
Group Chief Executive Officer

FINANCIAL REVIEW

The Group traded through a difficult market environment in the first half of the year but continued to invest in its strategic priorities to ensure we remain well positioned for the long term. Order intake momentum strengthened towards the end of the period and our largest brands have performed satisfactorily through the start of the second half of the financial year, with positive order intake, higher gross margins, and costs well under control.

Basis of financial presentation

In the previous financial year, the Group changed its accounting reference date and reported a five month period to 30 December 2018 and an eleven month period to 30 June 2019. The current period being reported is the 26 week period to 29 December 2019. In order to provide a meaningful comparative, the results for the 26 week period to 30 December 2018 are included in the table overleaf and commentary that follows.

The financial statements are prepared for the first time this year under IFRS 16. The Group has adopted a modified retrospective transition approach to IFRS 16 meaning financial statements for earlier periods will not be restated. To aid comparability with the prior period, results are presented below both before and after applying IFRS 16. The impact of applying IFRS 16 is to reduce profit before tax for the reported 26 weeks by £3.9m and we expect the full year impact to be £7.1m based on the current lease portfolio and lease terms. The adoption of IFRS 16 has no impact on the way we run the business or on cash flows other than a marginal change in corporation tax payments due with a slight reduction in the short term, offset by higher payments in the longer term.

Brand contribution, which is reported before property or central costs, remains our preferred measure of segment profitability.

Sales and revenue

As disclosed in our FY19 interim results, performance was enhanced in that period by deferred demand from the last quarter of FY18 when a prolonged hot weather period caused some customers to delay their purchases. We were therefore not anticipating reporting year on year revenue growth in the first half of FY20. However, the market was more subdued than we initially anticipated in August and September and gross sales decreased by 5.8% to £629.7m. Revenue, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products, decreased by 5.7% to £488.0m.

On a like-for-like basis gross sales decreased 6.4% overall with showroom sales decreasing while web sales performed strongly with another year of growth. The DFS brand delivered a relatively stronger year on year performance than Sofology although this is set in the context of a very strong prior year performance from Sofology (Sofology's pro forma year on two year like-for-like gross sales performance was +4.6%). The Sofology brand has opened three new showrooms towards the end of the half, and so we would expect delivered revenue benefits to show in second half performance. Total Group gross sales growth on a year on two year basis (including Sofology on a pro forma basis) was +2.6%.

Gross Profit

Gross profit declined £16.9m to £281.8m as a result of the lower revenues. In percentage terms gross margin of 57.7% was in line with the prior period. There was a slight improvement in DFS's gross margin which increased from 60.0% to 60.3% as a result of sourcing, pricing and quality improvements coming through as well as more favorable US dollar exchange rates. This was offset by increased promotional activity and customer care costs across Dwell and Sofa Workshop and sell-off of clearance stock in Sofology.

26 weeks to 29 December 2019 (unaudited)	**DFS £m**	**Sofology £m**	**Other brands £m**	**GROUP Pre-IFRS 16 £m**	**Impact of IFRS 16 £m**	**GROUP Post-IFRS 16 £m**
Gross sales	462.0	129.0	38.7	629.7	-	629.7
Revenue	354.5	102.1	31.4	488.0	-	488.0
Cost of sales	(140.7)	(50.5)	(15.0)	(206.2)	-	(206.2)
Gross profit	213.8	51.6	16.4	281.8	-	281.8
Selling & distribution costs	(110.7)	(28.5)	(12.8)	(152.0)	-	(152.0)
Brand contribution[1]	**103.1**	**23.1**	**3.6**	**129.8**	**-**	**129.8**
Property costs				(54.1)	37.9	(16.2)
Underlying administrative expenses				(34.2)	-	(34.2)
Underlying EBITDA[1]				**41.5**	**37.9**	**79.4**
Depreciation and amortisation (excluding brand amortisation)				(15.4)	(28.7)	(44.1)
Underlying operating profit				**26.1**	**9.2**	**35.3**
Interest				(5.6)	(13.1)	(18.7)
Underlying PBT before brand amortisation				**20.5**	**(3.9)**	**16.6**
Non-underlying costs				-	-	-
PBT excluding brand amortisation				**20.5**	**(3.9)**	**16.6**
Basic underlying earnings per share				**7.4p**	**(1.4)p**	**6.0p**

Pro forma 26 weeks to 30 December 2018 (unaudited)	DFS £m	Sofology £m	Other brands £m	GROUP Pre-IFRS 16 £m
Gross sales[1]	486.4	139.9	42.5	668.8
Revenue	372.6	110.6	34.4	517.6
Cost of sales	(149.0)	(54.2)	(15.7)	(218.9)
Gross profit	223.6	56.4	18.7	298.7
Selling & distribution costs	(115.4)	(28.9)	(12.3)	(156.6)
Brand contribution[1]	**108.2**	**27.5**	**6.4**	**142.1**
Property costs				(53.6)
Underlying administrative expenses				(30.6)
Underlying EBITDA[1]				**57.9**
Depreciation and amortisation (excluding brand amortisation)				(14.6)
Underlying operating profit				**43.3**
Interest				(5.3)
Underlying PBT before brand amortisation				**38.0**
Non-underlying costs				(2.0)
PBT excluding brand amortisation				**36.0**
Basic underlying earnings per share				**13.1p**

We source around one quarter of the finished goods that we sell from the Far East, and we pay for these goods in US dollars. We continue to protect ourselves from adverse US dollar exchange rate movements for the total exposure of c. $165m annually, by hedging our US dollar purchases. Our hedged rate for FY20 as a whole is broadly consistent with the rates secured for FY19. Our hedged rate to date for FY21 is 5 cents lower than the average rate secured for the whole of FY20. Each one cent movement in the dollar to sterling exchange rate impacts profits by approximately £1m, however we would seek to mitigate these impacts in our commercial proposition.

Operating costs and brand contribution

Operating costs reduced by £4.6m to £152.0m. Lower marketing expenditure was incurred as a result of being able to maintain appropriate coverage of our brands at a lower cost due to reduced activity from some of our competitors. Operating costs as a percentage of sales however increased from 30.3% to 31.1% due to an element of operational gearing, some underlying cost inflation and a greater number of new showrooms in Sofology year on year resulting in a higher level of pre-opening costs. We have also made operating cost investment in innovation and last-mile logistics development. Brand contribution for the Group reduced £12.3m to £129.8m due to the lower revenues.

Property costs and administrative expenses

Property costs (excluding the impact of IFRS 16) grew by £0.5m to £54.1m. This increase was driven by net new showroom (primarily Sofology) and CDCs which added £0.7m of cost and £0.1m from market rent and rates inflation net of back dated rates determinations. These increases were partially offset by a £0.3m reduction from the impact of lease re-gears.

Administrative expenses have increased by £3.6m predominantly as a result of investment in the infrastructure to support the delivery of strategic initiatives and to a lesser extent from regulatory driven increases to employer pension contributions.

EBITDA[1]

As a net result of the lower revenues and the other factors described above the Group's underlying EBITDA (excluding the impact of IFRS 16) has decreased from £57.9m to £41.5m. No non-underlying costs are reported in the current financial year (FY19: £2.0m incurred and classified as non-underlying costs in connection with the integration of Sofology).

Depreciation, amortisation and interest

Depreciation and amortisation charges excluding brand amortisation (and excluding the impact of IFRS 16) increased by £0.8m to £15.4m due to a higher underlying asset base (see capital expenditure section below).

Interest charges (excluding the impact of IFRS 16) increased £0.3m from £5.3m to £5.6m due to amortisation of a higher finance lease liability (driven by a higher asset base).

Profit before Tax

Underlying profit before tax for the 26 week period to 30 December 2019, excluding brand amortisation (and excluding the impact of IFRS 16) was £20.5m, compared to £38.3m in the prior period. After applying IFRS 16, reported profit before tax was £15.9m.

IFRS 16

The table above illustrates the impact on the income statement of the adoption of IFRS 16. Further details are provided in Note 2 to the interim financial statements.

On an IFRS 16 basis, reported EBITDA was £79.4m as a consequence of the majority of lease rental charges no longer being charged to operating profit. These charges were replaced with additional depreciation and interest charges of £28.7m and £13.1m respectively. The net impact of these changes was a reported profit before tax, excluding brand amortisation, for the 26 weeks ended 30 December 2019 of £16.6m, £3.9m lower than would have been reported under IAS 17.

The right of use assets and associated lease liabilities recognised at transition were broadly in line with expectations, as are the IFRS 16 depreciation and interest charges arising in H1 FY20. Timing variances of some lease incentives recognised under IAS 17 (from a slowing DFS showroom opening programme), and the impact of holdover rents have however resulted in a lower credit arising from the removal of IAS 17 charges from the income statement than previously estimated. The net effect is that the overall impact on FY20 of the adoption of IFRS 16, based on the Group's existing lease portfolio, at £7.1m is greater than the £4-6m we had previously guided to. This remains a non-cash charge and business decision making is unaffected and our banking covenants continue to be measured on a pre IFRS16 basis.

Although the timing of the recognition of leases expenses is accelerated under IFRS 16, the total expense over the life of the lease is identical to that under IAS 17. Therefore, excluding the effect of any future changes to the Group's leases, this negative impact will reduce over the next two financial years and by FY23 would result in a modest benefit to reporting profit before tax. However, new leases entered into may defer realisation of this non-cash benefit to reported profits.

Tax

The tax charge recognised in the interim financial statements has been calculated using the expected effective tax rate for the full year of 20.5% (FY19: 19.9%). As in previous years, this is higher than the applicable UK Corporation Tax rate of 19.0% (FY19: 19.0%), primarily due to disallowable depreciation on non-qualifying fixed assets.

Earnings per share

Underlying basic earnings per share (before applying IFRS 16) for the Group were 7.4 pence (FY19: 13.9 pence). Reported earnings per share after applying IFRS 16 was 6.0 pence.

Dividend

The Board remains confident in the Group's outlook. While we continue to operate outside our targeted dividend payout of 40-50% of underlying cash generation, based upon the Group's outlook, we are comfortable maintaining the interim dividend at 3.7 pence. As stated in our published Capital and Distribution Policy, should the outlook worsen and underlying cash flow generation not cover the current level of ordinary dividends, we would if necessary reduce or halt dividends. However, we expect profit and cash generation growth which should enable us to return to the targeted payout range in the foreseeable future.

Capital expenditure

Capital expenditure for the 26 week period, inclusive of those assets accounted for as finance leases under IAS 17, was £20.3m (FY19 £17.5m). The higher expenditure was driven by DFS showroom refits, supply chain infrastructure and technology initiatives described in the strategic review along with a greater number of Sofology showrooms rolled out relative to the prior year, including a very significant investment in the Belfast super-showroom.

Cash flow and balance sheet

The Group is financially strong with a historical record of good cash generation. Following the acquisition of Sofology and given our growth plans we secured in September 2019 an increase in the size of our revolving credit facility in order to support the larger Group and future investment. This resulted in the total available facility increasing from £230m to £250m and was achieved through adding a new lender to the facility. This facility has approximately two and a half years until maturity and we intend to extend or refinance it in due course.

Our aim is to reduce our net debt over time to reduce our gearing to below 1.5 times underlying EBITDA (pre IFRS 16). Net debt in absolute terms remained broadly flat year on year (£160.4m as at 29 December 2019, £158.1m as at 30 December 2018) however due to the lower profitability year on year our gearing at the end of the period was above our target at 2.17 times (1.88 times 30 December 2018).

As we have highlighted previously, the DFS business model benefits from negative working capital, with payments received from customers upon delivery or through deposits ahead of delivery overall, while our suppliers are paid to agreed terms. Working capital balances are seasonal depending on recent trading activity, cost seasonality (particularly in advertising spend) and finally predictable patterns of payments on rents, tax payments and other recurring charges. We carry very limited inventory, and balances have remained stable overall.

The Group's free cash flow[1] generation over the 52-week period to 29 December 2019 remained strong at 68.7% but slightly below our historical rates of 70%-80% due to the lower profitability in the period.

Cash flow generated in the 26 week period of £17.4m is £50.3m lower than the comparative period (excluding payments to reduce the Group's revolving credit facility). The reduced cash flows are primarily driven by reduced operating profits of £14.4m and a more favorable working capital movement in the comparative period (£27.9m) resulting from a different phasing of sales. The majority of the remaining difference is due to additional capital expenditure of £2.7m and additional tax payments of approximately £4m as a result of the UK wide acceleration in the Corporation tax payment on account dates.

The Group's balance sheet does have a large intangible balance of £540.8m, which is primarily associated with goodwill of acquired brands. Within this balance approximately £6.9m relates to Sofa Workshop. Given recent trading we have considered whether a non-cash impairment adjustment should be made with respect to Sofa Workshop. Based on our current information and assumptions we do not believe an impairment is currently required, however we will review this against our revised operating plan at the time of the financial year end.

The Group's lease adjusted return on capital employed[1] (calculated consistently with our historical practice on a pre IFRS 16 basis) for the period decreased from 16.6% as at the previous financial year end to 14.4% almost entirely as a result of reduced lease adjusted profits.

Mike Schmidt

Chief Financial Officer

Refer to note 13 to the interim financial statements for definitions and reconciliations of alternative performance measures.

Risks and Uncertainties

The Group faces a number of risks and uncertainties in both the development and day-to-day operations of its business. A risk management process has been adopted to help the Group achieve its strategic objectives. With the exception of the COVID-19 outbreak noted below, the Board does not consider that the principal risks and uncertainties to have changed since the publication of the annual report for the period ended 30 June 2019. These comprise:

- The economy and consumer market conditions
- Maintaining the reputation of, and value associated with, the Group's brands and product offering
- Changes to the regulatory environment
- Implications of Brexit
- Integration of acquired businesses and transformation to operating through Group platforms
- Retaining and developing engaged colleagues and complying with health and safety legislation
- Keeping core IT systems up and running and protected from cyber attacks
- Changes to foreign exchange rates and supplier failure risk
- Property and retail showroom network expansion
- Liquidity and interest rate risk
- Availability and cost of providing credit

Refer to pages 28 to 33 of the 2019 Annual Report (www.dfscorporate.co.uk) for a detailed explanation of these risks.

As outlined in greater detail within the CEO report above, following the COVID-19 outbreak in January our four Chinese finished goods suppliers did not re-commence production immediately after the Chinese new year holiday period. These extended far-east lead times, if not recovered in the near-term, represent a risk to reported revenue and profit within the financial period. Likewise, sustained disruption to the availability of raw materials, for example fabrics, could represent a risk to the reported financial performance. Given the unknown and potentially significant impact of any disruption, we have identified 'Supply chain disruption due to an uncontrollable, unforeseen event' as a principal risk. We also identify an elevated risk to the consumer market environment from possible confidence effects of COVID-19 on the UK.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

a) The condensed set of financial statements has been prepared in accordance with IAS 34;

b) The interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year); and

c) The interim management report includes a fair review of the information required by DT 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Tim Stacey	**Mike Schmidt**
Chief Executive Officer	*Chief Financial Officer*

10 March 2020

INDEPENDENT REVIEW REPORT TO DFS FURNITURE PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 29 December 2019 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 29 December 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The company has previously produced half-yearly reports and in the prior financial year of 48 weeks ended 30 June 2019 the interim period then reported and reviewed by us was for the 22 weeks ended 30 December 2018. In this year's half-yearly financial report the current year interim period reported is the 26 weeks ended 29 December 2019 and comparatives have been included for the 26 weeks ended 30 December 2018. The review procedures set out above have not been performed in respect of the comparative period for the 26 weeks ended 30 December 2018.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Frances Simpson
for and on behalf of KPMG LLP
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

10 March 2020

Unaudited condensed consolidated income statement

The Group has adopted IFRS 16 with effect from 1 July 2019; prior year figures have not been restated. As a result, the financial statements are presented on an IFRS 16 basis for the 26 weeks to 29 December 2019, and an IAS 17 basis for the 26 weeks to 30 December 2018 and 48 weeks to 30 June 2019. Further details of the adoption of IFRS 16 are provided in Note 2.

		26 weeks to 29 December 2019 (IFRS 16)			26 weeks to 30 December 2018 (IAS 17)			48 weeks to 30 June 2019 (IAS 17)		
		Underlying	**Non-underlying**	**Total**	Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Gross sales	*3*	**629.7**	-	**629.7**	668.8	-	668.8	1,165.0	-	1,165.0
Revenue	*3*	**488.0**	-	**488.0**	517.6	-	517.6	901.0	-	901.0
Cost of sales		**(206.2)**	-	**(206.2)**	(218.9)	-	(218.9)	(383.8)	-	(383.8)
Gross profit		**281.8**	-	**281.8**	298.7	-	298.7	517.2	-	517.2
Selling and distribution costs		**(168.4)**	-	**(168.4)**	(210.2)	-	(210.2)	(392.8)	-	(392.8)
Administrative expenses		**(34.0)**	-	**(34.0)**	(30.6)	(2.0)	(32.6)	(59.3)	(4.4)	(63.7)
Operating profit before depreciation and amortisation		**79.4**	-	**79.4**	57.9	(2.0)	55.9	65.1	(4.4)	60.7
Depreciation		**(41.7)**	-	**(41.7)**	(13.0)	-	(13.0)	(23.3)	-	(23.3)
Amortisation		**(3.1)**	-	**(3.1)**	(2.3)	-	(2.3)	(4.9)	-	(4.9)
Operating profit	*4*	**34.6**	-	**34.6**	42.6	(2.0)	40.6	36.9	(4.4)	32.5
Finance income		-	-	-	0.1	-	0.1	0.2	-	0.2
Finance expenses	*5*	**(18.7)**	-	**(18.7)**	(5.4)	-	(5.4)	(10.3)	-	(10.3)
Profit before tax		**15.9**	-	**15.9**	37.3	(2.0)	35.3	26.8	(4.4)	22.4
Taxation	*6*	**(3.3)**	-	**(3.3)**	(7.9)	0.4	(7.5)	(5.1)	0.8	(4.3)
Profit for the period		**12.6**	-	**12.6**	29.4	(1.6)	27.8	21.7	(3.6)	18.1

Statutory earnings per share										
Basic	*7*	**6.0p**	**-**	**6.0p**	13.9p	(0.8)p	13.1p	10.3p	(1.7)p	8.6p
Diluted	*7*	**5.9p**	**-**	**5.9p**	13.8p	(0.8)p	13.0p	10.1p	(1.7)p	8.4p

Unaudited condensed consolidated statement of comprehensive income

	26 weeks to 29 December 2019 IFRS 16 £m	26 weeks to 30 December 2018 IAS 17 £m	48 weeks to 30 June 2019 IAS 17 £m
Profit for the period	**12.6**	27.8	18.1
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	**(4.7)**	6.8	9.7
Net change in fair value of cash flow hedges reclassified to profit or loss			
Recognised in cost of sales	**(5.9)**	(2.1)	(6.1)
Recognised in finance expense	**(0.4)**	(0.5)	(0.6)
Income tax on items that are/may be reclassified subsequently to profit or loss	**1.9**	(0.8)	(0.5)
Other comprehensive income for the period, net of income tax	**(9.1)**	3.4	2.5
Total comprehensive income for the period	**3.5**	31.2	20.6

Unaudited condensed consolidated balance sheet

	29 December 2019 IFRS 16 £m	30 December 2018 IAS 17 £m	30 June 2019 IAS 17 £m
Non-current assets			
Property, plant and equipment	**80.6**	93.5	89.9
Right of use assets	**419.0**	-	-
Intangible assets	**540.8**	536.9	539.0
Other financial assets	-	0.8	1.4
Deferred tax assets	**10.2**	6.6	8.7
	1,050.6	637.8	639.0
Current assets			
Inventories	**50.8**	50.4	54.8
Other financial assets	**0.5**	8.4	6.3
Trade and other receivables	**13.3**	26.6	32.8
Cash and cash equivalents	**47.2**	44.5	29.8
	111.8	129.9	123.7
Total assets	**1,162.4**	767.7	762.7
Current liabilities			
Trade payables and other liabilities	**(223.9)**	(235.8)	(225.1)
Lease liabilities	**(88.1)**	-	-
Provisions	**(6.5)**	(4.8)	(5.0)
Other financial liabilities	**(1.7)**	-	-
Current tax liabilities	**(0.2)**	(2.6)	(0.8)
	(320.4)	(243.2)	(230.9)
Non-current liabilities			
Interest bearing loans and borrowings	**(194.1)**	(190.8)	(194.0)
Lease liabilities	**(436.9)**	-	-
Provisions	**(2.9)**	(5.9)	(5.6)
Other financial liabilities	**(2.8)**	(1.0)	(0.7)
Other liabilities	-	(74.6)	(79.7)
	(636.7)	(272.3)	(280.0)
Total liabilities	**(957.1)**	(515.5)	(510.9)
Net assets	**205.3**	252.2	251.8
Equity attributable to equity holders of the parent			
Share capital	**319.5**	319.5	319.5
Share premium	**40.4**	40.4	40.4
Merger reserve	**18.6**	18.6	18.6
Treasury shares	**(1.7)**	(2.1)	(2.1)
Cash flow hedging reserve	**(4.0)**	8.2	7.0
Retained earnings	**(167.5)**	(132.4)	(131.6)
Total equity	**205.3**	252.2	251.8

Unaudited condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2018	319.5	40.4	18.6	(3.3)	4.0	(145.3)	233.9
Profit for the period	-	-	-	-	-	27.8	27.8
Other comprehensive income/(expense)	-	-	-	-	4.2	(0.8)	3.4
Total comprehensive income/(expense) for the period	-	-	-	-	4.2	27.0	31.2
Dividends	-	-	-	-	-	(15.9)	(15.9)
Treasury shares issued	-	-	-	1.2	-	(1.2)	-
Share based payments	-	-	-	-	-	1.2	1.2
Balance at 30 December 2018	**319.5**	**40.4**	**18.6**	**(2.1)**	**8.2**	**(134.2)**	**250.4**
Balance at 30 June 2019	319.5	40.4	18.6	(2.1)	7.0	(131.6)	251.8
Impact of change in accounting policy	-	-	-	-	-	(33.5)	(33.5)
Adjusted balance at 1 July 2019	319.5	40.4	18.6	(2.1)	7.0	(165.1)	218.3
Profit for the period	-	-	-	-	-	12.6	12.6
Other comprehensive income/(expense)	-	-	-	-	(11.0)	1.9	(9.1)
Total comprehensive income/(expense) for the period	-	-	-	-	(11.0)	14.5	3.5
Dividends	-	-	-	-	-	(15.9)	(15.9)
Purchase of own shares	-	-	-	(0.4)	-	-	(0.4)
Treasury shares issued	-	-	-	0.8	-	(0.7)	0.1
Settlement of share based payments	-	-	-	-	-	(1.6)	(1.6)
Share based payments	-	-	-	-	-	1.3	1.3
Balance at 29 December 2019	**319.5**	**40.4**	**18.6**	**(1.7)**	**(4.0)**	**(167.5)**	**205.3**

Unaudited condensed consolidated cash flow statement

	26 weeks to 29 December 2019 IFRS 16 £m	26 weeks to 30 December 2018 IAS 17 £m	48 weeks to 30 June 2019 IAS 17 £m
Operating profit	**34.6**	40.6	32.5
Adjustments for:			
Depreciation of property, plant and equipment	**13.0**	13.0	23.3
Depreciation of right of use assets	**28.7**	-	-
Amortisation of intangible assets	**3.1**	2.3	4.9
Gain on sale of property, plant and equipment	**(0.4)**	(0.4)	(0.8)
Share based payment expense	**1.3**	1.2	2.6
Decrease/(increase) in trade and other receivables	**7.3**	6.4	(1.6)
Decrease/(increase) in inventories	**4.0**	7.6	(0.4)
Increase/(decrease) in trade and other payables	**13.0**	32.4	(10.2)
Increase/(decrease) in provisions	**0.2**	1.0	(0.3)
Net cash from operating activities before tax	**104.8**	104.1	50.0
Tax paid	**(5.1)**	(2.5)	(7.4)
Net cash from operating activities	**99.7**	101.6	42.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**0.7**	0.8	1.2
Interest received	**-**	0.1	0.2
Acquisition of property, plant and equipment	**(11.8)**	(11.8)	(17.5)
Acquisition of other intangible assets	**(4.9)**	(2.4)	(6.9)
Net cash from investing activities	**(16.0)**	(13.3)	(23.0)
Cash flows from financing activities			
Interest paid	**(4.8)**	(4.3)	(7.3)
Interest paid on lease liabilities*	**(14.6)**	(0.2)	(0.4)
Repayment of borrowings	**-**	(15.0)	(2.0)
Capital repayment of lease liabilities*	**(29.0)**	(0.2)	(3.5)
Purchase of own shares	**(0.4)**	-	-
Settlement of share based payments	**(1.6)**	-	-
Dividends paid	**(15.9)**	(15.9)	(23.8)
Net cash from financing activities	**(66.3)**	(35.6)	(37.0)
Net increase/(decrease) in cash and cash equivalents	**17.4**	52.7	(17.4)
Cash and cash equivalents at beginning of period	**29.8**	(8.2)	47.2
Cash and cash equivalents at end of period	**47.2**	44.5	29.8

*Prior period interest and capital repayments on lease liabilities relate solely to finance leases recognised in accordance with IAS 17.

Notes to the unaudited condensed consolidated financial statements

1. Basis of preparation

This unaudited condensed consolidated interim financial information for DFS Furniture plc ("the Company") and its subsidiaries (together, "the Group") was approved for release on 10 March 2020.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Disclosure and Transparency Rules of the Financial Conduct Authority, and comprise the results for the 26 weeks ended 29 December 2019, the 26 weeks ended 30 December 2018, and the 48 weeks ended 30 June 2019. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the 48 weeks ended 30 June 2019.

The change in the Group's accounting reference date from 31 July to 30 June meant that the financial year ended 30 June 2019 was a short 48 week period and the interim financial information published during that financial year was for the 22 weeks ended 30 December 2018. For the current financial year, interim financial information relates to the 26 week period ended 29 December 2019 and therefore in accordance with IAS 34 comparative figures are provided for the equivalent 26 week period in the previous financial year rather than for the 22 week period previously published.

The financial information included in this interim statement of results does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the 48 weeks ended 30 June 2019 have been reported on by the Company's auditor and delivered to the Registrar of Companies. The auditor's report for those accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The auditor's review report for the 26 weeks ended 29 December 2019 is attached.

Going concern

The interim financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The Group remains cash generative with cash in hand, at bank of £12.5 million as at 23 February 2020 and has a £250.0 million revolving credit facility in place until August 2022 of which £195.0 million was drawn as at 23 February 2020.

The Directors have prepared projected trading and cash flow forecasts for the Group covering the period to December 2021. This includes forecast compliance with the Net Debt / EBITDA and Fixed Charge Cover covenants as set out under the revolving credit facility, which are tested at six monthly intervals, and are set at 3.0x Net Debt / EBITDA and 1.5x Fixed Charge Cover. These forecasts include a number of assumptions in relation to order intake and availability of raw materials and finished goods. The Directors have considered severe but plausible downside sensitivity scenarios, including the potential impact of the recent outbreak of Coronavirus (COVID-19) on the operational and financial performance of the Group as further discussed in the Chief Executive's Operating review. As part of this analysis management have considered mitigating actions within their control should these severe but plausible scenarios occur around reducing discretionary advertising expenditure, disposing of non-core business operations and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, provide sufficient headroom in the forecast period.

The Directors have considered all of the factors noted above, including the difficulty of forecasting the impact of COVID-19, and the uncertainty this represents as outlined in the Chief Executive's Operating review, and confirm that the Group has adequate resources to continue to meet all liabilities as and when they fall due for the foreseeable future and at least for the period of 12 months from the date of signing these interim financial statements. Accordingly, the interim financial statements are prepared on a going concern basis.

Notes to the unaudited condensed consolidated financial statements

2. Principal accounting policies

The accounting policies adopted in preparing the condensed consolidated interim financial statements are consistent with the policies in the Group's financial statements for the 48 weeks ended 30 June 2019, which were prepared under IFRS as adopted by the European Union, other than the adoption of IFRS 16 *Leases* which is effective from the beginning of the current financial year. Further details of the impact of the adoption of this standard are given below. There are no other new standards, amendments to existing standards or interpretations that are effective for the first time in the period ended 29 December 2019 that have a material impact on the Group's results.

IFRS 16 *Leases*

IFRS 16 *Leases* replaces existing lease guidance under IAS 17 *Leases* and introduces a fundamental change to the recognition, measurement, presentation and disclosure of leases for lessees. IFRS 16 eliminates the current dual accounting model for lessees under IAS 17 (operating leases and finance leases) and requires lessees to account for most leases under a single, on-balance sheet model. Accordingly, figures presented for the 26 weeks ended 30 December 2018 and 48 weeks ended 30 June 2019 reflect the requirements of IAS 17, while those presented for the 26 weeks ended 29 December 2019 are in accordance with IFRS 16.

Definition of a lease

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Transition method and practical expedients used

The Group has opted to apply the modified retrospective approach to transition; under this approach the Group is not required to restate prior year figures.

Under the modified retrospective approach, IFRS 16 provides for a number of optional practical expedients. On transition, the Group has applied the following practical expedients:

- application of IFRS 16 to contracts that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an arrangement contains a lease;*
- use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for short term (less than 12 months as at 30 June 2019) leases and low value leases on transition as operating leases;
- exclusion of initial direct costs from the measurement of the right of use asset on transition;
- reliance on IAS 37 onerous lease assessment to determine whether leases are onerous on transition; and
- use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the unaudited condensed consolidated financial statements

2. Principal accounting policies *(continued)*

IFRS 16 *Leases* *(continued)*
Lease liability - initial recognition

At 1 July 2019 the Group has recognised a lease liability and a right of use asset. On transition, the lease liabilities are recognised at the present value of future lease payments discounted at the incremental borrowing rate applicable to the lease. On transition, the Group's weighted average incremental borrowing rate was 5.6%.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- amounts expected to be payable under a residual value guarantee.

Lease liability – subsequent measurement

The lease liability is subsequently increased by the interest cost arising from the unwind of the discount, and decreased by the cash lease payments made.

Lease liability – remeasurement

The lease liability is remeasured if:

- there is a change in either the lease term or the assessment of an option to purchase the underlying asset. In these circumstances, the lease liability is remeasured using a revised discount rate; or
- there is a change in the amounts expected to be payable under a residual guarantee or if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments. In these circumstances, the discount rate remains unchanged, unless the change in lease payments results from a change in floating interest rates.

In both scenarios, the carrying value of the right of use asset will be adjusted by the amount of the remeasurement of the lease liability, to the extent that the right of use asset will be reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

Right of use asset – initial recognition

IFRS 16 defines a right of use asset as an asset which represents a lessee's right to use an underlying asset for the lease term.

At transition, the right of use assets are measured at either:

- "Mod A": the carrying value as if IFRS 16 had been applied since the lease commencement date, discounted by the Group's incremental borrowing rate as at 1 July 2019. This methodology has been applied where the historical information has been available to facilitate this.

  or
- "Mod B": an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the statement of financial position immediately before the date of initial application. This methodology has been applied to the majority of the Group's leases.

Notes to the unaudited condensed consolidated financial statements

2. Principal accounting policies *(continued)*

IFRS 16 *Leases* *(continued)*
Right of use asset – subsequent measurement

Right of use assets are subsequently measured at initial carrying value:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability

The right of use asset is subsequently depreciated on a straight line basis from the commencement date to the end of the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the unaudited condensed consolidated financial statements

2. Principal accounting policies *(continued)*

IFRS 16 *Leases* (continued)

Impact on the Group financial statements

The impact of the IFRS 16 transition adjustments on the 30 June 2019 balance sheet are summarised below:

	Note	30 June 2019 IAS 17 £m	IFRS 16 adjustment £m	1 July 2019 IFRS 16 £m
Non-current assets				
Property, plant and equipment	*i*	89.9	(10.5)	79.4
Right of use assets	*ii*	-	445.0	445.0
Intangible assets		539.0	-	539.0
Other financial assets		1.4	-	1.4
Deferred tax assets	*iii*	8.7	(1.7)	7.0
		639.0	432.8	1,071.8
Current assets				
Inventories		54.8	-	54.8
Other financial assets		6.3	-	6.3
Trade and other receivables	*iv*	32.8	(12.3)	20.5
Cash and cash equivalents		29.8	-	29.8
		123.7	(12.3)	111.4
Total assets		762.7	420.5	1,183.2
Current liabilities				
Trade payables and other liabilities	*v*	(225.1)	13.5	(211.6)
Lease liabilities	*vi*	-	(88.8)	(88.8)
Provisions		(5.0)	-	(5.0)
Other financial liabilities		-	-	-
Current tax liabilities		(0.8)	-	(0.8)
		(230.9)	(75.3)	(306.2)
Non-current liabilities				
Interest bearing loans and borrowings		(194.0)	-	(194.0)
Lease liabilities	*vi*	-	(459.8)	(459.8)
Provisions	*vii*	(5.6)	1.4	(4.2)
Other financial liabilities		(0.7)	-	(0.7)
Other liabilities	*v*	(79.7)	79.7	-
		(280.0)	(378.7)	(658.7)
Total liabilities		(510.9)	(454.0)	(964.9)
Net assets		251.8	(33.5)	218.3
Equity attributable to equity holders of the parent				
Share capital		319.5	-	319.5
Share premium		40.4	-	40.4
Merger reserve		18.6	-	18.6
Treasury shares		(2.1)	-	(2.1)
Cash flow hedging reserve		7.0	-	7.0
Retained earnings		(131.6)	(33.5)	(165.1)
Total equity		251.8	(33.5)	218.3

Notes

i. Reclassification of net book value of assets classified as finance leases under IAS 17.
ii. Recognition of right of use assets on transition (including reclassification in 1. above).
iii. Movement in deferred tax arising from IFRS 16 transition adjustments.
iv. Elimination of IAS 17 lease prepayment balances.
v. Elimination of IAS 17 lease incentive balances (capital contributions, rent-free periods and fixed rent reviews), adjusted for in right of use asset (or opening retained earnings where Mod A has been applied).
vi. Recognition of lease liabilities arising under IFRS 16 and reclassification of finance lease liabilities previously recognised under IAS 17.
vii. Elimination of IAS 37 onerous lease provisions, adjusted for in value of right of use asset.

Notes to the unaudited condensed consolidated financial statements

2. Principal accounting policies *(continued)*

IFRS 16 *Leases* *(continued)*

The following table reconciles the undiscounted commitments under non-cancellable operating leases as at 30 June 2019, as presented in the Group's Annual Report for the 48 weeks to 30 June 2019, to the amount of lease liabilities recognised on transition to IFRS 16 at 1 July 2019:

	1 July 2019 £m
Commitments under non-cancellable operating leases as at 30 June 2019	**695.1**
Effect of discounting	(156.0)
Leases previously accounted for as finance leases	12.1
Other	(2.6)
Lease liabilities recognised as at 1 July 2019	**548.6**

The impact of IFRS 16 to the income statement for the 26 week period to 29 December 2019 is summarised below:

		26 weeks to 29 December 2019		
	Note	Presented under IAS 17 £m	Impact of IFRS 16 £m	Presented under IFRS 16 £m
Gross sales		629.7	-	629.7
Revenue		488.0	-	488.0
Cost of sales		(206.2)	-	(206.2)
Gross profit		281.8	-	281.8
Selling and distribution costs		(206.1)	37.7	(168.4)
Administrative expenses		(34.2)	0.2	(34.0)
Operating profit before depreciation and amortisation	*i*	41.5	37.9	79.4
Depreciation	*ii*	(13.0)	(28.7)	(41.7)
Amortisation		(3.1)	-	(3.1)
Operating profit		25.4	9.2	34.6
Finance income		-	-	-
Finance expenses	*iii*	(5.6)	(13.1)	(18.7)
Profit before tax		19.8	(3.9)	15.9
Taxation	*iv*	(4.1)	0.8	(3.3)
Profit for the period		15.7	(3.1)	12.6

Notes

i. Reversal of operating lease rental charges recognised under IAS 17.
ii. Depreciation charge on right of use assets recognised under IFRS 16.
iii. Unwind of discount on IFRS 16 lease liabilities.
iv. Tax effect on net income statement differences.

Notes to the unaudited condensed consolidated financial statements

2. Principal accounting policies *(continued)*

IFRS 16 *Leases* *(continued)*

The impact of IFRS 16 to the balance sheet as at 29 December 2019 is summarised below:

	Notes	29 December 2019 IAS 17 £m	IFRS 16 adjustment £m	29 December 2019 IFRS 16 £m
Non-current assets				
Property, plant and equipment	i	92.2	(11.6)	80.6
Right of use assets	ii	-	419.0	419.0
Intangible assets		540.8	-	540.8
Other financial assets		-	-	-
Deferred tax assets	Iii	11.0	(0.8)	10.2
		644.0	406.6	1,050.6
Current assets				
Inventories		50.8	-	50.8
Other financial assets		0.5	-	0.5
Trade and other receivables	Iv	24.7	(11.4)	13.3
Cash and cash equivalents		47.2	-	47.2
		123.2	(11.4)	111.8
Total assets		767.2	395.2	1,162.4
Current liabilities				
Trade payables and other liabilities	v	(237.8)	13.9	(223.9)
Lease liabilities	vi	-	(88.1)	(88.1)
Provisions		(6.5)	-	(6.5)
Other financial liabilities		(1.7)	-	(1.7)
Current tax liabilities		(0.2)	-	(0.2)
		(246.2)	(74.2)	(320.4)
Non-current liabilities				
Interest bearing loans and borrowings		(194.1)	-	(194.1)
Lease liabilities	vi	-	(436.9)	(436.9)
Provisions	vii	(4.3)	1.4	(2.9)
Other financial liabilities		(2.8)	-	(2.8)
Other liabilities		(78.0)	78.0	-
		(279.2)	(357.5)	(636.7)
Total liabilities		(525.4)	(431.7)	(957.1)
Net assets		241.8	(36.5)	205.3
Equity attributable to equity holders of the parent				
Share capital		319.5	-	319.5
Share premium		40.4	-	40.4
Merger reserve		18.6	-	18.6
Treasury shares		(1.7)	-	(1.7)
Cash flow hedging reserve		(4.0)	-	(4.0)
Retained earnings		(131.0)	(36.5)	(167.5)
Total equity		241.8	(36.5)	205.3

Notes

i. Reclassification of net book value of assets classified as finance leases under IAS 17.
ii. Recognition of right of use assets on transition (including reclassification in 1. above).
iii. Movement in deferred tax liability arising from IFRS 16 adjustments.
iv. Elimination of IAS 17 lease prepayment balances.
v. Elimination of IAS 17 lease incentive balances (capital contributions, rent-free periods and fixed rent reviews), adjusted for in right of use asset (or opening retained earnings where Mod A has been applied).
vi. Recognition of lease liabilities arising under IFRS 16 and reclassification of finance lease liabilities previously recognised under IAS 17.
vii. Elimination of IAS 37 onerous lease provisions, adjusted for in value of right of use asset.

Notes to the unaudited condensed consolidated financial statements

2. Principal accounting policies *(continued)*

Significant judgements and estimates

The application of the Group's accounting policies requires judgements, estimates and assumptions to be made 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. In preparing these interim financial statements, the significant judgements and estimates were consistent with those applied to the consolidated financial statements for the 48 weeks ended 30 June 2019. The following additional significant judgements have been made by the Group in the process of applying IFRS 16 in the preparation of these interim financial statements:

Lease term (IFRS 16)

IFRS 16 defines the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend or terminate the lease if the lessee is reasonably certain to exercise one of these particular options. Where a lease includes the option for the Group to extend the lease term, the Group makes a judgement as to whether it is reasonably certain that the option will be taken. This will take into account the length of time remaining before the option is exercisable, current trading, future trading forecasts and the level and tyope of planned future capital investment. This judgement is reassessed on an ongoing basis.

Discount rates (IFRS 16)

The lease liability is initially recognised at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate. The Group has used judgement to calculate the appropriate incremental borrowing rate.

The incremental borrowing rates depend on the asset type and the lease term and are determined using the following inputs:

- the risk-free rate based on the UK bond market, with the lease term being used to determine the appropriate length bond
- a Group specific adjustment to reflect the Group's specific borrowing conditions

As a result of these judgements the Group has calculated a number of discount rates to be applied to the portfolio of leases in the range of 3.67% to 6.35%.

Notes to the unaudited condensed consolidated financial statements

3. Segmental Analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Group Leadership Team. Segment performance is assessed based upon brand contribution. Brand contribution is defined as underlying EBITDA (being earnings before interest and tax excluding depreciation charges and non-underlying items) excluding property costs and central administration costs.

The Group reviews and manages the performance of its operations on a retail brand basis, and the identified reportable segments and the nature of their business activities are as follows:

DFS: the manufacture and retailing of upholstered furniture and related products through DFS branded stores and websites.

Sofology: the retailing of upholstered furniture and related products through Sofology branded stores and website.

Other segment activities comprise the retailing of upholstered and other furniture and related products through other brands, including Dwell and Sofa Workshop.

Segment revenue and profit

	External sales			**Internal sales**			**Total gross sales**		
	26 weeks to 29 December 2019 £m	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m	**26 weeks to 29 December 2019 £m**	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m	**26 weeks to 29 December 2019 £m**	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m
DFS	**462.0**	486.4	850.2	**-**	-	-	**462.0**	486.4	850.2
Sofology	**129.0**	139.9	237.7	**-**	-	-	**129.0**	139.9	237.7
Other segments	**38.7**	42.5	77.1	**-**	0.2	0.5	**38.7**	42.7	77.6
Eliminations	**-**	-	-	**-**	(0.2)	(0.5)	**-**	(0.2)	(0.5)
Gross sales	**629.7**	668.8	1,165.0	**-**	**-**	-	**629.7**	668.8	1,165.0

	26 weeks to 29 December 2019 £m	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m
Total segments gross sales	**629.7**	668.8	1,165.0
Less: value added and other sales taxes	**(98.5)**	(105.4)	(183.5)
Less: costs of interest free credit and aftercare services	**(43.2)**	(45.8)	(80.5)
Revenue	**488.0**	517.6	901.0
Of which:			
Furniture sales	**454.7**	483.4	839.5
Sales of aftercare products	**33.3**	34.2	61.5
Revenue	**488.0**	517.6	901.0

26 weeks to 29 December 2019 (IFRS 16)	**DFS £m**	**Sofology £m**	**Other £m**	**Total £m**
Revenue	**354.5**	**102.1**	**31.4**	**488.0**
Cost of sales	**(140.7)**	**(50.5)**	**(15.0)**	**(206.2)**
Gross profit	**213.8**	**51.6**	**16.4**	**281.8**
Selling and distribution costs (excluding property costs)	**(110.7)**	**(28.5)**	**(12.8)**	**(152.0)**
Brand contribution (segment profit)	**103.1**	**23.1**	**3.6**	**129.8**
Property costs[1]				**(16.4)**
Underlying administrative expenses				**(34.0)**
Underlying EBITDA				**79.4**

[1]Property costs charged to the income statement comprise rates and charges for holdover leases and other arrangements where no right of use asset has been recognised under IFRS 16.

Notes to the unaudited condensed consolidated financial statements

3. Segmental analysis *(continued)*

26 weeks to 30 December 2018 (IAS 17)	DFS £m	Sofology £m	Other £m	Total £m
Revenue	372.6	110.6	34.4	517.6
Cost of sales	(149.0)	(54.2)	(15.7)	(218.9)
Gross profit	223.6	56.4	18.7	298.7
Selling and distribution costs (excluding property costs)	(115.4)	(28.9)	(12.3)	(156.6)
Brand contribution (segment profit)	108.2	27.5	6.4	142.1
Property costs				(53.6)
Underlying administrative expenses				(30.6)
Underlying EBITDA				57.9

48 weeks to 30 June 2019 (IAS 17)	DFS £m	Sofology £m	Other £m	Total £m
Revenue	650.6	187.7	62.7	901.0
Cost of sales	(262.5)	(92.3)	(29.0)	(383.8)
Gross profit	388.1	95.4	33.7	517.2
Selling and distribution costs (excluding property costs)	(217.1)	(52.7)	(23.9)	(293.7)
Brand contribution (segment profit)	171.0	42.7	9.8	223.5
Property costs				(99.1)
Underlying administrative expenses				(59.3)
Underlying EBITDA				65.1

	26 weeks to 29 December 2019 IFRS 16 £m	26 weeks to 30 December 2018 IAS 17 £m	48 weeks to 30 June 2019 IAS 17 £m
Underlying EBITDA	79.4	57.9	65.1
Non-underlying items	-	(2.0)	(4.4)
Depreciation & amortisation	(44.8)	(15.3)	(28.2)
Operating profit	**34.6**	40.6	32.5
Finance income	-	0.1	0.2
Finance expenses	**(18.7)**	(5.4)	(10.3)
Profit before tax	**15.9**	35.3	22.4

A geographical analysis of revenue is presented below:

	26 weeks to 29 December 2019 £m	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m
United Kingdom	**472.7**	500.7	872.0
Europe	**15.3**	16.9	29.0
Total revenue	**488.0**	517.6	901.0

Notes to the unaudited condensed consolidated financial statements

3. Segmental analysis *(continued)*

Segment assets and liabilities

	Assets			Liabilities		
	29 December 2019 IFRS 16 £m	30 December 2018 IAS 17 £m	30 June 2019 IAS 17 £m	**29 December 2019 IFRS 16 £m**	30 December 2018 IAS 17 £m	30 June 2019 IAS 17 £m
DFS	**993.9**	654.4	645.4	**(616.7)**	(251.2)	(236.6)
Sofology	**154.6**	90.7	91.0	**(131.3)**	(62.4)	(66.1)
Other segments	**39.3**	34.8	34.6	**(46.4)**	(35.5)	(37.4)
Total segments	**1,187.8**	779.9	771.0	**(794.4)**	(349.1)	(340.1)
Loans and financing	**-**	-	-	**(194.1)**	(190.8)	(194.0)
Financial assets/(liabilities)	**0.5**	9.2	7.7	**(4.5)**	(1.0)	(0.7)
Current tax	**-**	-	-	**(0.2)**	(2.6)	(0.8)
Deferred tax	**10.2**	6.6	8.7	**-**	-	-
Eliminations	**(36.1)**	(28.0)	(24.7)	**36.1**	28.0	24.7
Total Group	**1,162.4**	767.7	762.7	**(957.1)**	(515.5)	(510.9)

Segment assets comprises tangible and intangible non-current assets including goodwill and brand names, inventories, trade and other receivables, cash and cash equivalents. Segment liabilities comprises trade payables and current and non-current other liabilities and provisions.

	Additions to non-current assets			Depreciation and amortisation		
	29 December 2019 IFRS 16 £m	30 December 2018 IAS 17 £m	30 June 2019 IAS 17 £m	**29 December 2019 IFRS 16 £m**	30 December 2018 IAS 17 £m	30 June 2019 IAS 17 £m
DFS	**15.6**	14.3	24.5	**32.8**	11.2	19.5
Sofology	**5.5**	2.3	3.8	**9.3**	2.6	5.9
Other segments	**1.0**	0.9	1.1	**2.7**	1.5	2.8
Total Group	**22.1**	17.5	29.4	**44.8**	15.3	28.2

Additions to non-current assets includes both tangible and intangible non-current assets but excludes amounts arising on acquisition.

4. Operating profit

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

	26 weeks to 29 December 2019 IFRS 16 £m	26 weeks to 30 December 2018 IAS 17 £m	48 weeks to 30 June 2019 IAS 17 £m
Depreciation on tangible assets	**41.7**	13.0	23.3
Net gain on disposal of property, plant and equipment	**(0.5)**	(0.5)	(0.8)
Amortisation of intangible assets	**3.1**	2.3	4.9
Cost of inventories recognised as an expense	**212.1**	221.9	393.8
Write down of inventories to net realisable value	**(0.5)**	0.7	0.2
Other cost of sales variances	**(5.4)**	(3.7)	(10.2)
Operating lease rentals	**0.3**	40.7	73.6
Non-underlying items:			
Acquisition related professional fees	**-**	-	0.2
Estimated additional consideration	**-**	-	-
Integration costs	**-**	2.0	3.3
Restructuring costs	**-**	-	0.9
	-	2.0	4.4

Notes to the unaudited condensed consolidated financial statements

4. Operating profit *(continued)*

Acquisition related fees, additional consideration and integration costs arose in the prior year on the Group's acquisitions of Sofology Limited and certain assets from Multiyork. Restructuring costs relate to exceptional restructuring activity within the DFS brand and Group support centre, to align with the revised ways of working following the Sofology Limited acquisition.

5. Finance expense

	26 weeks to 29 December 2019 IFRS 16 £m	26 weeks to 30 December 2018 IAS 17 £m	48 weeks to 30 June 2019 IAS 17 £m
Interest payable on senior revolving credit facility	**(3.7)**	(3.8)	(6.8)
Bank fees	**(0.1)**	0.1	(0.2)
Fair value lease adjustment unwind	**-**	(1.4)	(2.7)
Unwind of discount on provisions	**-**	(0.1)	(0.1)
Interest on lease liabilities	**(14.9)**	(0.2)	(0.5)
Total finance expense	**(18.7)**	(5.4)	(10.3)

6. Taxation

The tax charge recognised in the interim financial statements has been calculated on the basis of the expected effective tax rate for the 26 weeks to 29 December 2019 of 20.5% (26 weeks to 30 December 2018: 21.2%; 48 weeks to 30 June 2019: 19.9%).

7. Earnings per share

	26 weeks to 29 December 2019 IFRS 16 pence	26 weeks to 30 December 2018 IAS 17 pence	48 weeks to 30 June 2019 IAS 17 pence
Basic earnings per share	**6.0**	13.1	8.6
Diluted earnings per share	**5.9**	13.0	8.4

	26 weeks to 29 December 2019 £m	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m
Profit attributable to equity holders of the parent company	**12.6**	27.8	18.1

	26 weeks to 29 December 2019 No.	26 weeks to 30 December 2018 No.	48 weeks to 30 June 2019 No.
Weighted average number of shares for basic earnings per share	**212,239,375**	211,794,944	212,008,955
Dilutive effect of employee share based payment awards	**2,630,951**	2,129,479	3,144,296
Weighted average number of shares for diluted earnings per share	**214,870,326**	213,924,423	215,153,251

Notes to the unaudited condensed consolidated financial statements

7. Earnings per share *(continued)*

Underlying earnings per share

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

	26 weeks to 29 December 2019 £m	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m
Profit attributable to equity holders of the parent company	**12.6**	27.8	18.1
Non-underlying items loss after tax	**-**	1.6	3.6
Underlying profit attributable to equity holders of the parent company	**12.6**	29.4	21.7

	26 weeks to 29 December 2019 IFRS 16 pence	26 weeks to 30 December 2018 IAS 17 pence	48 weeks to 30 June 2019 IAS 17 pence
Underlying basic earnings per share	**6.0**	13.9	10.3
Underlying diluted earnings per share	**5.9**	13.8	10.1

8. Dividends

	Pence per ordinary share	**26 weeks to 29 December 2019 £m**	26 weeks to 30 December 2018 £m	48 weeks to 30 June 2019 £m
Final ordinary dividend for FY18	7.5p	**-**	15.9	15.9
Interim ordinary dividend for FY19	3.7p	**-**	-	7.9
Final ordinary dividend for FY19	7.5p	**15.9**	-	-
		15.9	15.9	23.8

The directors have declared an interim dividend for the period ended 28 June 2020 of 3.7p per ordinary share to be paid on 17 June 2020. DFS Furniture plc shares will trade ex-dividend from 28 May 2020 and the record date will be 29 May 2020.

9. Financial instruments

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.

10. Seasonality of operations

The Group's business is subject to sales order peaks due to the effects of promotional periods and, historically, a significant proportion of its annual revenue has been derived from orders generated during specific promotional periods. Promotional periods are generally aligned with periods over which consumers seek to make more purchases.

Notes to the unaudited condensed consolidated financial statements

10. Seasonality of operations *(continued)*

The Group's most important trading periods in terms of order volumes have been in the promotional periods during the post-Christmas winter sale, Easter, the pre-Christmas guaranteed delivery period, and other public bank holidays. These increases in its order volumes (as opposed to its revenue, which is recognised upon completion of delivery, typically between three and 12 weeks after orders are placed) have generally been influenced, inter alia, by increases in the Group's spending on marketing and promotions in the period immediately prior to, and during, these promotional periods.

As a result of this seasonality of operations the results for the first half of the financial year are normally smaller than the second half.

11. Capital expenditure

	Property, plant and equipment £m	Computer software £m	Goodwill and brand names £m	Right of use assets £m
Net book value at 30 June 2019 (IAS 17)	89.9	10.5	528.5	-
Adoption of IFRS 16	(10.5)	-	-	445.0
Net book value as at 1 July 2019 (IFRS 16)	79.4	10.5	528.5	445.0
Additions	11.8	4.9	-	5.4
Disposals	(0.1)	-	-	(0.2)
Depreciation, amortisation and impairment	(12.9)	(2.4)	(0.7)	(28.8)
Net book value as at 29 December 2019	78.2	13.0	527.8	421.4

	Property, plant and equipment £m	Computer software £m	Goodwill and brand names £m	Right of use assets £m
Net book value as at 1 July 2018	91.8	6.9	530.0	-
Additions	15.1	2.4	-	-
Disposals	(0.4)	-	-	-
Depreciation, amortisation and impairment	(13.0)	(1.7)	(0.7)	-
Net book value as at 30 December 2018	93.5	7.6	529.3	-

12. Net debt

	30 June 2019 £m	**IFRS 16 transition £m**	**Cash flow £m**	**Other non-cash changes £m**	**29 December 2019 £m**
Cash in hand, at bank	29.8	-	17.4	-	**47.2**
Cash and cash equivalents	29.8	-	17.4	-	**47.2**
Senior revolving credit facility	(194.0)	-	-	(0.1)	**(194.1)**
Finance lease liabilities	(12.1)	(536.6)	29.0	(5.3)	**(525.0)**
Total net debt	(176.3)	(536.6)	46.4	(5.4)	**(671.9)**

	30 June 2018 £m	Cash flow £m	Other non-cash changes £m	30 December 2018 £m
Cash in hand, at bank	(8.2)	52.7	-	44.5
Cash and cash equivalents	(8.2)	52.7	-	44.5
Senior revolving credit facility	(205.7)	15.0	(0.1)	(190.8)
Finance lease liabilities	(8.7)	0.2	(3.3)	(11.8)
Total net debt	(222.6)	67.9	(3.4)	(158.1)

Notes to the unaudited condensed consolidated financial statements

13. Alternative performance measures

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

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

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. Definitions of APMs may vary from business to business and accordingly the Group's APMs may not be directly comparable to similar APMs reported by other entities.

Notes
From FY19, the Group changed its accounting reference date to 30 June and accordingly the statutory results for FY19 were for the 48 weeks ended 30 June 2019. To enable meaningful comparatives for reported key performance indicators, pro-forma figures for the 52 weeks ended 30 June 2019 have been presented. In accordance with IFRS interim reporting, the comparative figures for the 26 weeks ended 30 December 2018 (referred to as H1 FY19) have also been presented.

In FY20, the Group adopted IFRS 16 for the first time, which resulted in material changes to reported assets, liabilities and profits. Comparative figures were not restated, therefore key performance indicators and other alternative performance measures have been presented for FY20 on a consistent basis as for FY19, with lease costs treated in accordance with IAS 17. Reconciliations between IAS 17 and IFRS 16 bases are presented in Note 2 to the interim financial statements.

APM glossary and definitions

APM	Definition	Rationale
H1 FY20	26 weeks ended 29 December 2019 (unaudited)	Statutory interim period for the financial year ending 28 June 2020.
H1 FY19	26 weeks ended 30 December 2018 (unaudited).	Comparative period to H1 FY20 reported in accordance with IAS 34.
LTM FY19	Last twelve months/52 weeks ended 30 June 2019 (unaudited, pro-forma period).	A 52 week period is required to enable comparison to reported results for previous periods. The seasonal nature of the Group's activity means that many KPIs are only meaningful when assessed on a full year basis.
Gross sales	Amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes	Key measure of overall sales performance which unlike IFRS revenue is not affected by the extent to which customers take up the Group's interest free credit offering.

Notes to the unaudited condensed consolidated financial statements

13. Alternative performance measures *(continued)*

Like-for-like revenue	Revenue from all online and telephone channels and those retail showrooms which have been open for at least one full financial year and not identified as impacted by new showroom openings in the current or comparative period.	Provides insight into year on year changes in the underlying trading environment by excluding distortions from new showroom openings.
Year on two year	Comparison with the equivalent period the financial year before last, e.g. FY20 vs FY18.	Provides longer term trend analysis where year on year comparisons may be impacted by unusual events.
Brand contribution	Gross profit less selling and distribution costs, excluding property and administration costs.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA	Earnings before interest, taxation, depreciation and amortisation	A commonly used simple cash profit measure.
Non-underlying items	Certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA	Earnings before interest, taxation, depreciation and amortisation, as adjusted for non-underlying items.	Simple cash profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation PBT(A)	Profit before tax adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology, Dwell and Sofa Workshop.	Profit measure widely used by investors and analysts.
Underlying earnings per share	Post-tax earnings per share as adjusted for non-underlying items.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
Free cash flow	Sum of Underlying EBITDA, less gross capital expenditure and changes in working capital.	Measure of the cash flow generated by the Group beyond that required to invest in its business activities.
Leverage (or gearing)	The ratio of period end net debt to underlying EBITDA for the previous 52 weeks.	Key measure for banking facilities which indicates the relative level of borrowings to profit.
Return on capital employed (ROCE)	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.	Represents the post-tax return the Group achieves on the investment it has made in its business.

Notes to the unaudited condensed consolidated financial statements

13. Alternative performance measures *(continued)*

Reconciliations to IFRS measures

EBITDA	H1 FY20 £m	H1 FY19 £m	LTM Jun-19 £m
Operating profit	25.4	40.6	54.3
Depreciation	13.0	13.0	25.8
Amortisation	3.1	2.3	5.0
EBITDA (IAS 17)	41.5	55.9	85.1
Impact of IFRS 16	37.9		
EBITDA (IFRS 16)	79.4		

Underlying EBITDA	H1 FY20 £m	H1 FY19 £m	LTM Jun-19 £m
EBITDA (IAS 17)	41.5	55.9	85.1
Non-underlying operating items	-	2.0	5.1
Underlying EBITDA (IAS 17)	41.5	57.9	90.2
Impact of IFRS 16	37.9		
Underlying EBITDA (IFRS 16)	79.4		

Underlying profit before tax and brand amortisation – PBT(A)	H1 FY20 £m	H1 FY19 £m	LTM Jun-19 £m
Profit before tax (IAS 17)	19.8	35.3	43.6
Non-underlying items	-	2.0	5.1
Amortisation of brand names	0.7	0.7	1.5
Underlying profit before tax and brand amortisation (IAS 17)	20.5	38.0	50.2
Impact of IFRS 16	(3.9)		
Underlying profit before tax and brand amortisation (IFRS 16)	16.6		

Free cash flow	LTM Dec-19 £m	LTM Jun-19 £m
Underlying EBITDA (IAS 17)	73.8	90.2
Acquisition of property, plant and equipment	(17.5)	(19.4)
Acquisition of other intangible assets	(9.7)	(6.9)
Cash capital expenditure	(27.2)	(26.3)
Share based payment expense	2.7	2.6
Decrease/(increase) in debtors	2.0	(1.9)
Increase in inventories	(0.4)	3.2
Increase in trade and other payables	1.6	25.5
Decrease in provisions	(0.1)	(0.7)
Change in working capital	5.8	28.7
Free cash flow generation	52.4	92.6

Notes to the unaudited condensed consolidated financial statements

13. Alternative performance measures *(continued)*

Leverage	**LTM Dec-19 £m**	**LTM Jun-19 £m**
Underlying EBITDA (IAS 17)	73.8	90.2
Period end net debt (IAS 17)	160.4	176.3
Leverage (net debt/underlying EBITDA)	2.17x	1.95x

Net debt (IAS 17)	**30 June 2019 £m**	**Cash flow £m**	**Other non-cash changes £m**	**29 December 2019 £m**
Cash in hand, at bank	29.8	17.4	-	47.2
Cash and cash equivalents	29.8	17.4	-	47.2
Senior revolving credit facility	(194.0)	-	(0.1)	(194.1)
Finance lease liabilities	(12.1)	2.3	(3.7)	(13.5)
Total net debt	(176.3)	19.7	(3.8)	(160.4)

Return on capital employed	**LTM Dec-19 £m**	**LTM Jun-19 £m**
Operating profit (IAS 17)	39.1	54.3
Non-underlying operating items	3.1	5.1
Operating lease charge (IAS 17)	80.7	80.2
Pre-tax return	122.9	139.6
Effective tax rate	*20.5%*	*19.0%*
Tax adjusted return (A)	**97.7**	**113.1**
Property, plant and equipment (IAS 17)	92.2	89.9
Computer software	13.0	10.5
	105.2	100.4
Inventories	50.8	54.8
Trade receivables	5.5	9.1
Prepayments	18.0	22.8
Accrued income	0.9	0.6
Other receivables	0.3	0.3
Payments received on account	(40.5)	(42.2)
Trade payables	(107.8)	(106.9)
Working capital	(72.8)	(61.5)
8 times lease charge	645.6	641.6
Total capital employed (B)	**678.0**	**680.5**
ROCE (A/B)	**14.4%**	**16.6%**

Notes to the unaudited condensed consolidated financial statements

This interim report, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at www.dfscorporate.co.uk

This interim report contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Company and the industry in which the Company operates. These statements may be identified by words such as "may", "will", "shall", "anticipate", "believe", "intend", "project", "goal", "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions for the negative thereof; or by forward-looking nature of discussions of strategy, plans or intentions; or by their context. No representation is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. All statements regarding the future are subject to inherent risks and uncertainties and various factors that would cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company nor any other person accepts any responsibility for the accuracy of the opinions expressed in this interim report or the underlying assumptions. Past performance is not an indication of future results and past performance should not be taken as a representation that trends or activities underlying past performance will continue in the future. The forward-looking statements in this interim report speak only as at the date of this interim report and the Company expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in the Company's expectations in regard thereto or any change in events, conditions or circumstances on which any statement is based after the date of this interim report or to update or to keep current any other information contained in this interim report or to provide any additional information in relation to such forward-looking statements. Undue reliance should not therefore be placed on such forward-looking statements.