DFS Furniture plc

Annual Report & Accounts 2020

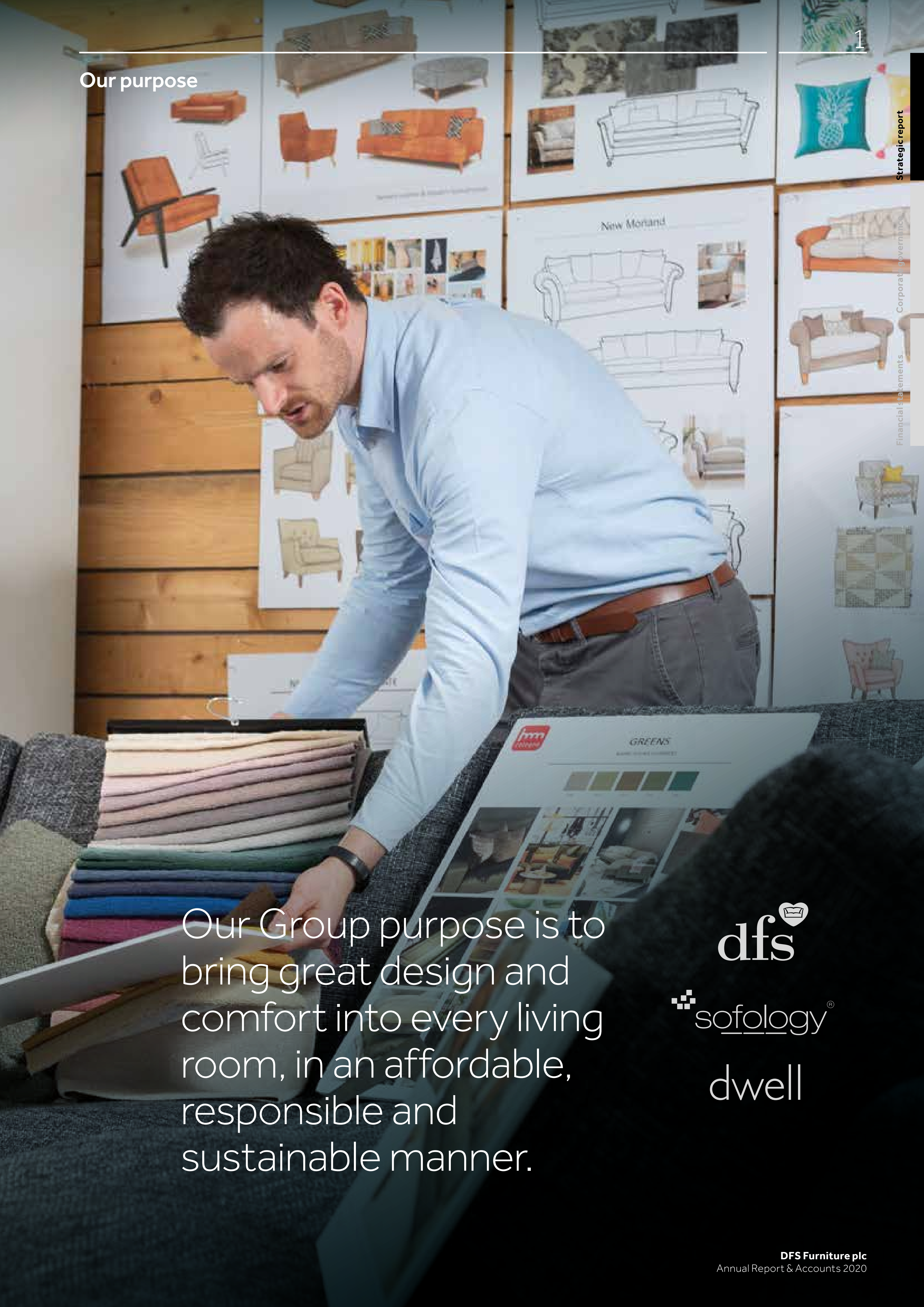
dfs

sofology®

dwell

DFS Furniture Group is the largest sofa retailing specialist in the UK

Investing in our **Purpose...**



Our Group purpose is to bring great design and comfort into every living room, in an affordable, responsible and sustainable manner.

Our customers and our people are at the heart of everything we do, reflected in our three core values

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

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

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

For over 50 years, we have provided millions of sofas into homes across the UK, the Republic of Ireland, Spain and the Netherlands.

Highlights

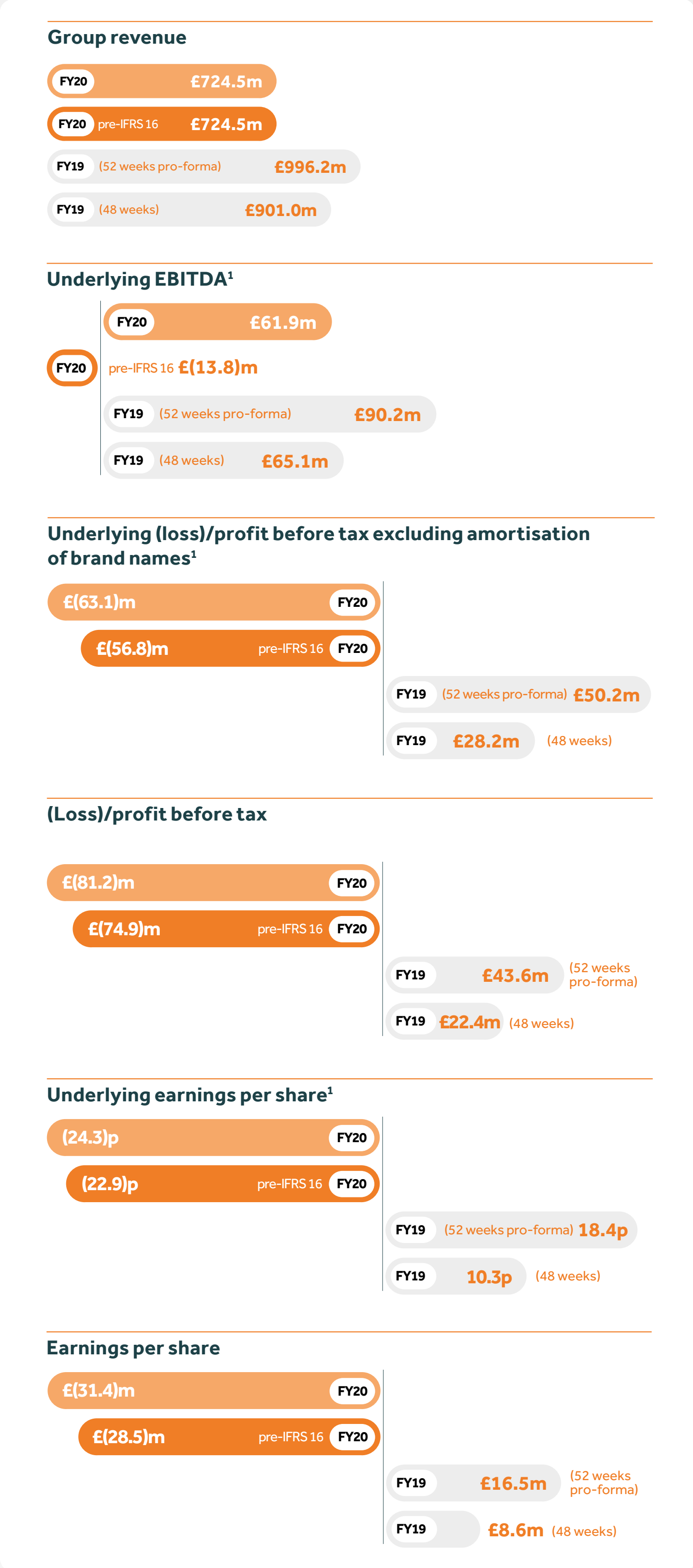
We continue to make progress on our strategic agenda focused on driving the DFS core business, further developing our Group platforms and setting Sofology up for future growth.

Financial highlights

The Group has implemented IFRS 16 for the first time in FY20. To aid comparison with prior years, unaudited financial measures excluding the impact of IFRS 16 are presented alongside reported results.

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

Definitions and reconciliations of these alternative performance measures can be found on page 158.



1. Refer to pages 158 to 160 for further information on alternative performance measures.

Operational and strategic highlights

Comprehensive response to Covid-19, protecting colleagues, customers and the long-term value of the business.

Further progress with our strategy to lead sofa retailing in the digital age:

Drive the DFS core

- Investment in digital and showrooms to drive DFS omnichannel journey
- Online order intake during lockdown and showroom performance since reopening highlight resilience of digital infrastructure and customer demand for both channels

Build the platforms

- Development of a group-wide, best-in-class platform underway with the rollout of the Sofa Delivery Co. and Stockwise

Unlock new growth

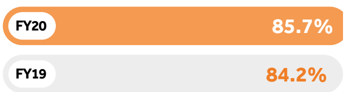
- Store roll-out accelerates at Sofology; strategic restructuring of small brands to improve returns

Further development of our ESG strategy, which is embedded in the business.

Strong trading online during lockdown, which has continued into the new financial year both in showrooms and online.

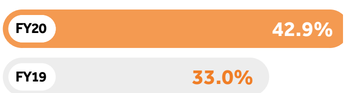
Post Purchase NPS[2]

85.7%



Established Customer NPS[2]

42.9%



2. Net Promoter Scores are for the DFS brand.

What's in our report

Strategic report

1-63

Our purpose	1
Highlights	4
What makes us unique	6
Our brands	8
Chair's statement	10
Chief Executive's report	12
Working together	16
Market overview	18
Our customer journey	20
Business model	22
Strategy	24
Strategy in action	26
Risks and uncertainties	32
Key performance indicators	40
Financial review	42
Sustainability and responsibility report	48
Section 172 statement	60

Corporate governance

64-119

Board of Directors	64
Corporate governance report	66
Audit Committee report	76
Nomination Committee report	82
Directors' remuneration report	84
Directors' report	106
Statement of Directors' responsibilities in respect of the annual report and the financial statements	110
Independent auditor's report	111

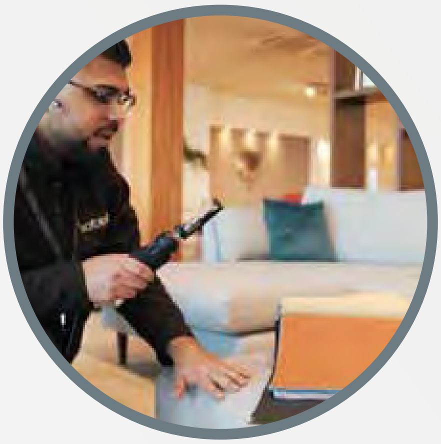
Financial statements

120-161

Consolidated income statement	120
Consolidated statement of comprehensive income	121
Consolidated balance sheet	122
Consolidated statement of changes in equity	123
Consolidated cash flow statement	124
Notes to the consolidated financial statements	125
Company balance sheet	152
Company statement of changes in equity	153
Notes to the Company financial statements	154
Financial history	157
Alternative performance measures	158
Shareholder information	161

What makes us unique

Our strategy is to be the leading sofa retailer in the digital age, meeting customer expectations, stakeholder demands and delivering growth whilst integrating sustainability into the way we do business.



Vertical integration

We design, retail, manufacture, deliver and carry out after-sales servicing.

We have a network of showrooms across the UK, Ireland and parts of Europe and market-leading websites so we can offer customers a seamless omnichannel experience.

We manufacture around a quarter of all Group sofas in the UK across our own five factories and wood mills. We operate our own distribution network, with more than 20 distribution centres, around 370 delivery vehicles and 600 delivery colleagues who carefully install our products into customers' homes.

Our team of 235 service managers address any after-sales issues and deliver high levels of customer satisfaction.

UK factories

5

Portfolio of complementary brands

We operate three separate brands: DFS, Sofology and Dwell.

Our brands are complementary – they appeal to different customer segments and allow us to target the majority of the market and deliver organic market share growth.

Each brand curates their own ranges, supported by specialist in-house design teams.

Creative direction is managed by each brand team who operate independently from their own head offices.

UK showrooms nationwide

196

Well invested omnichannel platform with unrivalled scale

We invest in our business for the long term.

With a 34% market share across the Group, we are over three times the size of our nearest direct competitor.

We continue to invest in technology to improve our websites and enhance our range of online services, including augmented reality visualisation tools and live "in-store" communications.

All our brands have a national network of well-invested showrooms with highly motivated and well-trained sales colleagues. With the launch of The Sofa Delivery Co., we're developing a fully integrated Group-wide supply chain platform and delivering a range of efficiencies.

Group market share

34%

“The way our people responded to this crisis was nothing short of exemplary, and I cannot thank them enough for their spirit, engagement and hard work.”

Tim Stacey, CEO

Our people

We would not be the market leader without our 5,000+ talented and enthusiastic colleagues.

We continue to be rated one of the best companies to work for in the UK with consistently high levels of employee engagement.

Our award-winning apprenticeship schemes support individuals to become highly skilled in specialist occupations and develop long-term careers with the Group.

Group colleagues

5,372

Partnered with waste recycling experts Clearabee

Our new Environmental, Social and Governance (ESG) strategy launches in the current year.

Building on current initiatives such as our Sofa Rescue partnership with Clearabee and PlanTree reforestation initiative, our new strategy incorporates specific multi-year targets for our brands across key areas of the business including sourcing, packaging, recycling, energy efficiency, gender diversity and flexible working.

Furniture pieces diverted from landfill

>33,000

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

Joules Ashwicke

- DFS is the leading retailer of sofas in the UK with over 50 years' heritage
- Headquartered in Doncaster it operates 117 showrooms in the UK and Republic of Ireland, eight across Spain and the Netherlands and a leading web platform
- The brand is promotionally led with broad reaching advertising campaigns that drive brand recall and focus on comfort and value for money
- Its customers tend to have average national income and a high proportion are young families
- As one of the UK's most visible retail brands, DFS is often an anchor tenant driving significant footfall to destination retail parks
- DFS is the most commonly searched term online in the sector, ahead of even "sofa", and its website received an average of 1.9m unique visitors each month in the 12 months to June 2020
- Sofa orders are fulfilled on a made to order basis

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

Revenue

FY20		£535.2m
FY19	(52 weeks pro-forma)	£721.7m
FY19	(48 weeks)	£650.6m

Number of showrooms

125

FY19	125

sofology

- Sofology is the third largest retailer of sofas in the UK
- Headquartered near Warrington it trades through its growing national footprint of 45 showrooms and its website
- Its marketing approach focuses on emphasising product design and quality
- The use of well known celebrities in its TV and digital adverts has helped build its brand awareness and distinctiveness
- The brand appeals to a slightly more affluent than average customer
- Utilises a strong omni-channel model that enables the customer to start building a basket in showroom for completion there and then or once they are back at home
- Its products are made to order

Islington

Revenue[2]

FY20	£143.7m
FY19 (52 weeks pro-forma)	£205.9m
FY19 (48 weeks)	£187.7m

Number of showrooms

45

FY19	42

dwell

- Dwell sells stylish, modern furniture, lighting and home accessories
- Dwell's products are on display in 39 DFS showrooms as well as on its own standalone website
- Its customers tend to be affluent and slightly older families in the 35-55 age range
- In contrast to the rest of the Group, Dwell operates a stocked model from its Milton Keynes national distribution centre allowing for short customer lead times

Bergen

Tabula

Financial and operational resilience in a challenging year

Ian Durant
Non-Executive Chair

2020 highlights

- Fast and decisive action in response to Covid-19; temporary suspension of business drives loss before tax for the year
- Strong trading online during lockdown, which has continued into the new financial year both in showrooms and online
- Good strategic progress with the focus on DFS and Sofology
- Sale of Sofa Workshop and restructuring of Dwell completed early in the new financial year
- Development of phase one of our Group Environmental, Social and Governance agenda

Overview

This has been an extraordinary year, unprecedented in the challenges posed by the closure of our showrooms, manufacturing and delivery capabilities for almost three months of our peak Spring trading period. During this period, the majority of our colleagues were furloughed and the small team which remained worked from home.

I applaud the response of our people in managing the closure of our operations in late March, looking after colleague welfare and planning and executing the reopening of the business at the start of June.

During the peak of the Covid-19 pandemic the Board met frequently to provide support and guidance to the Group Leadership Team. This included assisting with making the key tactical decisions required to secure the operational and financial position of the Group, including agreeing arrangements with landlords and suppliers to manage our cashflow, increasing the Group's banking facilities and raising new equity financing.

Strategy progress

In the first full financial year since its launch, we have continued to progress the implementation of the Group's strategy to be the leading sofa retailer in the digital age. In particular, a number of new initiatives have been launched to further develop the omnichannel proposition of the largest brands, DFS and Sofology. Progress has also been made on leveraging DFS's existing assets to support improved returns on capital through sharing retail space and logistics assets to support Sofology's expanded presence across the UK. Having proved our ability to do this, including the integration and development of the supporting information systems and processes the Group is well positioned to replicate this approach across the UK and the Republic of Ireland over the next two years.

Financial results

At our half-year trading update we reported that Group revenues were down 5.7% in the first half against the strong prior year comparative; however, importantly, order intake was up year-on-year in the second half, with a particular strength in the DFS brand. This remained the position and the Group, excluding the underperformance of Sofa Workshop, was on track to broadly meet market profit expectations for the full year until the Covid-19 pandemic took hold in late March. Then, in line with government requirements, all UK operations excluding our web platform were suspended from 23 March. Our showrooms, manufacturing facilities and delivery network closed for almost three months, resulting in a revenue shortfall of c.£270m which led to a reported loss before tax for the year of £81.2m.

Covid-19 pandemic closedown

The reaction of the business to the pandemic was fast and effective. After pausing operations overnight, additional communication channels were established to ensure colleagues remained fully informed of the developing situation and the impact of the business' 'hibernation'. Almost 90% of colleagues were furloughed and around 500 remaining colleagues worked tirelessly to manage the impact on the business. Expenditure was minimised and, in order to increase financial resilience, in April 2020 the executive team secured an incremental £70m twelve month debt facility from our banks to supplement our existing lending arrangements, and we also raised £63.9m in new equity financing from a share placing the same month.

I would also like to express our thanks to the Group's many stakeholders for their support through this challenging period. This includes the Government for providing broad support including the Coronavirus Job Retention Scheme, and many of our larger suppliers and landlords, who agreed to payment deferrals.

Re-establishing our operations

The DFS and Sofology brands traded well online throughout the lockdown period. Benefitting from continued investment over numerous years, as we shared in our July trading statement order intake across the online channels was up 77% year-on-year from the beginning of lockdown to 12 July 2020.

Most of the Group's customers still choose to visit our showrooms, so they can experience the look and feel of our products, as well as the all important "comfort test", before committing to a purchase. During lockdown the executive team worked hard to put in place all the steps necessary to safely welcome back employees and customers into our showrooms and restart our manufacturing and delivery operations with appropriate safety measures. To facilitate the re-opening, we implemented strict social distancing and hygiene measures and introduced a new appointment system for customers which has proved popular.

Since re-opening in June, we have been pleased to see a significant increase in customer orders, which has been sustained into the first three months of the new financial year. We believe this reflects both latent demand from the period of closure and a renewed focus and enthusiasm amongst customers for enhancing the comfort of their homes.

The high level of orders, combined with constrained deliveries through June as operations gradually recommenced, resulted in a higher than normal order bank at the end of the year. The Group therefore entered the new financial year with good momentum.

We are very aware of the ongoing economic uncertainty and have decided to focus our efforts more closely on the development of the DFS and Sofology brands, which we believe provide the greatest opportunities for growth. To facilitate this we have, since the end of the financial year, completed the sale of Sofa Workshop and integrated the management of the Dwell retail team into DFS to reduce costs and help it become a more profitable part of the Group. Unfortunately, the consequence of this is the loss of a number of colleague roles from the business.

We recognise the environment in the new financial year, is likely to be highly challenging, and may require rapid changes in our ways of working to adapt to the continued impact of Covid-19. The Board and Executive have adopted a shorter, more frequent planning cycle to reflect this heightened risk. I am confident given the pace at which the Group has responded to recent challenges we have the right team and structures in place to manage these risks.

Our purpose, our values and our people

The Group, which is the outright market leader in its sector in the UK, has a distinctive culture. There is a great sense of pride, commitment, and a "can-do" attitude amongst the people that work across the business. Our purpose, built on our values, is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner.

That our people live our values has been evident from their dedication and enthusiasm over the past year. Aside from the pandemic there is a significant amount of change going on within the Group and I commend our employees for their commitment and determination to see through the numerous projects that are underway.

Environmental, Social and Governance ("ESG")

With the support of the Board, the Group Leadership team has spent a considerable amount of time and effort developing phase one of the Group's ESG strategy. Our ambition is to leverage our influence and scale as market leader to offer sustainable and ethical products and to drive a more circular product lifecycle. This starts from sourcing and manufacturing, through to retailing and delivery before then ensuring the collection and responsible disposal of products at the end of their useful lives.

As a result, we expect to become more efficient, competitive and innovative without margin dilution to support the long-term sustainability and profitability of the Group. We believe this approach to sustainability is expected by our customers and indeed embedding sustainability into everything we do is a key priority for the future.

We are well aware that there is much to be done, and the team has been on a journey to first understand, through independent audits, our current situation in relation to sourcing, energy consumption, waste products and our people. We have then developed what we consider to be stretching but realistic targets and plans to achieve these.

We launched four key initiatives in the year: our wood and leather sourcing strategy; reduction and recycling of packaging; our 'sofa rescue' service to reduce the amount of waste product entering landfill; and our tree planting initiative working with the Woodland Trust. There are many other work streams underway – more detail on these and our targets can be found on pages 48-59.

I am proud of the work done by our colleagues across the Group to support the incredible work of the NHS during the height of the health crisis. Support was provided to 50 NHS hospitals across the UK, by donating and delivering sofabeds, sofas and recliners to allow health workers to enjoy much needed rest whilst remaining on site between shifts to support patients.

The Board

In September 2019, Alison Hutchinson succeeded Luke Mayhew as Senior Independent Director, prior to his retirement from the Board at the AGM in November. In January, Steve Johnson succeeded Alison as Chair of the Remuneration Committee. In January 2020 we welcomed Jane Bednall to the Board as a Non-Executive Director. Jane has subsequently taken on the role as our designated Non-Executive Director as we look to further strengthen the Board's understanding of employee views.

The Board's focus in the year has been to drive the implementation of the Group's strategy through providing oversight, support and challenge to the Group Leadership team. Although interrupted by the sudden and extreme impact of Covid-19 closure, the Group's strategic direction remains intact and steps have been taken to accelerate changes which we anticipate will enhance the Group's UK market leadership position and profitability.

More details on the Board's activities can be found on pages 66 to 75 in the Corporate Governance Report and Section 172 Statement on pages 60 to 63.

Dividend

As a result of the uncertainty driven by the pandemic, we took the decision to cancel the interim dividend. Whilst trading has been strong since the lockdown measures eased, we remain cautious around the continued potential impacts of Covid-19 on operations and the macro-economy. While the terms of the incremental banking facility secured in April preclude payment of a dividend at the current time in any event, we would not have otherwise sought to recommend payment of a final dividend in respect of the FY20 financial year as we seek to maximise the financial resilience of the Group.

Looking ahead

The Group's scale economies, brand heritage, vertical integration and financial strength position it well for what is, as noted in the Chief Executive's outlook, likely to be a tough trading environment. This strength has enabled the Group to grow its market share during previous times of economic challenge as less resilient competitors exited the market, for example during the global financial crisis of 2008/9.

In these uncertain times we need to be cautious and alert to the unexpected. It is impossible to predict the impact of the political, social and economic developments we are seeing. Notwithstanding these challenges, the Board is confident that the strength and resilience of the business places the Group in a relatively strong position over the long term and well placed to manage these market uncertainties. We remain committed to developing the Group to drive shareholder returns, have a positive impact on our society and continue to provide a rewarding place for our people to work and believe these aspirations are mutually compatible.

Ian Durant
Chair of the Board
24 September 2020

Our strategy, to lead sofa retailing in the digital age, is more relevant than ever.

Tim Stacey
Chief Executive Officer

2020 highlights

- Loss before tax of £81.2m as a direct result of business suspension during lockdown
- Comprehensive response to Covid-19, protecting colleagues, customers and the business
- Acceleration of growth strategy focused on DFS and Sofology
- Good progress on cost efficiency
- Development of our ESG strategy, which is embedded in our business
- Very strong demand since reopening

Overview

The decision to close our business down for the first time in 50 years on 23 March 2020, based on the Government guidance, was momentous but clearly necessary. We moved swiftly to protect colleagues and customers by temporarily closing all showrooms, manufacturing and distribution operations.

The way our people responded to this crisis was nothing short of exemplary, and I cannot thank them enough for their spirit, engagement and hard work throughout lockdown, ingredients that enabled us to come through the crisis. We also really appreciated the support we received from our key stakeholders, including our shareholders, our banking partners, our suppliers and our landlords. With their collective support, and the actions we have taken, I am very confident that the Group has emerged even stronger from this unprecedented period.

Re-opening the business safely has been a huge undertaking and we have put colleague and customer safety first. The careful re-opening through late May and June, together with the disruption through lockdown itself, has clearly impacted the financial performance in the year with revenue for the 52 weeks to 28 June 2020 declining by £271.7m to £724.5m compared to the 52 week unaudited pro forma prior year period.

This reported performance is based on the fact that the Group recognises revenues at the point of delivery of orders to customers, and consequently second half financial performance was particularly adversely affected. The Group traded very well online, but government lockdown restrictions from 23 March severely restricted customer deliveries for much of the remaining period.

Underlying loss before tax excluding brand amortisation[1] for the year on a pre-IFRS 16 basis was £56.8m compared to a profit of £50.2m in the comparative period. We ended the year with net debt on a pre-IFRS 16 basis[1] of £169.2m (2019: £176.3m), after raising £63.9m from shareholders as part of our measures to build financial resilience in response to the pandemic.

Since the year end, net debt has reduced significantly, due to a combination of the resumption of customer deliveries and very strong order intake, which has exceeded our expectations in the first few months of the new financial year. We have reviewed extensive external and internal data and we believe that the current level of performance is due to a combination of latent demand post lockdown, a shift of consumer behaviour towards spending on "home", the relative strength of our omni-channel offer and competitor market exits.

Based on data from Global Retail the upholstery market was relatively flat for three years from the start of 2017 to the end of 2019, driven by low consumer confidence and a subdued housing market caused by political uncertainty and relative macro economic weakness. There appeared to be some green shoots in the market after the December General election, pre-lockdown, as conversion and Average Order Value improved post Boxing Day, although footfall and web visitors remained fairly depressed.

Post-lockdown there appears to be a shift upwards in the market cycle, but it is only a few months of trading, and macro economic storm clouds are gathering, together with the next phase of Brexit and the threat of further disruption from Covid-19. Indeed, the current out-performance could be "pull forward" from the autumn as consumers fear a second wave of the virus. It is therefore impossible to call as to how sustainable this trend might be, and as such, to predict the future from the autumn onwards would be speculative at best. That said, given the start to the new financial year and the relative strength of our proposition, we are well positioned to take advantage if the current trends continue and we can also cope with potential further disruption.

1. Refer to pages 158 to 160 for APM definitions

> "I am so proud of, and grateful to, every single one of our colleagues and stakeholders for the way in which we managed through the lockdown."

Prior to the arrival of Covid-19, we were making good progress on our strategic initiatives, despite the continued challenges from the relatively flat market. During lockdown we reflected on our progress, given the acceleration in consumer behaviour towards online shopping, and the underlying strengths of our well-invested omnichannel platform and unrivalled industry scale.

As I outline below, since the year end, we have taken further actions to reinforce the structure of the Group and we will continue to invest in core assets and key initiatives which support our long-term strategy and deliver improved shareholder returns.

Managing the Covid-19 pandemic

Our company values, allied to our rigorous risk management framework, helped shape our response to the Covid-19 pandemic. From January, Covid-19 evolved rapidly from a predominantly regional concern, disrupting our Chinese imports, to an international crisis affecting many elements of daily life, including every aspect of our own Group activities.

As the pandemic spread into the UK, our first actions were to prioritise the health and safety of our colleagues and customers. On 23 March, we closed all our showrooms, manufacturing and distribution operations in the UK, Republic of Ireland and Spain and immediately suspended all customer deliveries, with health concerns paramount. Despite severe restrictions on physical operations, we continued to support close to 5,000 furloughed colleagues at a time of growing financial uncertainty, fully protecting salaries in April and maintaining salaries at 80% of full pay until colleagues returned to work, in excess of Government salary caps. In solidarity with our teams on furlough, all our Group's senior leadership, including our Board Directors and senior executives, agreed an equivalent salary reduction.

We also amended our sick pay policy to take account of Covid-19 risks and the salaries of the Group's senior executives and Non-Executive directors were reduced while operations were suspended. We also provided valuable well-being support to employees via numerous avenues including our employee assistance helpline and The DFS Living Well Workplace platform. Government restrictions on our business began to be eased from the end of May, and our own operations resumed once we were confident that we had the correct measures in place to protect our colleagues and customers.

Safety concerns addressed, aided by our Group-wide Google technology infrastructure to facilitate remote team-working, we were able to enact recently updated business continuity procedures in order to protect the health of the business. We undertook a thorough financial review, significantly reducing expenditure, deferring new store openings and utilising the UK government's business rates holiday and the Coronavirus Job Retention Scheme to manage costs and cash.

In relation to key external stakeholders, we aimed to act with integrity in relation to our suppliers and landlords. Recognising their existential challenges, we prioritised payments to smaller, key long-standing suppliers. We acknowledge the support of our strongest landlords and suppliers in allowing us to secure temporary improvements to our payment schedules.

Our investors also deserve recognition for their support during the pandemic. With cash flows temporarily constrained as lockdown restrictions prevented us from delivering our growing customer order bank, we were able to secure a temporary £70m extension to our banking facilities. Our largest shareholders also participated in a £63.9m share placing which was also supported by our Board members. As dividend payments have been suspended to help manage the financial impact of the pandemic, we acknowledge our shareholders' support and will aim to recommence payments once the macroeconomic outlook is more certain.

At a time of unprecedented challenge, I have greatly admired how our various stakeholders and management teams have been able to work calmly together, allowing us to operate safely and preserve the long term value of the Group. The power of strong relationships is something that we value highly as a Group.

Review of strategic progress

The far-reaching consequences of the pandemic underline more than ever the importance of fully embracing digital channels as online penetration accelerates across the retail sector. In the upholstery market we believe that it is the combination of digital and the physical aspects of our showrooms that will continue to be successful . We know from our research that 90% of sofa buying decisions are made in the showrooms after the all important "sit test" as "comfort" is the number one reason why customers choose to buy a sofa or not. Showrooms are therefore at the centre of our business model and as such we believe that the Group is well placed if consumers reprioritise the home within their lifestyles and spending patterns.

Our strategy, to lead sofa retailing in the digital age, aims to generate, as previously announced, £40m of incremental profit before tax relative to FY18 and excluding the impact of normal market growth/decline, by focusing on three core pillars: (i) to drive the DFS core brand, (ii) to build group platforms to maximise efficiency, and (iii) to unlock new profitable channels of growth.

Drive the DFS core

The DFS brand is the largest and most profitable in the Group and the key priority of our strategy is to focus on driving this brand across all channels. We continue to invest in our infrastructure in order to further improve our omnichannel customer journey.

With a strong online offer and well-invested showrooms, DFS is well positioned to compete across all channels. Prior to the Covid-19 pandemic, our recent market research showed that 85% of customers began their sofa buying research online, with around 90% of customers subsequently visiting a showroom to conduct a "sit-test" before completing their purchase. As such we believe that the combination of digital and physical showrooms is the right business model for the upholstery sector.

We were pleased, however, to see that we could trade well online, even without the benefit of showrooms during the lockdown period. This performance underlines the strength of the DFS brand and our online proposition, as well as our reputation for supplying good value products.

Our showrooms performed strongly as they reopened in the final weeks of the financial year. This trend has continued into the current financial year, together with high levels of growth through our online channels. Our online penetration of total orders is up 3ppts to 22% over the last six months.

A greater proportion of our advertising expenditure was spent on digital marketing as we worked with Facebook, Instagram and Pinterest to develop increasingly targeted customer campaigns. We also improved our on site search capabilities, being the first sofa retailer in the UK to introduce "visual search". This functionality enables customers to take photos of any sofa they see in any setting and then compare that to our extensive ranges.

In the first half of the year, we re-platformed the DFS website onto Google Cloud, enabling improved functionality, a faster user experience and 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

Chief Executive's report continued

home, we've launched a second generation service with a new software partner and have been increasing the number of ranges available on this service. These initiatives have had a positive impact, particularly when showrooms were closed during the lockdown period.

We continued to invest in our showrooms in the year, equipping our sales colleagues across the showroom estate with 1,200 new Google Chrome tablets. The tablets enable rapid access to key information in a convenient and secure way, utilising customer data from their online account with us 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 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.

We continue to track customer satisfaction by monitoring Net Promoter Scores (NPS) at various stages of the customer journey. Our post purchase NPS score for the DFS brand was 85.7% (FY19 84.2%). Our established customer satisfaction score improved significantly to 42.9% (FY19 33.0%). This increase was driven by a combination of better digital communication with customers post purchase, improved product quality and new digital tools enabling customers to book their own delivery and access customer service and help.

We're using our data more efficiently to deliver timely insights into consumer trends and drive more effective product development. We continue to see above average sales growth from our licensed sofa brands including French Connection, House Beautiful, Country Living and Joules, with successful new model introductions driving sales as they roll out across the DFS store estate.

Towards the end of the financial year, we also introduced the DFS Chair Edit – a series of new colourful accent chairs that complement existing sofa product ranges and allow customers to indulge their own design talents and create a coordinated living room look. In the current year, we have recently launched new ranges targeting busy families and to attract additional style-focused customers with our exclusive Halo Luxe partnership, which showcases the very best leather products.

We are making great progress in modernising and driving the DFS core business and this remains the key priority of our strategy. We look forward to continuing our investment, particularly in digital capability, as the year progresses, as we look to strengthen DFS's market-leading position.

Build the platforms

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

We continue to make good progress securing property savings, through a combination of rent reductions on leases approaching renewal and downsizing some showrooms. Last year we secured a further £1.4m of annualised savings, bringing the total annualised saving since the program began to £4.3m. We are confident of achieving the £6-8m targeted annual savings by FY23 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. We are also well placed to strengthen our portfolio during a period of market disruption affecting our competitors.

We continue to seek efficiencies from our Customer Distribution Centre (CDC) network, with some of our CDCs now delivering multiple Group brands after a successful trial. In the year, we relocated our Belfast CDC from our retail site into a new standalone location, repurposing the space to house more of our brands with minimal incremental rent. Our relocated Belfast CDC now delivers more of our brands' products to customers' homes on the same vehicles under our 'The Sofa Delivery Co' branded group delivery network. This network will enable us to provide better and more consistent service to our customers at a lower cost to the Group by: increasing utilisation of our delivery fleet and reducing carbon emissions; reducing CDC operating costs; and leveraging DFS's proprietary routing and scheduling optimisation software. 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+.

To improve customer experience, we have trialled seven days a week and later evening delivery slots in our Glasgow CDC. As well as providing greater customer convenience, the change in shift patterns has also generated positive feedback from our colleagues in relation to work life balance and rest periods. We are considering extending this trial to all CDCs over the next 24 months.

We target continuous incremental improvements in our customer facing technology platforms. In the year, we enabled DFS customers to book their delivery and installation slots online. Around fifty percent of our customers now use this online functionality resulting in both higher NPS scores and increased efficiency. Customers can also now track where their delivery vehicle is, in real-time, on the day of delivery.

Marketing has been a traditional DFS strength and a major area of investment for the group. However, we believe we can drive significant efficiencies by using increasingly granular data-led analysis, particularly in relation to our digital marketing investment. With the support of our expert partners, we have identified optimum amounts of investment by brand for the current financial year, which will be regularly reviewed to reflect prevailing market conditions.

Going forward we are reviewing our own manufacturing capacity and capability given our growth plans for both DFS, Sofology and Dwell, the clear margin benefits of vertical integration and the potential for increased control of end to end supply chain.

We recognise that world class retail businesses are moving to become more platform-based in order to enable future profitability and extract cost efficiencies. We are making good progress on our platforms and intend to deliver all of the cost savings identified by Financial Year 2023.

Unlock new growth

The third pillar of our strategy is 'unlock new growth' which targets profitable growth from our other brands. Most recently this was reflected in the acquisition of Sofology in 2017 for £25m, following on from opportunistic acquisitions of Dwell and Sofa Workshop in 2013 and organic expansion in the Netherlands and Spain .

Recent operational challenges, weaker results and the uncertain retail outlook, have led us to review our Group structure and re-assess the prospects of certain smaller Group businesses. As we recover from the pandemic, we believe that it is important that the Group retains the financial resilience to weather a period of economic uncertainty, and that the investment in individual brands matches future returns prospects. With a leaner, simplified structure, we believe the Group will be best placed to maintain its leading market position, while taking advantage of the significant Sofology profit growth opportunity.

Sofology

We plan to accelerate the development of Sofology, and see significant scope to expand the number of showrooms in the UK, driving further economies of scale. We were encouraged by the performance of Sofology during the year, particularly the online channels during the lockdown period and as showrooms re-opened towards the end of the financial year.

Sofology continues to lead the sector with its seamless omnichannel journey, and made further progress in this area in the last financial year. Recent developments include website enhancements such as a 'go-in-store' capability, whereby a customer browsing online can be connected to a colleague in a showroom via video, 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 throughout the year.

We have developed significant new product ranges and refreshed the existing offer through the addition of new coverings. These new collections have been successful in driving improved Average Order Values and gross margins, and as such are driving strong sales and margin growth year on year post lockdown.

Sofology's NPS continues to benefit from investment in product quality and after sales service. Colleague engagement scores have also continued to improve and attrition has reduced significantly.

Sofology opened three new showrooms in the period including its first store in Northern Ireland. Despite disruption due to lockdown measures, we remain encouraged by the new store performance.

We continue to see the opportunity to grow the Sofology brand to 65-70 outlets in the medium term. In the current year, taking advantage of favourable lease terms, we are seeking to accelerate the showroom opening programme and plan to open 6-10 new showrooms in the next twelve months.

Sofa Workshop and Dwell

The disappointing performance by Sofa Workshop we outlined in our interim results deteriorated further in the second half. Following our strategic review, we decided to sell Sofa Workshop and the transaction was finalised and announced in August.

In a competitive homewares market, Dwell also reported a decline in sales and brand contribution during the year. We have restructured the Dwell operating model to enable its wide range of attractive products to be sold more seamlessly to DFS customers, as well as online. We believe that Dwell has a complimentary proposition to our sofa brands and is now set up to deliver profitable growth going forward.

International

Prior to lockdown, the performance of our six Netherlands showrooms was in line with expectations and we expect to conclude our review on growth options for this business in 2021. Our two Spanish showrooms continue to perform well despite potential uncertainty from the Brexit, which may have some effect in the areas they are located.

People, purpose and values

FY20 placed significant demands on our Group colleagues, including managing uncertainties around the government furlough programme, or working extended hours from home alongside domestic pressures and perhaps coping with anxiety around Covid-19. Using a variety of means, we have aimed to support our colleagues from a financial and wellbeing perspective as much as possible during this period. I genuinely appreciate all our colleagues for their efforts in the year.

Despite the growing importance of digital technology, retailing remains very much a 'people' business, and the industry remains the UK's largest private sector employer. I am proud to lead a Group with more than 5,000 passionate and dedicated colleagues. As a vertically-integrated omnichannel business, with a strong 'family' ethos, the Group offers a wide range of career opportunities across our manufacturing, retailing, distribution and support functions. We also provide a range of career development opportunities, from our award-winning apprenticeship programme to leadership skills workshops.

We continue to receive external recognition for our employment engagement, gaining a Best Companies™ accreditation for a fifth consecutive year, with colleagues highlighting positive manager relationships and an enjoyable team working environment as key attractions of the Group. We continue to benefit from colleagues' loyalty, with almost 40% of colleagues having more than five years' service with the Group.

As a successful UK-based company and the market leader in our sector, we also believe that, in addition to delivering long-term value for shareholders, we have a responsibility to contribute to the success of wider society and to be aware of our impact on the environment. To this end, we have spent time reflecting on our company purpose throughout the year:

Our Group purpose is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner. Our customers and our people are at the heart of everything we do, reflected in our three core values of 'Think Customer', 'Be Real' and 'Aim High'. These values are firmly ingrained across the Group and are central to our strategy and our purpose.

Environmental, Social and Governance (ESG)

Reflecting our purpose and values, we are committed to acting in a responsible and sustainable manner into the long-term. Our Group-wide ESG initiative is led by Sofology CEO Sally Hopson and supported by Alison Hutchinson as Board sponsor. In the last twelve months, we have intensified our efforts in this critical area, and have developed a new ESG Strategy that will be announced alongside our preliminary results. The Strategy will detail specific multi-year targets for our brands across key areas of the business including sourcing, packaging, recycling, energy efficiency, gender diversity and flexible working. We intend to turn ESG leadership into a sustainable source of competitive advantage for the Group. Further details of our ESG Strategy can be found on page 48 of this Annual report.

Impact of the UK's exit process from the EU

In my 2019 CEO's report, I reported in detail on our work on the potential impact of the UK's departure from the European Union. Our preparations have continued, overseen by the Group Risk Team reporting to the Audit Committee. The UK is currently in a transition period until the end of 2020 while trade negotiations take place regarding the nature of the future relationship with the EU. The level of change required as part of any trade deal is unclear as yet. We have established a cross brand Working Group prioritising actions to address the "known knowns" surrounding the EU departure process. With governments prioritising the Covid-19 response, it is currently unclear whether the transition period will be extended and, on balance therefore, the risks of a 'no deal' departure have increased. We provide more detail on Brexit in our Risks & Uncertainties analysis on page 35.

As indicated in last year's report, the two principal risks to the Group from the EU departure remain consumer confidence related impacts on consumer demand, and border delays. As a result of the Covid-19 pandemic, consumer confidence is already low. We will continue our preparations to minimise the disruption as part of our risk management process, until the UK and EU's path forward is clear.

Outlook

While the reported decline in profit is undoubtedly disappointing in headline financial terms, a significant proportion of this profit has already been recovered in the current year as we resumed customer deliveries. We have also continued to make progress with our strategic agenda, strengthened our stakeholder relationships and worked hard to preserve the value of the Group.

The current year has started very strongly with all showrooms now open and our digital channels continuing to grow. Our year-on-year order intake growth over the last twelve weeks, combined with our previously announced higher opening order book, implies c.£226m of additional revenues will be realised in this financial year. We believe that this growth is due to a combination of pent up demand from lockdown, consumers spending relatively more on their homes and the strength of the DFS and Sofology propositions in particular.

In the absence of further lockdown impacts, we therefore look forward to reporting a strong first half sales and profit performance, although the full year outcome will be dependent on the effects of the pandemic and Brexit on consumer confidence, the housing market and levels of employment. Cash generation will continue to be a priority as we look to rebuild our financial resilience.

We remain focused on executing our strategy, with agility and pace, and believe that the Group is well placed to further strengthen our market-leading position in the medium term. The events of the past year have allowed us to build an even stronger sense of togetherness. We emerge from the crisis stronger and with renewed energy and purpose.

Tim Stacey
Chief Executive Officer
24 September 2020

Working together

At a time of unprecedented challenge, our various stakeholders and management teams have been working closely together, allowing us to operate safely and preserve the long term value of the Group. Our Group 'family' values of Think Customer, Be Real, and Aim High have helped shape our response to the Covid-19 pandemic.

1. Employees

As the pandemic spread into the UK and our European markets, we acted fast to protect the health of our colleagues and customers by closing showrooms, factories and suspending customer deliveries, only resuming operations after detailed safety checks. We've provided financial support beyond government caps for furloughed colleagues, updated our sick pay policy and offered extensive wellbeing support across phone helplines, our Living Well platform and informal team get-togethers.

2. Customers

We've introduced appointment booking slots, social distancing in the stores and ensured that our delivery teams are equipped with all the right PPE. We're now trialling 'go in store' video calls with local showroom teams so customers can consult advisors from the comfort of their own homes.

3. Suppliers & landlords

Despite the financial pressures of the pandemic, we've aimed to treat suppliers and landlords fairly, supporting our smaller, long-standing suppliers during the peak of the crisis. In turn, we also recognise the support of our strongest suppliers and landlords who granted us improvements to our payment schedules.

4. Investors

We appreciate our investors for their support during the pandemic. As lockdown restrictions prevented us from making deliveries to customers, our banks and shareholders provided us with temporary additional financial resources so we could continue trading online and investing for the future despite Covid-19 disruption.

5. Community

The Group and our employees support a range of charities and volunteer to help the community throughout the year. During the peak of the pandemic, we provided over £100,000 of sofas and sofa beds to NHS hospitals between April and June and donated £300,000 of products to Children in Need for families impacted by Covid-19. Our factories also supported the 'Love of Scrubs' campaign, with volunteers in the factories cutting 7,300 sets of scrubs to be sewn by the Love of Scrubs Group.

Protection

Employees have been issued with the appropriate protective equipment and given clear instructions as to how to perform their roles safely in the current environment.

Online support

We've kept in touch with our colleagues via our Facebook Workplace platform which also hosted live-streamed "Town Hall" management presentations.

Business continuity

Recently upgraded business continuity plans ensured we could act swiftly when the pandemic struck, switching seamlessly to remote working via Google's G-Suite.

Shareholders

We were able to count on our largest shareholders to back a £63.9m share placing which was also supported by our Board members.

Volunteering

Our volunteering initiative, Giving Back at DFS, launched just before the Covid-19 lockdown. This initiative commits us to supporting colleagues with their own volunteering initiatives and donating up to 1% of profits and up to 1% of product volumes to deserving causes.

Supporting NHS key workers

We donated over £100,000 of sofas and sofa beds to 50 NHS hospitals between April and June 2020.

Suppliers and landlords

We've worked collaboratively with our suppliers during the crisis, prioritising payments to smaller long-standing suppliers whilst benefiting from the support of our largest suppliers and landlords.

> **"Thank you so much again. Gestures like this, and a comfortable sofa to sit on during breaks will certainly boost morale with my colleagues."**
>
> Dr. Emily Gott,
> Prince Charles Hospital,
> Merthyr Tydfil,
> South Wales

We are the leading sofa retailer in the digital age

The upholstered furniture market is large and still fragmented despite ongoing market share gain and consolidation by leading players.

Market opportunity

Large potential customer base

The DFS Group has a specialist focus on the retail upholstered furniture segment. The UK upholstery furniture market was estimated by GlobalData to be valued at £3.2 billion (incl. VAT) in 2019. We also offer a selected range of beds, dining and other furniture and home accessories giving access to other segments in the UK furniture market.

Clear leader in the segment

The DFS Group, through its DFS, Sofology and Dwell brands, is the clear leader in the upholstery furniture market with 34% share by value. We see three broad categories of companies actively competing in the upholstery furniture retail market: Specialist Chains such as DFS, Sofology, ScS and Furniture Village; Independents that are typically single store operations; and General Merchandisers such as Ikea, John Lewis, Next, Argos, Debenhams and all other retailers including DIY chains and supermarkets. Historically the Group has tended to gain market share during periods of market weakness as weaker multiples and independent chains have exited the market. For example, the Group's market share increased from c.18% to 26% during the 2007-2014 period (GlobalData).

Steady growth over long-term periods

Since 2010, the UK upholstered furniture segment of the furniture market has achieved modest compound annual growth despite political uncertainty following the 2016 vote to leave the EU and subdued housing market activity. Demand is supported by a seven year replacement cycle and underpinned by demographic trends.

We believe over shorter time frames the segment is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability.

In addition to these market drivers we do see from time to time some material volatility in market demand levels caused by particularly hot or cold weather and significant public events.

UK upholstery furniture market

£3.2bn

Group market share

34%

Blenheim

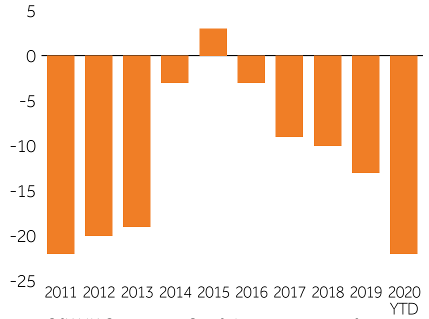
Market conditions are currently challenging, with consumers managing uncertainty due to Brexit and Covid-19.

Key market drivers

Consumer confidence

Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. UK consumer confidence has weakened since 2016 amid uncertainty following the referendum vote to leave the EU. Consumer confidence appeared to improve slightly following the UK General Election in December 2019, only to fall to near record levels as lockdown measures were introduced to manage the spread of Covid-19.

Consumer confidence[1]

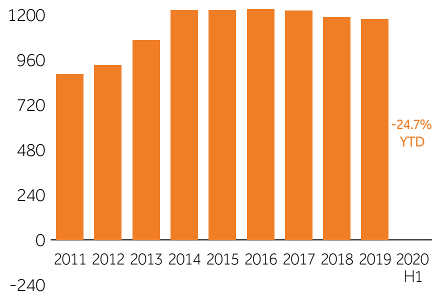


1. GfK UK Consumer Confidence average of individual scores for each year.

Housing market

Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. Housing market transactions have been subdued since 2015, reflecting a combination of macroeconomic and political factors as well as a weaker environment for buy-to-let transactions. In 2020, Government social distancing measures led to a sharp contraction in housing market activity in the spring but which has shown signs of stabilisation during the summer.

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

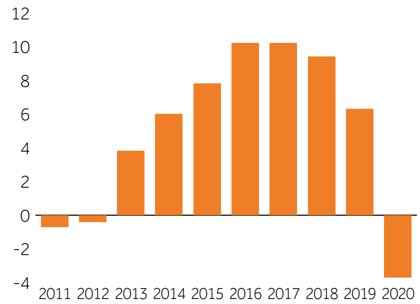


2. HMRC – number of residential property transaction completions with a value over £40,000 for the UK, seasonally adjusted.

Consumer credit

Upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling. Consumer uncertainty has reduced demand for credit since 2016. In the current year, with discretionary spending options restricted, demand for consumer credit fell sharply during the Covid-19 lockdown period. Employment uncertainty may reduce credit demand for the year as a whole.

Net unsecured lending growth[3] (%)



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

The customer is at the heart of our Group journey

UK factories

5

3. Quality manufacturing

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

French Connection Studio

2. Omnichannel retail

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

Group showrooms

209

3

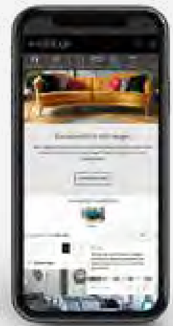
2

1

1. Design and inspire

90% of customers research online

Through our innovative in-house design teams and with our buying expertise we remain at the forefront of home furnishing trends with each of our brands offering a distinct curated range. We inspire consumers to consider a purchase through memorable advertising, inspirational web content and more recently through the use of augmented reality technology to visualise our sofas in their homes.



UK-based design studios

2

4. Service

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

5. Innovative delivery options

Through our own network of customer delivery centres and our own delivery fleet we carefully deliver our products to customers' homes and provide a comprehensive installation service.

Joules Patterdale

How we create value...

Our enablers

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

Unparalleled scale
We have a UK Group market share of c.34%, over three times that of our nearest competitor.

Complementary brands
Our complementary brands appeal to different customer segments.

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

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

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

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

What we do

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

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

Manufacture
We manufacture around a quarter of the Group's sofa orders in our own British factories, resulting in shorter lead times and superior quality control.

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

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

Purpose
To bring great design and comfort into every living room, in an affordable, responsible and sustainable manner. For over 50 years, we have provided millions of sofas into homes across the UK, the Republic of Ireland, Spain and the Netherlands.

See page 1 for more information

Values
Our customers and our people are at the heart of everything we do, reflected in our three core values:
- 'Think Customer'
- 'Be Real'
- 'Aim High'

See page 2 for more information

How we deliver value...

Outcomes

Sustain sector-leading operating margins

Scale advantages across the value chain, from sourcing and shipping rates to maximising delivery and service fleet utilisation.

Grow our market share

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

Maintain strong cash generation

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

Continue to invest in business

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

Value for stakeholders

Customers

85.7%
post purchase NPS

Employees

39%
employees > five years' service

Suppliers

40%
customer orders from British factories[1]

Shareholders

£135m
cash distributed since flotation

Community

£28m
raised for charitable causes through partnerships with the British Heart Foundation and Children in Need customer donations and fundraising initiatives

1. Includes third party manufacturing and internal manufacturing

Strategy

Leading sofa retailing in the digital age through three inter-related strategic pillars:
1. Drive DFS core
2. Build the platforms
3. Unlock new growth

See pages 24-31 for more information

Governance

Robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company.

See pages 64-110 for more information

Our strategy for growth

Bewitching

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

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

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

01

Drive DFS core

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

01 **Omnichannel**
Develop seamless customer journey across channels

Focus for 2020/21
- Further enhancements to seamless customer journey
- Incremental product sales opportunities via DFS website

02 **Product innovation**
Enhance our unique and differentiated product offer

Focus for 2020/21
- New 'data-driven' product launches to drive conversion, improve margin and attract new customers to the DFS brand
- Collaborate with our brand partners and roll-out new eye-catching models

03 **Customer proposition and service innovation**
New services to engage customers

Focus for 2020/21
- Evaluate 'video in store' proposition trial
- Light-touch refresh for selected showrooms

02

Build the platforms

Build platforms to enable profitable Group growth

01 **Cost efficiency and property cost reduction**
Reduce our relative cost base

Focus for 2020/21
- Flexible, strategic approach to lease negotiations – medium-term cost savings targets remain on track
- Repurposing retail space to improve productivity and customer proposition

02 **Supply chain**
Best-in-market two person sofa delivery and installation

Focus for 2020/21
- Complete Group-wide rollout of inventory management system
- Extend trials of 7-day extended hours delivery model
- Roll-out of Sofa Delivery Company into new locations

03 **Marketing investment**
Data and insight driven efficiency and effectiveness across the Group

Focus for 2020/21
- Applying data-driven econometric analysis to target significant improvements in marketing ROI

03

Unlock new growth

Unlock and deliver new profitable growth

01 **Sofology**
Develop a nationwide business

Focus for 2020/21
- Targeting 6-10 new showrooms in key locations
- Continued development of omnichannel initiatives
- Increase marketing intensity to build brand awareness

02 **Dwell**
Broaden reach through digital, wholesale and right space

Focus for 2020/21
- "Pivot" Dwell to a wholesale brand
- Disposal of Sofa Workshop (completed September 2020)

03 **International: Netherlands**
Break-even and beyond on current model

Focus for 2020/21
- Develop options for medium-term growth

01

Drive DFS core

Incremental gains from wide-ranging omnichannel initiatives

Our experience during lockdown and the subsequent careful re-opening of our showrooms highlighted that customers really value being able to shop online, in-store or a combination of both channels. This unique period presented a genuine test of recent omnichannel investment, highlighting the resilience of our digital infrastructure and the creativity of our commercial teams. In the year ahead, we're planning more initiatives across a range of areas to further enhance our customer experience.

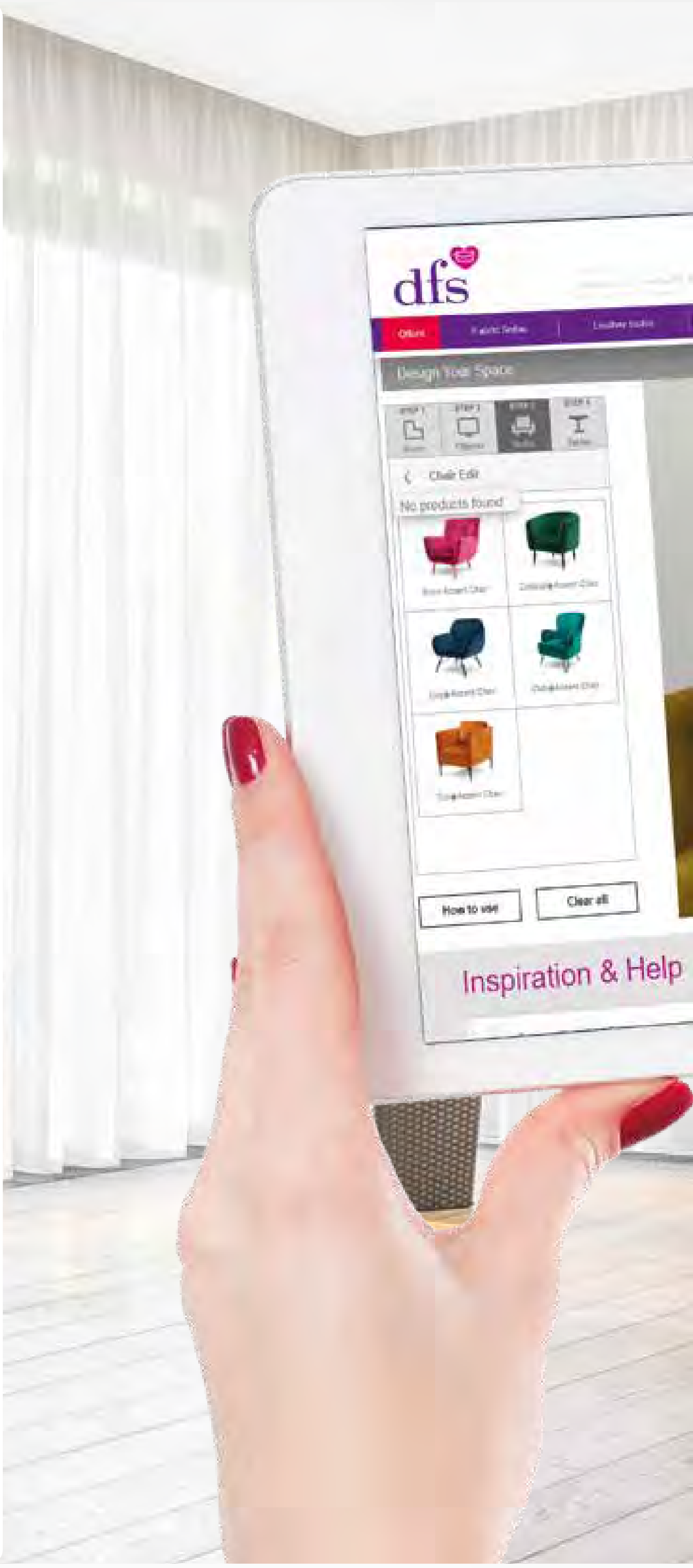
We're continuously investing in technology to improve customers' shopping experience across our showrooms and websites. With the purchasing process increasingly beginning online, customers are able to use a growing range of online tools to help them find their dream sofa, helping differentiate us from competitors. In the last year, achievements included an expansion in the number of sofas in our Augmented Reality visualisation tool database, allowing customers to use smartphones to visualise a wider range of models and colours in their own living space. The completion of our shared web-to-store customer basket allows customers to create an editable shortlist of preferred options they can take into the showroom. Combined with the launch of our appointment booking facility, customers can discuss potential purchases with well-informed colleagues at a time that suits them.

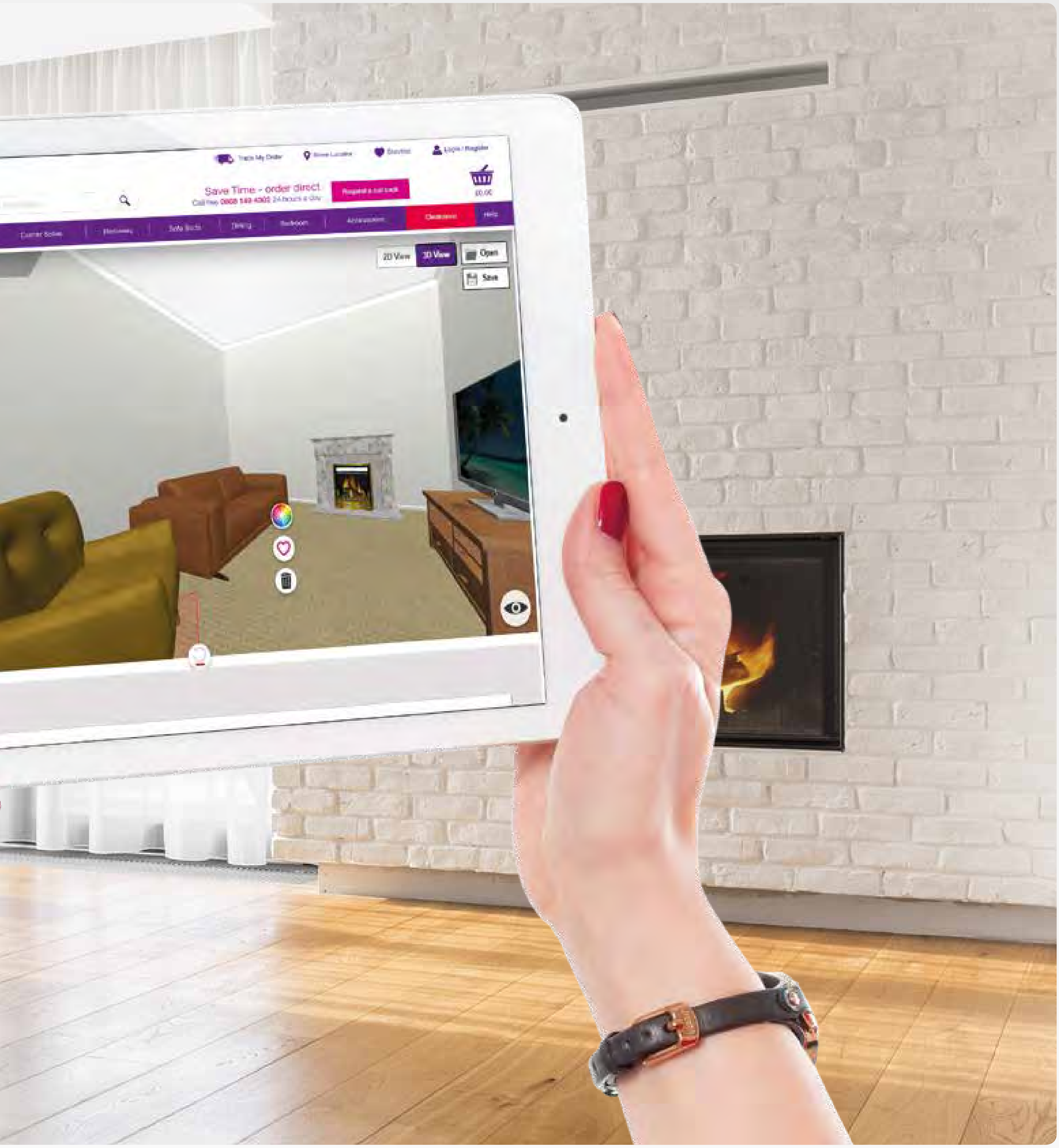
In the current year, drawing on successful learnings from Sofology, we are trialling live video-in-store communication, so customers can interact directly with local DFS colleagues before travelling to the showroom.

Product innovation also remains at the heart of DFS. We're excited about our new product launches in the year ahead, which include ranges to appeal to all of our major target customer groups, such as Halo Luxe and further exclusive brand range extensions. We're making increasing use of data and customer insight to improve our product ranges, and drive sales of our exclusive branded products.

The surge in post lockdown visits to our showrooms underlines that showrooms remain at the heart of the sofa purchase customer journey. We've been refreshing our showrooms with better lighting, new flooring and improved visibility across the shopfloor, leading to higher sales and a significantly improved customer feedback.

With a record order bank as we head into the new financial year, we're expecting to be busy on a number of fronts, but we believe our targets of constant improvement across the DFS brand leave us well placed to deliver further profitable market share growth into the medium term.




Save Time - order direct
2D View
3D View
Open
Save

02 Building a leading Group-wide supply chain platform

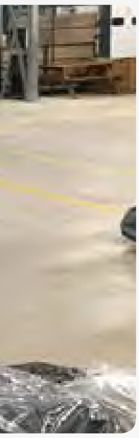
Our two-person sofa delivery and installation service has long been a source of competitive advantage for DFS, but we're looking to leverage this further as we seek to build on recent systems investments and service initiatives to develop a best-in-class Group-wide platform.

As we move towards an increasingly integrated Group structure, we are rolling out our leading DFS supply chain platform to support our upholstery-led brands. This results in a more efficient use of our distribution infrastructure, delivering economic benefits and reducing the environmental impact through less overall delivery miles. To this end, in the last year we have extended a number of trials and initiatives as we put in place a number of key building blocks for the future.

In the last financial year, we continued the development of our Stockwise inventory management system that will be integrated across the Group's different retail brands, enabling us to fulfil a range of orders from the same customer delivery centre regardless of which retail brand sold to the customer. We have also completed the rollout of our in-day delivery tracking system allowing customers the ability to track, online, the progress the delivery team are making against the estimated time of arrival on the day of delivery.

In our Belfast Customer Delivery Centre (CDC), alongside a full trial to test our systems integration, we also introduced our new 'Sofa Delivery Co.' branding and vehicle livery, which was received positively by both customers and colleagues. In our Glasgow CDC, in addition to our brand launch, we also began full trials of a new working practices model which combines more flexible shift patterns for colleagues with the ability to offer 7 days a week, extended hours delivery to customers, improving both customer satisfaction and employee work-life balance with an industry-leading 4 on 4 off colleague shift pattern.

In the current year, our priority is to complete the roll-out of our fully integrated supply chain systems and The Sofa Delivery Co. branding across all our CDCs and the StockWise inventory system across all of our Group retail stores. As our retail competitor set continues to evolve, we believe our supply chain initiatives will allow us to retain our leadership of the sector and achieve further profitable market share growth.




THE SOFA DELIVERY CO


THE SOFA DELIVERY CO

03 National expansion of Sofology

Delivering profitable expansion of our Sofology brand is a key element of our group growth strategy. New showrooms are performing well and we're pursuing a range of initiatives aimed at delivering attractive medium-term sales and profit growth.

Launched in 2016 and owned by the group since 2017, Sofology is DFS's younger sibling, bursting with energy and ideas. A leader in product design, Sofology appeals to customers with stylish, contemporary tastes. With only 45 showrooms in the UK, Sofology is roughly a third of the size of DFS and we expect the brand to deliver incremental sales and profit growth as we target a chain of around 65-70 outlets in the medium term. Despite a lockdown affected end to the year, Sofology opened three showrooms in FY20, which are performing in line with expectations. We are targeting 6-10 new showrooms in FY21, taking advantage of favourable lease terms.

Growth doesn't only come from new showrooms. We're targeting like-for-like sales growth from increased brand awareness, high NPS scores and from our highly engaged colleagues via a number of new initiatives, including improvement in our web sales performance, incremental sales from accessories, as well as continually innovating from a product perspective. Recent product launch successes include the 'Palm' sofa, as featured in our latest Owen Wilson advert, and the 'City Living' range appealing to space-constrained urban dwellers, that builds on the success that the DFS brand has had with the 'So Simple' range.

Improved profitability and return on capital are important parts of the Sofology growth story and we continue to explore the benefits of best practice exchange and the growing adoption of group-wide platforms, such as the Belfast Sofa Delivery Co. trial and Sofology showroom co-location with DFS. Launched in the digital age, Sofology has long prioritised the omnichannel customer journey and its 'Go in Store' innovation is now being trialled elsewhere in the Group. A larger showroom network will also allow the chain to deliver improved economies of scale from its already highly visible nationwide TV campaigns.

Last but not least, with environmental credentials increasingly critical to every consumer brand, Sofology stands at the forefront of the Group's Environmental, Social and Governance (ESG) efforts. The Group's new ESG strategy sets a series of brand targets in key areas such as sustainable sourcing, diversity and flexible working. We intend to turn ESG leadership versus our main upholstery competitors into a sustainable source of competitive advantage.

Weekend


sofology®

How we manage risk...

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

Identify

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

1. Principal risks
These risks have been identified by the GLT as the ones that pose the greatest threat to the success of the Group.

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

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

Risk pyramid graphic

Each principal risk is owned by a member of the Group Leadership Team. The Directors maintain overall responsibility for risk management throughout the Group and oversee the implementation of processes to manage these risks by the Group Leadership Team and operational management. The Audit Committee, delegated by the Board, is responsible for the review of the effectiveness of the internal control framework. The Audit Committee reviews the Group's internal risk register on a regular basis. The Audit Committee and Board also review presentations on topics in relation to key risk areas such as Covid-19, data protection, cyber security and significant change initiatives.

The ongoing process of management and mitigation of risk by the Group Leadership Team is focused through the context of a Group risk appetite agreed by the Board, with a rolling plan for the Board to periodically review all principal risks with the Group Leadership Team using this approach. The Group seeks to continuously develop its risk management processes and in the last year a particular focus has been on developing comprehensive operational risk registers via Group-wide engagement sessions, as well as the roll-out of our new online in-house developed risk management platform. The new platform is expected to further embed risk management into the day-to-day practice of all senior and middle management colleagues. Specific risk-focused initiatives undertaken during the financial year included a full externally assessed cyber review, completed in July 2019, and an upgrade to the Group's Business Continuity procedures, completed in September 2019.

Evaluate

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

Mitigate

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

Covid-19 pandemic

In the second half of the financial year, the Group took a dynamic approach to managing the risks surrounding the Covid-19 pandemic, with the Group identifying the virus as an emerging risk in January 2020 – initially as a supply chain disruption risk, but subsequently elevating this to a major business resilience risk. This resulted in a number of management actions being taken in the second half of the year, including:

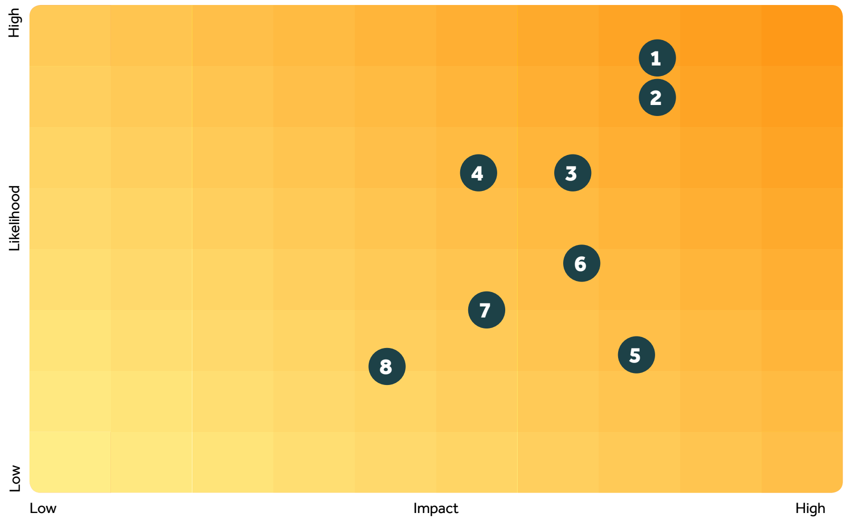
- Activating business continuity plans, including the introduction of streamlined decision-making structures, and the establishment of a crisis management team which met on a daily basis to manage the response to the pandemic, including daily calls with the Group Leadership Team.

- Temporarily closing physical retail stores, manufacturing operations and suspension of customer deliveries, resuming gradually towards the financial year end.
- Utilising the UK Government's Coronavirus Job Retention Scheme for furloughed employees and introduction of home working processes for those required to work during the lockdown period.
- Undertaking a detailed financial review to assess the impact of the pandemic, resulting in the introduction of a significant expenditure reduction programme, managing liquidity and strengthening the Group's financial position by suspending dividends and raising additional capital from lenders and shareholders.
- Completing a strategic review in relation to the Group's investment in smaller brands.
- Liaising with landlords to adjust payment schedules on leased properties, and deferring new store openings.
- Engaging with key stakeholders throughout the process, including employees, customers, suppliers, regulatory bodies, shareholders and lenders.

As part of our risk management process, and in this annual report, we have assessed the impact of pandemic as a new principal risk (Business Continuity and Resilience) for the Group and present mitigating actions below. Where necessary, we also highlight the potential impact of the pandemic in relation to our other principal risks. We also consider the impact of the pandemic in detail in our Viability Reporting.

Risk heat map

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



Principal risks

1 Business continuity and resilience
2 Brexit
3 Cyber
4 Environmental, Social and Governance
5 Financial risk and liquidity
6 Regulatory environment
7 Consumer proposition and industry competition
8 Transformation

See pages 80 to 81 for more on how risk is managed.

Risks and uncertainties continued

Link to strategic pillar

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

Movement

▲ Increase
= Unchanged
▼ Decrease

Principal risks

Risk	Strategic link	Mitigation	Movement
Business continuity and resilience As illustrated by the Covid-19 pandemic, the Group faces the risk of disruption to its operations from a wide range of unpredictable domestic and international events. These risks can range from smaller localised disruptions (e.g. supply chain, manufacturing, stores or systems) to major impacts affecting the Group for an extended period. Events and situations requiring the temporary closure of some or all of the Group's showrooms and customer delivery operations result in loss or delay of revenue and cash. Disruption to UK and international production and supply chains may also affect the Group's ability to deliver products to customers in a particular period, again impacting financial performance. The business may also incur additional costs, either directly or as a consequence of the disruption impacting operational efficiency.	1 2 3	The Group maintains business continuity plans to manage a range of potential disruptions. These were invoked during the Covid-19 pandemic when a crisis management committee was formed, meeting daily to oversee the Group's response to the pandemic. Each business function has developed and maintains full response plans to highlight and track actions immediately required, as well as those relating to temporary suspension and restart of activities. The Group has incorporated the learnings and strategies from our response to the pandemic in 2020 into its procedures for responding to a second wave of the Covid-19 virus or future pandemics and its formal business continuity plans will be further updated in the current year. Cyber risk is considered a distinct principal risk for the Group in its own right. However, IT systems are regularly reviewed in order to ensure that they are able to support the Group in the event of a disruption to operations. The Group maintains a comprehensive overview of its cost base and commitments and communicates regularly with key stakeholder groups including employees, investors, suppliers, landlords and regulators. This supports a cooperative and dynamic approach to managing cash and liquidity in the event of severe disruption to trading, as successfully demonstrated during the lockdown period. The Group was also able to utilise Government support programmes in relation to employee and business rates expenses and deferral of tax liabilities, although there is no guarantee that such programmes would extend indefinitely in the event of a more sustained pandemic. The Group regularly reviews its capital requirements in order to provide sufficient flexibility and resilience to manage disruption to its operations.	▲

Risk	Strategic link	Mitigation	Movement
Brexit The Group sources a substantial proportion of its raw materials and finished goods from outside of the UK, has retail operations in the Republic of Ireland, the Netherlands and Spain, and employs many EU nationals across its operations, both in the UK (primarily within its manufacturing operations) and overseas. In common with other UK-based businesses, the Group is therefore exposed to a number of potential risks as a consequence of the UK leaving the European Union. These may include a negative effect on consumer demand, delays or additional costs in transporting goods into or out of the UK, an increase in the cost of goods and materials due to adverse exchange rate movements or additional duties or tariffs, shortage of skilled employees and additional administrative costs. The UK is currently in a transition period until the end of 2020 while trade negotiations take place regarding the nature of the future relationship with the EU. The level of change required as part of any trade deal is unclear as yet, and with governments prioritising the Covid-19 response, the risks of a 'no deal' departure from the EU have increased.	1 2 3	The Group has established a working group to focus on the analysis of expected legislative and practical changes to the Group's operating environment as a consequence of Brexit, and has taken advice on approach and key risk areas from external advisors. The conclusions of this work have been reviewed with the Board. The Brexit working group identified a number of specific relevant areas of focus for the Group, with the two key concerns being: • impact on the consumer market/economy • delays/congestion at borders due to additional checks The working group determined that border delays would likely have a greater impact at roll-on-roll-off ports (Dover/Calais) than at freight ports where clearance is often completed whilst at sea. All third party suppliers have been tasked with obtaining all necessary regulatory permits to support rapid customs clearance procedures, and status is being monitored. Approximately one third of finished goods are sourced from Europe, excluding the UK. The Group does not anticipate any significant adverse impacts on supplies from the Far East (approximately one quarter of finished goods) due to Brexit. Longer term risks posed by potential adverse movements in exchange rates, would be expected to be addressed by an industry-wide pricing response to any permanent change in the cost environment. While progress has been made and assurance has been obtained, the continued uncertainty (exacerbated by Covid-19) requires the Group to maintain its vigilance and planning process as the end of the transition period approaches.	▲
Cyber The Group's operations depend upon the continued availability and integrity of its IT systems, including the security of customer and other data held by the Group, and risk of attacks is ever increasing. Increased levels of remote working during the Covid-19 pandemic have increased the Group's reliance on its IT infrastructure. The Group's IT infrastructure and websites are a key component of its omni-channel proposition and its strategic objective to lead furniture retailing in the digital age. A failure to review and innovate in this competitive area could impact achievement of the Group's strategic growth plans. Effective operational systems supporting supply chain, customer delivery, call-handling and the processing of financial transactions are essential to the delivery of a good customer experience. We also rely on a number of key systems to support timely reporting on operational performance. Delays or errors could result in increased costs or lost revenue.	1 2 3	Full IT security backup and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated. A full review was conducted in July 2019, including critical risk assessments in each business area, and identified improvement opportunities were incorporated into the FY20 plan with further actions to be integrated into the FY21 plan. Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated, including through external audit, which is also reported to the Board. Third party penetration testing is carried out routinely to check the resilience of the Group's systems to cyber-attack. A colleague cyber-awareness programme is also in place. The Group continues to make substantial investment in both website development and digital marketing to maintain its market-leading position. An established team of experienced staff in this field are supported with ongoing relationships with external partners. The Group engages with independent third parties to actively monitor both customer satisfaction with its digital services and the emergence of new online competitors. IT systems are regularly reviewed and upgraded to ensure they continue to support the needs of the Group, and the conclusions of reviews are discussed and challenged at the Board.	▲

Risks and uncertainties continued

Link to strategic pillar

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

Movement

▲ Increase
= Unchanged
▼ Decrease

Risk	Strategic link	Mitigation	Movement
Environmental, Social and Governance Key stakeholders, including customers, employees, investors and regulators, as well as the media, are increasingly focused on the Group's policies and management regarding Environmental, Social and Governance (ESG) risks. A failure to manage the business in accordance with high ESG standards could expose the Group, or its key third party suppliers, to adverse financial consequences, reputational damage, and difficulties in retaining or attracting employees. Failure to adapt to growing public interest in social and environmental concerns may deter customers or demotivate colleagues.	1 3	The Group's efforts in relation to certain ESG risks are covered in detail in the sustainability and responsibility report on pages 48 to 59. The Group has also developed an ESG strategy which has been approved by the Group Board and is overseen by a member of the Senior Leadership Team. The Group continues to develop its environmental and social agenda, having already enhanced its operating approach in Timber Sourcing, Modern Slavery and Anti-Bribery compliance during recent years. The Group plans to publish its updated ESG strategy in the current year, setting out detailed, multi-year targets by brand. The Group's environmental strategy comprises a range of initiatives linked to 'the sofa cycle' foundation framework. The Group has specific targets in relation to wood and leather sourcing, packaging and sofa recycling. The Group has also launched several sustainability initiatives aimed at reducing the Group's carbon footprint and prioritising energy from renewable sources including: our PlanTree tree planting partnership with the Woodland Trust; and Sofa Rescue, our recycling partnership aimed at minimising diversion to landfill. In 2019, Sofology received the Environmental ISO-14001 Accreditation. DFS and Sofology now have a contract with Track Record Global (TRG) to establish our suppliers' performance against our timber and leather sourcing policies. The Group supports the continuous growth and development of our employees through a variety of training and leadership programmes at all levels of the business. The Group has invested significantly in the health, safety and wellbeing of our employees and consistently tracks employee engagement. The Group recognises the benefits of a diverse workforce and gender diversity is a key area of focus for our Senior Leadership teams. The Group has a range of specific gender diversity targets at a range of levels within the organisation. The Group also seeks to make a positive contribution to the communities in which we operate, supporting a variety of charities and organisations and encouraging our employees to contribute to society including via our own volunteering programmes. The Group has developed a robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company, including (but not limited to) Board composition, Audit Committee structure, executive compensation and whistleblowing.	▲

Risk	Strategic link	Mitigation	Movement
Financial risk and liquidity A downturn in the macroeconomic environment, or increased uncertainty from Brexit and the Covid-19 pandemic, may impact the Group's ability to obtain debt or equity financing. Any "no-deal Brexit" disruption, or a temporary suspension of customer deliveries, as experienced in the second half of FY20 as part of measures to contain Covid-19, may increase working capital needs for the Group with delays slowing the realisation of revenues. An increase in interest rates could increase the Group's financing costs. The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas.	1 2 3	The Group aims to maintain good working relationships with all financial counterparties and engages proactively to ensure that counterparties fairly understand the financial performance and continue to support Group activities. The Group regularly reviews its financing arrangements to ensure it has adequate funds in place and financing costs are kept to a minimum. The Group operates a five year revolving credit facility that matures in August 2022 and was able to secure a further £70m temporary extension to this facility until March 2021 in response to the Covid-19 pandemic. The facility enables more dynamic management of short term borrowing needs, reducing interest costs. The Group would expect to refinance this loan no less than 12 to 18 months before maturity. Foreign exchange and interest rate risks are managed through the use of appropriate hedging arrangements in accordance with its Board-approved treasury policy, with details reviewed by the Board on a regular basis. Further details on foreign exchange hedging are provided in the CFO's review. No financial instruments are entered into for speculative purposes.	▲
Regulatory environment The Group is subject to increasing levels of compliance requirements in many of its activities from regulatory and other authorities including; the Financial Conduct Authority for its consumer finance offering, the Information Commissioner's Office in regards to data protection and Health and Safety Executive and local authorities for the health and safety of its colleagues and customers. The Group also generates income from product aftercare insurance. Changes to the regulatory environment surrounding product warranty insurance could impact the sales of these products, which currently account for a mid-teen percentage share of Group gross profits. Changes in other legislation which may have significant retrospective or future economic effects could also impact operating results. Recently, the Group has been required to adhere to detailed Government operational guidelines to contain the spread of Covid-19. Failure to meet our regulatory obligations, or provide a safe environment for our colleagues and customers may result in significant financial impacts and/or reputational damage.	1 2 3	Comprehensive training and monitoring programmes (including individual NPS, Internal audits and mystery shoppers) are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Group Leadership Team Governance, Risk and Compliance Committee is in place supported by a number of sub-committees, which includes a committee focussing primarily on regulatory areas and conduct risks, and Health and Safety. The Committee monitors management information and reviews processes and procedures to ensure our customers are treated fairly. This includes rigorous oversight and escalation processes to maintain the status of limited permission to offer consumer finance granted by the FCA. The Committee also reviews the regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation. The CFO and the Director of Risk and Internal Audit attend these Committee meetings and are responsible for ensuring that relevant matters are also escalated to the Audit Committee for consideration. The Group continues to place significant focus on maintaining its compliance with data protection requirements and has a robust set of policies supported by annual data protection training for all employees. The Group has a compliance framework that ensures ongoing review and monitoring; a review of the Group's information security by external cyber-security professionals was completed in the year. The Group also regularly reviews customer satisfaction levels with these products, working hard on regulatory compliance and proactively seeking to ensure customers derive value from their policy. The Group continues to review the pricing and cover levels of the insurance products it offers to maintain and enhance the customer value proposition.	▲

Risks and uncertainties continued

Link to strategic pillar

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

Movement

- Increase
- Unchanged
- Decrease

Risk	Strategic link	Mitigation	Movement
Customer proposition and industry competition Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of the business. Increased customer concerns, falls in actual product quality or poor customer service could have a negative effect on the reputation of our brands, leading to loss of revenue. A failure to predict changes in customer tastes or the impact of changes in the competitive environment (particularly with the growth of new online entrants and international competitors) could reduce the Group's revenues and market share. The Covid-19 pandemic and allied customer health concerns may cause an acceleration in the shift away from physical stores towards online retailing.	1 2 3	Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value, meet the right quality standards and are supported by excellent customer service, in order to enhance the Group's market-leading position. Our in-house design teams enable reaction to emerging trends and new entrants to the market. External design partners are also incentivised to generate new product concepts on a regular basis. The Group regularly holds innovation working sessions focused on both product and service areas, with relevant Board members joining the Senior Leadership in participating in these. Through our internal manufacturing knowledge and close supplier relationships, we are able to identify and address any quality issues that emerge. We also have good data and insight building on our NPS framework that allows product level analysis of potential issues. Our made-to-order model allows identified improvements to be rapidly effected. The Group is investing significantly in developing its online presence and continues to make good progress in growing online sales, as part of our omni-channel strategy. We track our relative progress in online growth through external benchmarks. Prior to the Covid-19 pandemic, evidence suggested that c. 90% of customers want to view a physical product before making a purchase, although the Group's online retail order intake performed strongly when customers were unable to visit stores during the lockdown period. The Group's focus on customer care quality and service is underpinned by our established use of Net Promoter Score ("NPS") at all touch points of the consumer journey. Colleagues across the business are directly incentivised on NPS scores to reinforce customer-focused behaviours.	Unchanged
Transformation The Group's 2017 acquisition of Sofology and related development objectives were based on an expectation around the synergistic and other benefits that would be generated. The Group is also executing a strategy to build its platforms to support the Group brands, while reviewing its investments in certain smaller operations. Failure to effectively execute this transformation strategy or to otherwise realise expected synergies could negatively impact the results of the Group. The integration of Dwell's operations into DFS in order to reduce operating costs may negatively impact overall sales of Dwell products. Continued diversion of management time and ongoing disruption to the economy as a result of the Covid-19 pandemic may affect the Group's ability to deliver anticipated benefits within the original time horizon.	2 3	Experienced senior management have been engaged in the design and delivery of the integration and transformation plans, and regular updates are given to the Board. The Group has an executive directly responsible for transformation who oversees a team of project managers engaged to drive our processes. Risk assessments are completed for all critical workstreams and have been challenged through Board and Audit Committee discussions. The Group continues to target efficiency gains by increasingly sharing Group infrastructure including logistics (e.g. the Sofa Delivery Co. launch), central support functions, and manufacturing facilities. Sofology has traded well since acquisition, although store openings planned for the current year have been temporarily put on hold while the Group assesses the impact of Covid-19 on its competitors and the environment for attractive retail locations. A strategic review of the smaller brands has resulted in significant reorganisation of the Dwell retail operations and, subsequent to the end of the financial year, the sale of Sofa Workshop.	Increase

Viability reporting

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the date of approval of the financial statements. The period assessed was the three years from 28 June 2020 as in the opinion of the Directors this reflects the longest period over which the impact of key risks can be reasonably assessed within a big-ticket retail business given the potential volatility of the trading environment arising from continuing political and economic uncertainties.

Approach

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

The Directors then made a robust consideration of the key risks and uncertainties that could impact the future performance of the Group and the achievement of its strategic objectives, as discussed on pages 32 to 38 of this Annual Report. Particular regard was paid to the potential impacts of Covid-19, while acknowledging that the significant uncertainties surrounding the future trajectory of the pandemic and the related Government response present an additional source of variability.

The primary impact of those risks which could significantly affect the future viability of the Group is a decrease in customer orders, and associated reduction in revenue. The effect of this lost revenue on profit before tax and cash was applied to the base case model using an expected 'drop through' rate, based on expected gross margins and variability of costs. The analysis considered a range of severe but plausible scenarios impacting revenue alongside specific modelling relating to possible changes in the regulatory environment surrounding product warranty insurance and the impact of port delays arising from a 'no deal' Brexit.

For each scenario, sensitivity and stress-testing analysis was performed to model the impact on the Group's profitability and cash flows. The assessment considered how risks could affect the business now, and how they may develop in future. The analysis takes into account the significant level of variable and discretionary spend, including marketing costs, in the Group's business model and the existence and effectiveness of other mitigating actions the Group could take, including the reduction of capital expenditure to maintenance-only levels and the continued restriction of dividend payments.

Key assumptions

The base case forecast, which is prepared on a prudent basis, assumes a double-digit decline in customer orders across the remainder of FY21, followed by a gradual recovery in the UK upholstery market over the subsequent three years to reach an overall size broadly in line with FY19 levels. No market share benefit arising from the withdrawal of competitors from the sector has been included in the analysis, although the Group has historically grown market share in periods of economic downturn. The base case also assumes no significant change in either upholstery gross margin or order bank across the assessment period and that dividend payments resume from FY23.

In sensitising the base case for lower revenue scenarios, the rate of drop through to profit is assumed to be consistent throughout the assessment period. Where Covid or other events necessitate the temporary closure of retail showrooms, it has been assumed that half of the expected customer orders for that period are subsequently recovered when showrooms re-open and customer deliveries can continue at a reduced capacity while showrooms are closed.

In developing the viability assessment it has been assumed that the Group's £250.0 million revolving credit facility will be replaced on or before its maturity in August 2022 with a comparable facility and the same covenants.

Results

The range of severe but plausible scenarios included a further market decline of 5% beyond that already included in the base case, and potential Covid-related shutdowns ranging between two and four months. The Group maintained both covenant compliance and sufficient liquidity in all these scenarios. The Group's resilience under these severe scenarios has been enhanced as a result of the £64m proceeds from the share placing and £70m additional credit facility both obtained in April 2020. Based upon this assessment, the Directors have confirmed that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 25 June 2023.

Key performance indicators

Financial

Gross sales[1]

FY20		£935.0m
FY20	pre-IFRS 16	£935.0m
FY19	(52 weeks pro forma)	£1,287.2m
FY19	(48 weeks)	£1,165.0m
FY18		£1,125.6m
FY17		£990.8m

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

Performance
Significant fall in sales due to temporary pause in trading during UK Covid-19 lockdown.

Underlying EBITDA[1]

FY20		£61.9m
FY20	pre-IFRS 16	£(13.8)m
FY19	(52 weeks pro forma)	£90.2m
FY19	(48 weeks)	£65.1m
FY18		£76.1m
FY17		£82.4m

Description
Underlying EBITDA means underlying earnings before interest, taxation, depreciation and amortisation.

Performance
Reduction in EBITDA as a consequence of reduced gross sales.

Underlying PBT excluding brand amortisation[1]

FY20		£(63.1)m
FY20	pre-IFRS 16	£(56.8)m
FY19	(52 weeks pro forma)	£50.2m
FY19	(48 weeks)	£28.2m
FY18		£38.3m
FY17		£50.2m

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

Performance
Loss before tax arises from fall in EBITDA.

Free cash flow[1]

FY20	pre-IFRS 16	£(9.8)m
FY19	(52 weeks pro forma)	£92.6m
FY18		£60.4m
FY17		£57.0m

Description
Free cash flow is Underlying EBITDA, less cash capital expenditure and changes in working capital.

Performance
Cash out flow in the year due to lower sales and resulting fall in profits.

Gearing[1]

FY20		
FY19	(52 weeks pro forma)	1.95x
FY18		2.09x
FY17		1.75x

Description
Gearing is net debt divided by underlying EBITDA for the previous twelve months.

Performance
Gearing ratio not meaningful for FY20 due to reported losses in the year.

Lease adjusted ROCE[1]

FY20	pre-IFRS 16	4.0%
FY19	(52 weeks pro forma)	16.6%
FY18		15.6%
FY17		18.7%

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

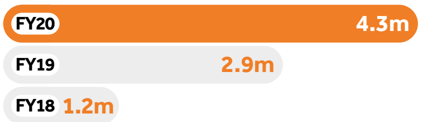
Performance
Decrease in ROCE reflects significantly lower profit.

1. Pro-forma period is the unaudited 52 weeks to 30 June 2019. Refer to pages 158 to 160 for further information on alternative performance measures.

Non-financial

Cumulative property cost savings secured

£4.3m



Description
Savings from regears 'right sizing' showrooms and closure of showrooms that have no adverse impact on total brand sales.

Performance
Improving trend based on the Group's anchor tenant status and strength of covenant.

NPS (%) – post purchase customer satisfaction

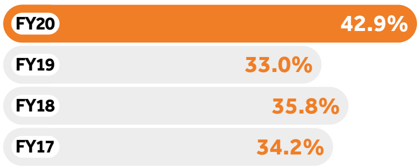
85.7%

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

Performance
Small year on year increase in very strong overall level.

NPS (%) – established customer satisfaction

42.9%



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

Performance
Significant increase reflects ongoing focus in this area and resolution of prior year port delay impacts.

Sofology UK stores

45

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

Performance
Three additional stores opened in FY20 (Peterborough, Cheltenham and Belfast).

Financial strength and flexibility to prosper in the changing environment

Mike Schmidt
Chief Financial Officer

In brief

- Revenue of £724.5m – a reduction of £271.7m from the unaudited pro-forma twelve month comparative period, driven by the pause in trading during the Covid-19 lockdown
- Underlying loss before tax, pre IFRS 16 and excluding brand amortisation[1] of £56.8m
- Restructuring and impairment charges totalling £16.6m recognised in connection with strategic review of smaller brands
- Reported loss before tax, including restructuring costs and impact of IFRS 16, of £81.2m
- Placing of 42.6m shares in April 2020, to increase resilience in light of Covid-19, raising gross proceeds of £63.9m
- Year end net debt maintained at £169.2m on a pre-IFRS 16 basis[1], compared with £176.3m at June 2019, with equity proceeds offsetting operating losses
- Strong online order intake since March, and in showrooms since reopening, which has continued into current year

Our headline financial results reflect the impact of the Covid-19 lockdown, due to showroom closures and the suspension of deliveries for the majority of the final quarter as well as an unusually strong prior year comparative in the first half. Since the Group recognises revenue on delivery to the customer, the lockdown period resulted in a significant sales and profit shortfall compared to the prior year. In order to mitigate the short and medium term financial impacts of the pandemic, the Group has taken wide-ranging actions with the aim of strengthening its financial resilience. Order intake in late June and in the current year has been very positive year-on-year as we have benefited from deferred consumer spending, and an increased consumer prioritisation of home-spending, since the national lockdown ended.

Nevertheless, despite current trading, the economic outlook remains particularly uncertain due to the ongoing pandemic and the end of the Brexit transition period. Our current year focus is on capturing the benefit of the strong market environment while it persists, maintaining financial resilience, and prioritising investment in the key elements of our long-term digital age strategy. To support our responsiveness we have shortened our planning cycles, and sought where possible to time-limit any incremental cost commitments that we make – for example in discretionary marketing spend commitments and flexible recruitment of colleagues to match resources with current incremental demand.

During this period of unprecedented change and challenge for the Group, I sincerely appreciate the hard work and dedication of all our colleagues in helping us respond positively and proactively, and the strong support and understanding that we have received from our broader stakeholder groups.

Basis of financial presentation

In the previous financial year, the Group changed its accounting reference date and reported a 48 week period to 30 June 2019. The current period being reported is the 52 week period to 28 June 2020. In order to provide a meaningful comparative, the unaudited pro-forma results for the 52 week period to 30 June 2019 are included in the table opposite 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, FY20 results are presented in the table both before and after applying IFRS 16. The impact of applying IFRS 16 is to increase the reported loss before tax for the reported 52 weeks by £6.3m. The adoption of IFRS 16 has no impact on the way we run the business or on the Group's 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.

1. Refer pages 158-160 for APM definitions

52 weeks to 28 June 2020 £m	DFS	Sofology	Other	Group – underlying pre IFRS 16	IFRS 16	Group – underlying IFRS 16	Non-underlying items[1]	Brand amort'n	Group – Reported IFRS 16
Gross sales[1]	697.1	181.7	56.2	935.0	–	935.0	–	–	935.0
Revenue	**535.2**	**143.7**	**45.6**	**724.5**	**–**	**724.5**	**–**	**–**	**724.5**
Cost of sales	(212.6)	(72.3)	(22.5)	(307.4)	–	(307.4)	(3.1)	–	(310.5)
Gross profit	322.6	71.4	23.1	417.1	–	417.1	(3.1)	–	414.0
Selling and distribution costs*	(191.6)	(47.8)	(20.9)	(260.3)	–	(260.3)	(2.1)	–	(262.4)
Brand contribution[1]	**131.0**	**23.6**	**2.2**	**156.8**	**–**	**156.8**	**(5.2)**	**–**	**151.6**
Property costs				(102.5)	75.3	(27.2)	–	–	(27.2)
Administrative expenses				(68.1)	0.4	(67.7)	(0.2)	–	(67.9)
EBITDA[1]				**(13.8)**	**75.7**	**61.9**	**(5.4)**	**–**	**56.5**
Depreciation, amortisation & impairment				(31.2)	(56.3)	(87.5)	(11.2)	(1.5)	(100.2)
Operating profit				(45.0)	19.4	(25.6)	(16.6)	(1.5)	(43.7)
Interest				(11.8)	(25.7)	(37.5)	–	–	(37.5)
Loss before tax				**(56.8)**	**(6.3)**	**(63.1)**	**(16.6)**	**(1.5)**	**(81.2)**

	Unaudited pro-forma results: 52 weeks to 30 June 2019				Audited results for the 48 weeks to 30 June 2019			
£m	DFS	Sofology	Other	Group – underlying	Group – underlying	Non-underlying items[1]	Brand amort'n	Group – reported
Gross sales[1]	942.1	260.7	84.4	1,287.2	1,165.0	–	–	1,165.0
Revenue	**721.7**	**205.9**	**68.6**	**996.2**	**901.0**	**–**	**–**	**901.0**
Cost of sales	(288.4)	(101.5)	(31.7)	(421.6)	(383.8)	–	–	(383.8)
Gross profit	433.3	104.4	36.9	574.6	517.2	–	–	517.2
Selling and distribution costs*	(232.1)	(56.7)	(25.6)	(314.4)	(293.7)	–	–	(293.7)
Brand contribution[1]	**201.2**	**47.7**	**11.3**	**260.2**	**223.5**	**–**	**–**	**223.5**
Property costs				(107.5)	(99.1)	–	–	(99.1)
Administrative expenses				(62.5)	(59.3)	(4.4)	–	(63.7)
EBITDA[1]				**90.2**	**65.1**	**(4.4)**	**–**	**60.7**
Depreciation, amortisation & impairment				(29.3)	(26.8)	–	(1.4)	(28.2)
Operating profit				60.9	38.3	(4.4)	(1.4)	32.5
Interest				(10.7)	(10.1)	–	–	(10.1)
Profit before tax				**50.2**	**28.2**	**(4.4)**	**(1.4)**	**22.4**

1. Refer pages 158-160 for APM definitions
* Excludes property costs

Covid-19 impact and refinancing

The CEO Report covers the Group's detailed operational and strategic actions in relation to the pandemic in the last financial year. From a financial perspective, our main actions in response to the pandemic were to address the profit and cash flow implications of disruption to our made-to-order, negative working capital model, to meet our financial obligations to key stakeholders (in particular those smaller suppliers most dependent upon the Group) and to ensure that we had sufficient financial resources to see us through a lockdown period of potentially uncertain duration.

In March, as the implications of the pandemic became more apparent, the Group undertook a wide range of mitigating actions to reduce cash operating costs. In addition, in order to give the Group liquidity headroom through a severe lockdown scenario, the Group successfully completed a placing of 42.6m shares (an increase of 19.9% of the issued ordinary share capital of DFS prior to the placing) to raise gross proceeds of £63.9m in April 2020. Alongside the placing, the Group also secured a 12-month, £70m extension to its existing £250m bank facilities.

Our usual bank covenants of 3.0x (IAS17) net debt/EBITDA and 1.5x Fixed Charge Cover have been temporarily replaced by two financial covenants for so long as the additional £70m 12 month facility remains outstanding. The first is a quarterly EBITDA test that proxies the previous net debt/EBITDA test, and requires us to ensure cumulative EBITDA (IAS17) during FY20 grows by at least £17.1m each quarter across the FY20 financial year, reaching a target last nine month EBITDA of £51.3m in March 2021. The second is a test to ensure that total facilities are not drawn beyond £300m each month end through to November 2020 and beyond £250m each month end through to March 2021.

Restructuring of Dwell and sale of Sofa Workshop

As detailed in our July trading update, towards the end of FY20 the Group began an operational restructuring of Sofa Workshop and Dwell to improve the returns generated by these brands. Since the financial year end, the Sofa Workshop business has been sold and Dwell's retail sales teams and certain back office support functions have been integrated into the DFS operating unit, while their buying, marketing and other commercial operations will remain distinct. Largely as a result of this restructuring and related trading, the Group has recognised non-cash impairments of acquisition-related goodwill and brand names and certain property right-of-use assets. The Group has also incurred cash restructuring costs of £1.3m associated with related headcount reductions and £3.1m reduction in net realisable value of associated inventory. In total we have recognised income statement charges of £16.6m in FY20 in relation to the restructuring, which have been presented as non-underlying costs.

Sales and revenue

As noted above, annual revenues were severely impacted by the pause in deliveries for the majority of the final quarter to comply with Covid-19 restrictions. Total gross sales[1] for the Group declined by 27.4% to £935.0m compared to the pro-forma twelve month comparative period. Revenue, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products, declined at a similar rate to £724.5m. Sofology opened three showrooms in the financial year which overall performed in line with our expectations prior to the pause in trading due to Covid-19.

While the suspension of customer deliveries severely impacted reported revenue in the financial year, the Group continued to take orders online during the lockdown period, achieving strong year-on-year growth. Showrooms also benefited from a release of latent demand as stores re-opened in the final weeks of the financial year. We discuss the current year implications of a materially higher year-on-year opening order bank in the 'looking forward' section below.

Gross profit

Underlying gross profit[1] declined by 27.4% to £417.1m compared to £574.6m for the twelve month pro forma comparative period as a result of the lower revenues and a small decrease in underlying gross margin percentage of 10bps to 57.5%. The DFS brand gross margin increased 20bps year-on-year as a result of sourcing, pricing and quality improvements coming through as well as more favourable 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. After additional inventory write downs in connection with the reorganisation of Dwell and Sofa Workshop, reported gross margin was £414.0m.

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 our spend of c. $165m annually, by hedging our US dollar purchases to maintain eighteen months cover by value. Our hedged rate for FY20 as a whole was broadly consistent with the rates secured for FY19. Our hedged rate 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 these impacts will be felt by all industry participants and we will seek to mitigate these impacts in our commercial proposition.

Operating costs and brand contribution[1]

Underlying selling and distribution costs[1] (excluding property costs) reduced by £54.1m (17.2%) to £260.3m, reflecting the reduced trading volumes together with a wide range of mitigating actions to offset the financial impact of the pandemic, including a re-phasing of marketing spend and reduced discretionary expenditure. We continued to invest in key initiatives including Sofology showroom expansion, digital innovation and last-mile logistics development. Underlying brand contribution[1] for the Group reduced by £103.4m overall to £156.8m.

Property costs and administrative expenses

Underlying property costs[1] pre IFRS 16 reduced by £5.0m to £102.5m. This was primarily due to a c.£6m benefit in FY20 from the retail business rates holiday implemented by the UK Government from April 2020. While a limited increase in costs arose from incremental space taken in the year, this was broadly offset by the impact of lease re-gears.

Underlying administrative expenses[1] pre IFRS 16 increased by £5.6m to £68.1m, 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.

1. Refer pages 158-160 for APM definitions

EBITDA[1]

As a net result of the lower revenues and the other factors described above, the Group's underlying EBITDA[1] pre IFRS 16 decreased from £90.2m profit for the unaudited pro-forma twelve months to 30 June 2019 to a loss of £13.8m for FY20. Government support through the retail business rates holiday and for the furlough of over 5,000 of our team members to protect employment levels partially mitigated the substantial losses that we have incurred due to the business suspension.

Depreciation, amortisation and impairment

Underlying depreciation, amortisation and impairment charges[1] of £31.2m pre IFRS 16 (excluding brand amortisation) reflected a modest increase on the prior year in line with the related asset base. A further £11.2m of non-underlying impairment charges were recognised in connection with the restructuring discussed above, including the write down of the Sofa Workshop goodwill and brand name.

Interest

Pre IFRS 16 interest charges[1] increased by £1.1m from £10.7m to £11.8m due to higher borrowings as part of our contingency planning in the early stages of the pandemic.

Profit Before Tax ('PBT')

Underlying PBT[1] for the year (pre-IFRS 16 and brand amortisation) was a loss of £56.8m compared with a profit of £50.2m for the unaudited twelve month pro-forma comparative period. Including non-underlying items and the adoption of IFRS 16, the total reported loss before tax was £81.2m.

IFRS 16

To provide better comparability with the previous financial year, the table on page 43 illustrates the impact on the income statement of the adoption of IFRS 16. Further details are provided in note 1 to the financial statements.

Reported EBITDA[1] (including the impact of IFRS 16) was £56.5m 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 £56.3m and £25.7m respectively. The net impact of these changes increased the reported loss before tax for the 52 weeks ended 30 June 2020 by £6.3m compared to that which would have been reported under IAS 17.

Although the timing of the recognition of lease 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 will also slow the realisation of this non-cash benefit to reported profits.

Tax

The reported effective tax rate for FY20 is 14.8%. This is lower than the applicable UK Corporation Tax rate of 19.0% primarily due to losses incurred in Sofa Workshop which have not been recognised as deferred tax assets, the non-deductible write down of goodwill and disallowable depreciation on non-qualifying assets.

Earnings per share

Basic earnings per share for the Group was a loss of 31.4 pence per share for the 52 weeks to 28 June 2020 (48 weeks to 30 June 2019: profit of 8.6 pence per share), based on a weighted average number of shares in issue for the financial year of 220.3m reflecting the placing of new shares in April 2020 (FY19 212.0m).

Capital expenditure

Cash capital expenditure for the period was £23.4m, a reduction of £2.9m from the £26.3m for the unaudited pro-forma comparative period[1]. The year-on-year reduction reflects a scaling back in non-essential discretionary capital expenditure as part of our mitigating actions to manage the financial impact of the pandemic. In addition to the £23.4m cash capital expenditure, £5.3m of assets (predominantly delivery vehicles and company cars) were acquired under lease arrangements which was a consistent level of investment to last year.

Cash flow and balance sheet

As we have highlighted previously, the DFS business model benefits from negative working capital: payments are received from customers on or before delivery, while our suppliers are paid to agreed terms. Working capital balances are seasonal depending on recent trading activity and cost seasonality (particularly in advertising spend) as well as predictable patterns of payments on rents, tax payments and other recurring charges. Inventory balances are limited and have historically remained broadly stable.

The suspension of customer deliveries during the pandemic, also delayed the receipt of the related customer payments and the Group was only partially able to limit the unwind of its negative working capital position. The additional £70m 12-month credit facility agreed in April was primarily intended to cover a working capital unwind. The proceeds of the placing, combined with both the resumption of customer deliveries towards the end of FY20, and the better than expected sales in the current year to date, means the Group has not as yet needed to draw on this secondary facility.

The sharp reduction in operating profits experienced in the second half resulted in a significant operating cash outflow for the year. This was partially mitigated by the actions the Group had taken to reduce discretionary spending as well as utilisation of available Government support. In addition to the £6.0m in-year benefit of the retail business rates holiday, the Group has received £19.5m in respect of FY20 under the UK Coronavirus Job Retention Scheme, and was also able to defer VAT, PAYE and Duty payments totalling £28.7m into FY21. In consultation with our landlords, £27.8m of rent payments were also deferred as at year end. A working capital out flow is therefore to be expected in FY21 as stakeholders' various Covid-19 related payment deferral schemes and agreements fall due. Combined with net financing cash inflows as a result of the share placing, the Group ended the year with a pre IFRS 16 net debt of £169.2m (FY19 £176.3m).

1. Refer pages 158-160 for APM definitions

Financial review continued

Dividend

Reflecting confidence in the Group's outlook at the time, the FY20 interim dividend was declared at 3.7 pence per share. Subsequently, however, it became clear that Covid-19 was evolving from a Far East sourcing issue into a more significant threat to the UK economy. A desire to strengthen the Group's financial resilience and liquidity position led the Group to cancel the payment of the interim dividend and seek additional financing facilities, including a 12-month, £70m facility secured in April 2020. As part of the terms of this facility, the Group has undertaken not to pay dividends or conduct any acquisitions until either six months after the repayment of the incremental facility, or following the refinancing of all existing bank facilities.

Given the broader macroeconomic uncertainty, the desire to increase financial resilience and the restrictions in place under the banking facilities, the Directors do not propose a final dividend (FY19: 7.5 pence).

We do recognise the value some of our shareholders place upon regular dividend payments. The Group will continue to review its dividend policy in the light of our trading performance, business requirements and the uncertain economic environment.

Risk and governance

Building on initiatives in FY19, the Group continues to strengthen its approach to risk and governance. In FY20 a particular focus was on developing comprehensive operational risk registers via Group-wide engagement sessions, as well as the roll-out of our new in-house developed online risk management platform. The new platform is expected to further embed risk management into the day-to-day practice of all senior and middle management colleagues. Specific risk-focused initiatives undertaken during the financial year included a full externally assessed cyber review, completed in July 2019, and an upgrade to the Group's business continuity procedures, completed in September 2019, both of which have proved valuable in facing into the impacts of Covid-19. Business Continuity and Resilience constitutes one of the Group's Principal Risks and the Group has incorporated the learnings and strategies from our response to the pandemic in 2020 into its procedures for responding to a potential second wave of the Covid-19 virus or other significant disruption. The Group's formal business continuity plans will be updated further in the current year.

Looking forward

As indicated in our August trading update, the Group has experienced strong trading since the lockdown period both online and in our showrooms. Nevertheless, given the lingering effects of the pandemic and wider economic uncertainty, we remain cautious on the outlook for the remainder of 2020 and into 2021, and we remain concerned by lower consumer confidence and a potentially slower residential property market. Whilst a weak trading environment would impact our short-term revenue and profits, the Group has historically prospered in economic downturns and gained market share.

The dichotomy between current trading and the potential future macroeconomic environment makes giving meaningful guidance for our revenue performance in FY21 and beyond exceptionally challenging; and it will be our revenue performance that will primarily drive our future profit outturn. To assist our stakeholders however, we have prepared three scenarios for revenue performance. We believe the scenarios can help give a feel for how the Group might perform in very different trading environments. However, the choice of revenue changes modelled and their impact on costs and profits should be seen as illustrative and not as guidance given the number of factors that are unforeseeable and the current early stage of the current financial year.

Scenario overview

IFRS 16 Basis	Low	Medium	High
Revenue	Rest of year: **-30%** £959m	Rest of year: **-15%** £1,064m	Rest of year: **0%** £1,169m
Gross profit	Overall gross margin broadly flat at 58%		
	£556m	£617m	£678m
Operating costs	Identified cost mitigation of up to £15m	c. £400m	Increases by <10% of change in revenues
Interest & depreciation	←	c.£123m	→
Implied PBT	£57m	£94m	£147m

Revenues
In planning for FY21 we benchmark our performance relative to the 52 weeks to December 2019, where we generated revenues of £943.0m excluding Sofa Workshop. We take some comfort from a materially higher opening order bank year-on-year, from which we expect to realise an incremental c.£100m of revenues and early trading over the first twelve weeks that has generated a further c.£126m of incremental revenues. Trading in October 2020 onwards may however be significantly weaker, with (i) the UK furlough scheme coming to an end which may affect employment levels and consumer sentiment, and (ii) expected longer manufacturing lead times for our products creating less of a call to action for delivery ahead of Christmas, and (iii) the potential impact of Brexit on sentiment. Offsetting that, we have some early evidence that the DFS Group is gaining market share following the recent tough environment and we may see consumers continuing to prioritise spending on their homes, which is consistent with the average order value growth that we have seen over the last twelve weeks of +7.6%. We therefore see a very wide range of potential outcomes, with some of our internal modelling scenarios hypothesising that the upholstery market could be weaker than the 10%+ year-on-year market declines seen post the global financial crisis. Likewise we also do see a potential scenario where demand levels could even stay positive across the year.

Gross profit
Our gross margins continue to remain stable or grow slightly in the retail activities of our scale brands of DFS and Sofology. Although we will face some pressure from adverse foreign exchange rates we believe this can be offset through the commercial proposition. As revenues rise or fall, the manufacturing participation will flex slightly, which may generate slight fluctuation in margin levels, however this variation is unlikely to be significant relative to other assumptions.

Cost base
We have taken appropriate action on operating costs, including headcount and marketing budgets. Following the sale of Sofa Workshop, we believe our base operating cost base is likely to be c.£400m excluding Sofa Workshop. Retail business rates relief of c.£19m will also be received in FY21 and is reflected within that expected cost base. The cost base does carry some flexibility from sales team commissions and last-mile delivery costs, which we expect to move by a little less than 10% of any revenue change. We do also retain the ability to make choices on our advertising spend and other cost commitments, giving potential additional flexibility of up to £15m.

Interest and depreciation
We expect these to remain broadly similar to prior years, albeit with depreciation of property right-of-use assets changing to reflect the increased property estate and the potential for bank facility refinancing fees to be incurred during the year.

Profit Before Tax outturn
The three scenarios show a wide range of outcomes, but it is notable that all scenarios result in profit before tax above recent financial years, and the 'middle' and 'high' scenario are materially above prior years. We would however be cautious around extrapolating these profits into future years given that the rates relief is not expected to continue and the risk that these revenue levels will not recur.

Financial resources and cashflow
Following the recently completed equity placing and the £70m temporary working capital facility secured in April, our available cash resources at the year end were just over £160m. In line with typical market practice, we expect to refinance the Group's existing £250m senior revolving credit facility at least a year ahead of its maturity in August 2022.

Although we do expect that we will need to make 'deferred' rental and taxation payments of approximately £56.5m during FY21 and into FY22, our strong trading to date has reduced net bank borrowings (excluding finance lease obligations) as at 21 September 2020 to £32.2m (equivalent to overall pre-IFRS 16 net debt of less than £50.0m) and we believe we have the resilience to respond to a range of economic scenarios whilst continuing to invest in our most compelling growth initiatives.

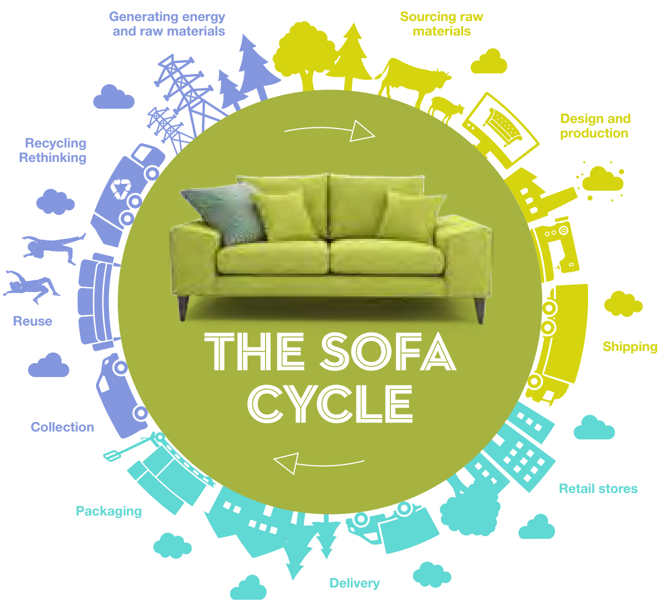
Applying recent learnings from the pandemic, we also now expect customer deliveries and hence revenue and cash generation to continue throughout all but the most severe lockdown scenarios, further increasing our resilience. We have prioritised capital expenditure on our critical development initiatives and up to ten showrooms openingduring the year, which have proven rapid paybacks, and we therefore currently expect our capital expenditure in FY21 to be broadly in line with prior years.

In conclusion
The past six months have presented exceptional challenges and we do not anticipate the near-term environment will be any less demanding. Notwithstanding that, we continue to believe the business is well positioned strategically and has an appropriate financial model and resources to deliver attractive shareholder returns.

Mike Schmidt
Chief Financial Officer
24 September 2020

Sustainable, responsible, and inclusive business

Our Group purpose is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner.



Initiatives launched in 2020

1. Sourcing our wood and leather
2. Recycling our packaging
3. Sofa rescue
4. "PlanTree"

Introduction

As is clear from our purpose, our Group is committed to acting in a responsible, sustainable, and inclusive manner, which puts our customers and our colleagues at heart of everything we do.

Our ESG strategy

During the year we put significant effort into developing our approach to ensuring our business is built on the right ethical foundations and that we have an ESG strategy for our Group that builds on our the values embedded in our businesses and integrates sustainability considerations firmly into the way we do business.

Our thinking follows the concept of the circular economy, which aims to keep products in use for longer, by reusing, recycling or remaking, so any waste becomes the beginning of another process or a recovered resource. The Sofa Cycle helps us visually articulate shared Group-level objectives. Each of our businesses can then use the Cycle to create activities and policies relevant to their brand, their size and their customers. It also has the flexibility to evolve over time as our business becomes even more circular in its approach, and the evolution of sustainable practices enables us to do more. We appreciate that the Sofa Cycle very much addresses the product aspects of our business, rather than being people focused. This acknowledges the fact that we can't address the whole ESG agenda at once, and must take it step by step. Of course, people issues are vital – and we believe we are already good employers – so we will look to add more colleague-based initiatives in Phase 2 of our ESG strategy.

Our phase 1 Group ESG targets and our 4-key initiatives for the year; our foundation initiatives Sourcing our Wood and Leather and Recycling our Packaging, and our flagship initiatives Sofa Rescue and PlanTree are built around the Sofa Cycle.

We believe that we can meet customer expectations, stakeholder demands and continue to grow our business while fulfilling and embracing our social and environmental obligations.

After working with our partners and looking at where we are, we decided that our primary focus for this phase of our journey would be on the products we provide our customers. We are acutely aware that far too many of the sofas that are in people's homes, have not been manufactured in sustainable fashion and that too many of them end up in landfill.

We developed our strategy based upon a circular approach that covers the entire life cycle of the sofas we provide, from sourcing the raw material or finished products, our supply chain and manufacturing through to the retailing, delivery and lifecycle of the sofa.

The aim of the Sofa Cycle is to capture the complex and interlinked aspect to the cycle of a sofa's life and to ensure we build in sustainability when developing our products and services. Whether it is through sourcing FSC compliant wood to make the frames for our sofas or ensuring our delivery vehicle routing system, Apollo, plans the most efficient route to minimise carbon output.

Working with partners the Carbon Trust, TRG, Clearabee and the Woodland Trust, we are continuing to develop our multi-year transformational plan focussed on environmental and social issues across the spectrum of our businesses. We aim to ensure we have a clear, independently audited view of our plan for all areas of our ESG initiatives. Our ESG initiative is led on behalf of the Group's Leadership Team by Sofology's CEO Sally Hopson, supported by Alison Hutchinson as Board sponsor.

This year we have worked together to develop our phase 1 Group ESG Targets. The targets apply to each of our brands individually. They are our best view of the steps we need to take as a Group over the next 4 years. Some of the brands are expected to achieve some of these targets earlier than the date for the Group, depending on where the brand is currently in relation to each target.

Our Phase 1 Group ESG Targets

E is for environmental

Wood sourcing	All our sofas will be built of 100% FSC Certified Wood by 2025.
Leather sourcing	The leather we use will not lead to deforestation in Amazon regions or elsewhere by December 2021.
Packaging	We will reduce our packaging and ensure 100% of the plastic packaging we use is recyclable by December 2020.
Sofa packaging	85% of all our sofa packaging will be recycled by December 2020. 100% of all our sofa packaging will be recycled by December 2022.
CO_2 reduction	We will reduce our CO_2 emissions with Sofa Delivery Company by a minimum of 10% by 2023.
CO_2 offset	We will achieve 100% carbon offset by December 2020.

S is for social, our colleagues and our communities

Inclusion and diversity	All Group apprenticeship programmes will have at least 50% female representation from 2020.
Inclusion and diversity	All Group Management development programmes will have at least 50% female representation from 2020.
Inclusion and diversity	A minimum 50% of showroom managers will be female by December 2024.
Charity community	Volunteering Days – everyone can have paid time off to give back to their community. Target a minimum of 1,150 Volunteering days by December 2021.

G is for governance, how we manage what we do

ISO	ISO45001 – Health & Safety from December 2021.
ISO	ISO14001 – Environmental Management from December 2021.
Modern slavery audits	Independent ethical audits of our supply chain by December 2021.

Our environment

Progress against our initiatives 2020

1) Sustainable resources – sourcing wood and leather

During the year we focussed our efforts on developing our targets and examining our supply chain to ensure we are sourcing our raw materials and finished goods in a sustainable way. We updated our policies on timber and introduced our new policy on sourcing leather. These can be found on our website at www.dfscorporate.co.uk/governance/policies.

As the nation's biggest sofa manufacturer, the Group has been working hard to source wood as sustainably as possible, but also wants to go further and contribute significantly to reforestation and ensure that the leather we use does not lead to deforestation. We are engaging actively with our suppliers to implement a robust verification programme for timber and leather products sourcing. We comply with European Timber Regulation No 9952010, and whilst we are not an operator placing timber or timber products on the internal market for the first time, as a trader we require all our timber suppliers to certify that the timber used in our products or supplied to us, is compliant with the regulations. We keep records of all timber supplied to DFS and timber products from our suppliers for a minimum of five years.

We will not accept in our furniture:

01	Illegally harvested wood
02	Timber harvested in violation of traditional and human rights
03	Timber from forests in which high conservation values are threatened by management activities
04	Timber from forests being converted to plantations and non-forest use since 1994
05	Timber from forests in which genetically modified trees are planted
06	Unknown sources
07	Leather from animal skins that is not a by-product of the meat packing industry
08	Animal skins from aborted or live animals or from endangered species (including any species listed in the three CITES Appendices)
09	Products containing leather where the supplying partner has not declared the species of animal and country of slaughter for all items
10	Products from suppliers who are unable to demonstrate that their leather supply chains do not contribute to deforestation

2) Recycling our packaging

When we deliver a sofa, we remove and recycle as much of the packaging as possible. We have continued to increase the amount we recycle, and by next year will be recycling all our sofa packaging. That means working with our suppliers to remove from our packaging any materials that are difficult to recycle or are damaging to the environment. Through these efforts, we have decided to get rid of polystyrene packaging as it is so hard to recycle. Another positive move is in using recyclable corner protectors, which can be used up to eight times on the sofas we deliver before being completely recycled.

3) Sofa rescue

When people buy a new sofa, they often want to get rid of their old one. Unless they pass it on to family, friends or charity, this isn't easy to organise. Whilst DFS has worked for many years with the British Heart Foundation to ensure as many sofas as possible are resold and reused, too many are still going to landfill.

As part of our sofa cycle, we developed our sofa recycling service "Sofa Rescue". When DFS customers buy a new sofa or armchair, they have the option either to donate it to the British Heart Foundation, or they can choose to have their old sofa or armchair collected and recycled by our partner Clearabee. Clearabee will collect the customer's old sofa and take it to a certified recycling centre where it is broken down to its component parts for recycling and creating energy from waste.

The Sofa Rescue Scheme was rolled out nationally in January to DFS customers and in June for Sofology customers, and to date more than 33,000 pieces of furniture have been successfully diverted from landfill.

4) PlanTree

PlanTree is our permanent reforestation initiative. While we work hard to source wood as sustainably as possible, we want to go further, and contribute significantly to reforestation. That's the aim of Sofology's PlanTree campaign, where for every sofa order, we plant a tree in the UK, as part of accredited reforestation schemes run by the Woodland Trust. When a customer places an order, we tell them about the tree we will plant on their behalf. When we deliver their item, we include a thank you card and reference to the tree. Through PlanTree, Sofology will plant over circa 100,000 trees (1 tree per order) in the UK in 2020. DFS has committed to launching PlanTree in 2021 and will also be focusing on a UK tree planting programme. We are also proud to be working with the UK's largest woodland conservation charity to help us mitigate our carbon emissions.

Energy usage

Electricity use is a key component of the Group's CO_2 emissions. During the year we continued to work hard to improve our energy efficiency. We have implemented a series of energy initiatives to reduce our carbon footprint and eliminate our energy waste.

We are committed to further reducing our energy consumption, and our Energy Management Policy supports our reduction in carbon emissions. Through the deployment of the latest in energy technology and a new energy management platform, we have complete visibility across all sites; this enables us to manage and reduce our energy waste by monitoring consumption against agreed targets.

From October 2020, 100% renewable electricity backed by REGOs has been secured for 92% of our estate, with the target to have 100% of our electricity sourced from renewable energy by 2023.

During the year we worked with Businesswise Solutions to get a clearer understanding of our energy usage across the Group and to roll out low energy lighting schemes across our showrooms and our offices. Additionally, we use automated meters to monitor and investigate usage of both gas and electricity. We will continue to work with Carbon Trust and other advisors to reduce the amount of energy we use. As well as setting our phase 1 environmental targets, we worked with our partners to understand our impact on the environment looking at water and waste management. We will continue to develop our wider phase 2 environmental targets during 2021.

Fleet

Our transport fleet drives over 9 million miles per year delivering to customers' homes, so it needs to be efficient and safe. All trucks are on a six-year replacement cycle to ensure we continuously modernise the fleet and move towards the highest European emission standards. We combine this with in-cab telemetry and a system of daily debriefs where driver behaviour is assessed against energy-efficiency and safety targets. We reward drivers who reach the highest standards, and we work with any who need help to improve. We keep looking for further improvements and we continue to work with industry bodies and truck manufacturers in trials of new technology.

With our company car fleet, we encourage the use of electric or hybrid cars providing charging points at key sites across the UK. 9.8% of our company car fleet is electric or hybrid.

The CO_2 performance of our company car fleet has come down to 99.6 g/km (FY19: 100g/km) which is 22 % below the UK national average for new registrations which is currently 127.6g/km.

We are continually looking at new ways we can improve our CO_2 performance. Our DFS customers have the option to select "eco" delivery slots when planning their delivery with our route planning software optimising the routing of our vehicles to minimise emissions.

To mitigate our carbon emissions during 2020, the Group will plant over 59 hectares of native woodland with over 112,250 trees in the UK through the Woodland Trust's Carbon scheme. As a Group we are currently the Woodland Trust's largest carbon mitigation partnership.

Energy and transport fuel consumed

The tables below show our energy use and associated greenhouse gas emissions in line with the UK Government Streamlined Energy and Carbon Reporting Requirements. Usage and emissions reported correspond with our financial year.

	FY20 MWh
UK operations	96,192
International operations	4,364
Group	100,556

	TCO_2e			TCO_2e per employee	
	2020	2019	% decrease	2020	2019
UK					
Direct emissions Scope 1	17,928	19,543	-8.3	3.4	3.7
Indirect emissions Scope 2	6,364	7,654	-16.9	1.2	1.5
Sub-total UK	**24,292**	27,197	-10.7	**4.6**	5.2
International operations*					
Direct emissions Scope 1	2,506	–	–	12.7	–
Indirect emissions Scope 2	690	–	–	3.5	–
Sub-total International	**3,196**	–	–	**16.2**	–
Group Total	**27,488**	–	–	**5.0**	–

* First year of reporting on our emissions from the ROI, Spain and the Netherlands

Notes:
GHG emissions have been restated for 2019 as there was an error in the calculation as both gas and electricity were included in Scope 2, rather than fuel for transport and gas being reported in Scope 1 with just electricity in Scope 2.

The total TCO_2 reported in 2019 was 28,064 (excluding International) when in fact it should have been 27,197 (excluding International).

To express our annual emissions in relation to a quantifiable factor associated with our activities, we have used Tonnes CO_2 per employee as this is a relevant indication of growth.

Our colleagues

The colleagues in our business are the heart of its success.

Much of the value we deliver to customers is through the expertise and experience of all our colleagues. Our sustainability relies on our ability to attract colleagues with the right skills and behaviours and to motivate, develop, support and reward them appropriately.

During the year we employed 5,372 colleagues across the UK, Republic of Ireland, the Netherlands, and Spain. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our colleagues across all parts of our Group. We are proud of the work we do to develop and strengthen our teams. Creating and sustaining a values-based culture with good governance to enable us to fulfil our purpose is crucial to ensuring our colleagues remain engaged, well informed, and able to effectively deliver our strategy.

Talent and development

We continue to grow and develop all our colleagues recognising this is pivotal to the success of our Group. Developing and retaining talent is important to us and as such we have a robust talent review process in place across the Group and a range of learning solutions to develop key skills, support career progression and role transitions. We actively promote the benefits of further learning and development for all our colleagues, at whatever stage of their career. We provided over 6,000 face-to-face training days to our colleagues. During the pandemic we utilised our digital technology to deliver a range of virtual learning solutions. The success of these virtual learning sessions will enable us to continue to offer bite sized support and development to all our colleagues, offering a truly agile learning and development proposition well into the future.

Apprenticeships and early careers

As a Group we are very proud to invest in the development of all our colleagues. We welcome students into our business for early careers work experience and offer learning which supports students in their transition from school to work. Our apprenticeship scheme, which supports our inclusivity and diversity approach, continues to grow and supports not only young participants to achieve formal qualifications in their chosen field, but since 2017, we also offer Advanced and Higher Apprenticeships to existing colleagues wanting to further their professional development. Over 65 young colleagues have completed the level 2 apprenticeships, with the majority staying with the Group. A further 62 colleagues have started an advanced or higher apprenticeship.

Sofology colleagues enjoying tree planting day

Our colleagues

Employee engagement

Creating highly engaged teams is a cornerstone of our success. We listen to our colleagues' feedback and ideas in many ways, including our partnership with Best Companies. We believe a key part of employee engagement is not only listening, but also acting on what our colleagues have to say, and in turn letting them know about the improvements and changes we make. We engage our colleagues through:

- Our Group Leadership Forum, consisting of 70 senior leaders from across the Group. The Forum meets regularly to keep informed with what is happening, collaborate and share best practice.
- Workplace by Facebook is a leading digital platform that allows colleagues to connect and collaborate with each other, while keeping updated about key news from across the Group. Workplace also gives all of our colleagues direct and instant access to our Group Leadership Team, which enables great conversations about what matters most to our business.
- We keep our colleagues informed of performance and strategy through regular meetings led by the Group Leadership Team and updates via Workplace and Crafted, the Group-wide magazine.
- The Executive Directors attend key business meetings throughout the year, including regular trading performance review and capital allocation meetings, and present financial results to our colleagues in live "Town Hall" sessions which are streamed live via Workplace to give access to all colleagues.
- The Chairman and other Non-Executive Directors attend meetings with our colleagues, when they attend the Employee Voice Forum and visit showrooms, factories, and warehouses. During the year, the Board appointed a Designated Non-Executive Director to ensure we continue to focus on the views of our colleagues.

Helping our colleagues to do the right thing.

All our colleagues must be equipped to make the right decisions. The Group supports this by consistently promoting and embedding our policies, processes, and training. Our Group Code of Conduct outlines Group values and the behaviours we expect. Colleagues also receive mandatory online training on Anti-Bribery, Modern Slavery and Data Protection.

If our colleagues witness something inappropriate, they can report the matter to their line management, or make use of our independent and confidential whistleblowing helpline.

Health, safety and well-being

The health, safety and well-being of our colleagues, customers and partners is extremely important to us, never more so than this year as we face the impact of Covid-19 on our business.

To help our colleagues and customers have confidence in returning to work and to our factories and our showrooms, we developed our Covid-19 response plan:

- Social distancing in place across all sites;
- Sanitising stations installed within all areas for both customers and colleagues;
- Temperature checks for all colleagues at the beginning of their shift;
- PPE provided – face masks and visors made available for all colleagues;
- Clear guidance for delivery teams and our service upholsterers visiting customers' homes;
- Checking/ auditing across all areas that the new processes are being followed by everyone; and
- Created business area specific Covid-19 re-boarding videos, modules, and risk assessments.

Throughout the year we continued to invest in training and development and in improving our processes and practices to ensure that we operate safe and secure workplaces. All colleagues complete online training modules to ensure awareness of the Group's 'house rules' for health and safety and these are reinforced with monthly safety messages to refresh and remind our colleagues. Despite the challenges arising from the pandemic during this last year, both our DFS and Sofology retail brands have been awarded the RoSPA Silver Award for continual improvement towards Health and Safety. Sofology has maintained its ISO45001 certification. DFS expects to gain its ISO45001 certification by December 2020.

The Group is a passionate advocate for removing the stigma attached to mental ill-health, actively creating a culture of openness and support. As a Group we have mental health first aiders working across the Group and throughout the pandemic we worked with our colleagues to ensure that whether they were working or furloughed, they looked after their mental health. Our colleague wellbeing resources provide a range of support including direct access to counselling services. We also offer colleagues private medical benefits that give parity to mental and physical health conditions.

Inclusivity and diversity

The Group is committed to ensuring our colleagues can thrive and prosper. Approaching inclusivity and diversity as a business issue reflects our firm view that inclusive and diverse teams, working within inclusive environments, are more innovative, engaged, and deliver better outcomes for our customers. Our colleagues and those suppliers and contractors we work with are expected to embrace a culture of diversity and to be respectful and considerate to others.

Whilst the Group continues to focus on gender and addressing the gender pay gap, our aspirations going forward are to broaden the agenda to encompass all aspects of diversity more widely. Our 2019 conference and 2020 digital 'In the loop' session both highlighted the importance of diversity, inclusion, and reflecting our customer base in the communities that we live in.

Our steering group is committed to building a more inclusive and diverse workforce and we have built on previous years' successful campaigns for International Women's Day and Pride events. Our DFS retail brand celebrated International Women's Day by asking our colleagues what this year's theme #EachForEqual really means to them. In Sofology the team shared lots of colleague stories for our Pride week, joining virtual Pride events, along with offering wellbeing support from our Living Well programme and recommended learning modules from our online training hub.

> “DFS was once again a finalist in the Retailer of the Year in the All About School Leavers Awards for apprenticeship schemes.”

Our leadership development programmes ensure inclusion and wellbeing are at the core as we recognise the importance of line manager awareness and we encourage our managers to complete our online modules on diversity and inclusion. We delivered a People's policy skills workshop to our management teams with the focus on effective management of the disciplinary, absence and grievance processes, but with an underlying thread of nurturing an inclusive and diverse workforce.

We continue to promote inclusivity and diversity across our workforce as well as prohibiting discrimination in any form throughout the year. To do so:

- We give full and fair consideration to employment applications from individuals with disabilities to ensure they have equal opportunity for employment and development in our business.
- We continue to try to improve female representation in key business areas that have a traditional skew towards men.
- We set performance targets for a large proportion of the management population to focus on the gender split across all sectors of our business.
- We provide recruitment development workshops for managers with a dedicated section on unconscious bias training covering gender and ethnicity.
- We are building assessment criteria into our online recruitment processes that remove unconscious bias.
- We have family friendly policies for parents.

Details of our most recent gender pay gap report, can be found on page 99 in the Directors' Remuneration Report.

Gender diversity of the Group 28 June 2020

	Year	Male	Female
Directors	20	4 (57%)	3 (43%)
	19	5 (71%)	2 (29%)
Group Leadership Team	20	6 (67%)	3 (33%)
	19	5 (56%)	4 (44%)
Senior managers	20	17 (68%)	8 (32%)
	19	N/A	N/A
All colleagues	20	3,437 (64%)	1,935 (36%)
	19	3,502 (64%)	1,950 (36%)

Male Female

Case study

The young people joining our apprenticeship programmes are taking their first step on building a long-term career with us, a great example of this is Sam Barnes. Sam joined our very first apprenticeship programme in 2014 at the age of 19, having been travelling for a year doing charity work, Sam was looking for an apprenticeship that would give him a trade. Although Sam had never thought of a career in the furniture industry, he was keen to gain the skills involved in upholstery and having the opportunity to complete the Duke of Edinburgh Gold Award alongside the apprenticeship was an added bonus.

Sam excelled through his programme, and with the support from the store team, he gained a permanent position and successfully completed his qualification and Gold Award. Then in 2018 Sam saw an internal vacancy for a Development coach for the Service Manager apprenticeship programme. Having come through the apprenticeship programme himself, Sam was eager to work with and develop young people to give them the same opportunities and support that he had received. Sam was successful in his application and has since redesigned the programmes and now delivers these for both DFS and Sofology.

Sam, showing Alfie, one of our Service Apprentices in Birstall, how the leather colours work.

Our customers

Atticus

Taking pride of place in our customers' homes, we understand the importance of providing responsibly sourced, high-quality, durable products that can withstand the demands of a busy household – all whilst offering the luxurious style, comfort and value for money which our customers love.

Delivering these standards requires a detailed approach, achieved by working closely with our long-standing supplier base. Through our close partnerships, we take on a 'tried and tested' approach, rigorously testing each one of our products to ensure it meets the highest standards of safety and durability. Along with carrying out tests on the structure during production of new ranges, we also carry out a unique process on the first product samples we receive. This involves stripping down the unit entirely for one final inspection that can result in further tweaks and improvements – If a product does not meet our quality standards, we will not include it in any of our ranges. The quality of materials and the skill of the craftsmanship mean that we are so confident in the structural durability of our ranges that we guarantee them for a minimum of 15 years. Within the Group we are continually finding innovative ways to create new products that have an eco-friendly story to tell, Sofology will introduce a 100% recyclable 'Heron' eco-fabric, and a sofa made from recycled materials later this year.

As we manufacture many of the sofas we supply, we have direct control of these factors with the sofas that we make in our UK factories. We know where the raw materials are sourced from, and we can test the finished products to levels beyond industry standards in recognised accredited test laboratories.

To ensure we deliver the highest levels of customer service we make significant investment in training and developing our colleagues. Colleague performance and customer satisfaction are monitored through regular inspections, customer surveys and, for some of our brands, mystery shoppers which are carried out through an independent consumer research group.

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

Our suppliers

We have long standing relationships with our upholstery suppliers and close contact with them is maintained through frequent visits by our operational and senior management team. This year more than ever those relationships have proved crucial to the success of our business. We work with our suppliers to monitor and improve quality and performance, and ensure compliance with our ethical trading standards.

We go to great lengths to ensure the quality and safety of all the products we sell. With over 50 years of designing and manufacturing sofas in the UK, our unique knowledge of the manufacturing process enables us to understand and work with our suppliers worldwide to ensure they can meet our quality standards.

Our own detailed quality checks and product testing are supported using independent safety specialists, and all upholstered furniture items are offered with a minimum 15-year guarantee. Fire safety is of paramount importance, so all our products are tested by independent UKAS accredited organisations to ensure they meet our rigorous standards policy.

We are very proud that our upholstery products carry the British Standards Kitemark™ for domestic furniture making. DFS is the only furniture retailer and manufacturer to have been awarded this prestigious external quality standard across all our ranges.

Business ethics

Whoever we work with and wherever they are based, we expect suppliers to comply with our Supplier Code of Conduct. We have a clear Anti-bribery policy in place and all colleagues dealing with third parties are expected to undergo training in this area. The policy makes clear our zero-tolerance approach to any breach of the Bribery Act. Our contracts with suppliers are clear about the standards we expect them to comply with and we require all our Suppliers to certify that they comply with the Supplier Code of Conduct.

To assist our colleagues in doing the right thing we have a clear whistleblowing policy supported by an external, confidential reporting hotline which enables colleagues to report concerns in confidence.

Modern slavery

We respect and uphold human rights and the Group does not tolerate modern slavery in any part of our operations or supply chain. We have developed a series of steps to mitigate the risks of slavery or human trafficking within our business, including: formal communication with new and established suppliers, and regular visits to suppliers both in the UK and overseas to audit our suppliers' practices in accordance with our Supplier Code of Conduct. Our suppliers must be able to demonstrate that they operate to recognised standards, uphold human rights, and prevent modern slavery. Our statement made in accordance with the Modern Slavery Act 2015, which contains further information, is available on our website at http://www.dfscorporate.co.uk.

Our communities

We recognise that we have both a responsibility and an opportunity to make a difference to people's lives in the communities where we live and work. We do this in many ways across the Group, from raising money for charity, right through to donating our products to help those in need.

As we entered 2020, we watched the world face one of its biggest ever challenges, that has impacted lives all over the world. Clear leadership and quick decision-making, supported by the extraordinary efforts and attitudes of all our colleagues, enabled us to continue to support our customers, support our suppliers, develop new safe ways of working and do our bit for the UK's NHS heroes.

The Group provided urgent support to around 50 NHS hospitals during the pandemic, donating and delivering sofabeds, sofas and recliners allowing health workers to enjoy much needed rest whilst remaining on site between shifts to support the patients. Our factories supported the Love of Scrubs campaign, with volunteers in the factories cutting 7,300 sets of scrubs to be sewn outside by the Love of Scrubs Group.

Actions in response to Covid-19

Our response in numbers

Over £100,000

of sofas and sofa beds provided to the NHS hospitals between April and June

£300,000

of products for Children in Need for families impacted by the pandemic

We will continue to work together as a team to ensure that we do everything we can to help to limit the impact of the pandemic in the communities in which we live and work.

Giving Back: an innovative new charity and volunteering strategy

In 2020, just before the Coronavirus lockdown, we launched Giving Back at DFS, an innovative new way for colleagues and the Company to make a difference to the communities where we live and work. Through Giving Back, we have committed to raise and donate up to 1% of our Profit Before Tax every year, give every colleague one day's paid volunteering and donate up to 1% of our products (volume) each year to charitable causes and organisations who need them the most. From planting trees to helping at local homeless shelters, every one of our colleagues is encouraged to get out into their community and support a cause close to their heart.

DFS and BBC Children in Need

2019/20 saw DFS raise over £450,000 for BBC Children in Need. Together with our customers we have raised over £5,000,000 for BBC Children in Need over the last eight years. This year after talking to our colleagues about what they considered important, we decided to take our partnership with BBC Children in Need in an exciting new direction – a DFS Funding Programme focusing on the mental health and well-being of children & young people.

Over the next three years, the money raised by DFS and our customers will support 7,500 children and young people showing severe mental health issues, which will help to keep them safe and improve their emotional wellbeing. Our money will provide one-to-one support and specialist counselling that will make a real difference to their lives. In addition to this we have also pledged £300,000 of products to Children in Need to help those children and young people who have been most affected by the Covid-19 pandemic.

We also want to help our colleagues create a real local connection to BBC Children in Need and have a better understanding of the difference that our partnership makes in their local community. That is why we are connecting all DFS showrooms, customer delivery centres, manufacturing sites and offices with a BBC Children in Need project or partner that is within ten miles of them.

The Pennies Foundation

During the year, Sofology chose to partner with the registered charity "The Pennies Foundation". Pennies works with Sofology to allow customers to support the six local charities nominated by Sofology colleagues for each Sofology retail region. The charities selected by the colleagues provide support for smaller local charities working with children and young colleagues across the UK in a range of challenging situations. As well as supporting these charities through customer donations, Sofology colleagues have completed individual fundraising activities to raise extra funds, including a bike riding marathon, an ice bucket challenge in our North Region for Grace House, and a skydive for CATTs in our North Central region. Now lockdown has eased, Sofology colleagues have now started to volunteer for Grace House in their garden area, as well as helping with painting their new therapy rooms.

Duke of Edinburgh

The Group continues to benefit from our long-standing partnership with the Duke of Edinburgh Award Scheme. DFS remains a Silver Partner of the Duke of Edinburgh's Award, with the focus of our partnership being supporting young colleagues to develop new skills and gain valuable experience through our apprenticeship programme.

Working with all our partners we will continue to work to ensure we make a positive contribution to the society in which we live and work.

Section 172 statement

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

Our stakeholders

The Directors consider that the following groups are the Company's key stakeholders. The Board believes that understanding the respective interests of such stakeholder groups so that these may be properly considered in the Board's decisions, is not only the right thing to do, but is fundamental to our ability to drive value creation over the longer term. Now, as we enter a new financial year adapting to new ways of working and living due to the impact of the global Covid-19 pandemic, balancing the needs and expectations of our stakeholders has never been more challenging or more important.

We have grouped our stakeholders into seven key categories and have provided an overview of the way in which the Board acted with regard to these groups when making key strategic decisions.

We do this through various methods, including: direct engagement by Board members; receiving reports and updates from members of management who engage with such groups; and coverage in our Board papers of relevant stakeholder interests with regard to proposed courses of action.

Our colleagues

see pages 61.

The strength of our business is built on the hard work, loyalty, and dedication of all of our people. Our colleagues rely on us to provide stable employment opportunities to enable each of them to realise their potential in a working environment where they can be at their best. We are committed to developing our people and have a strong culture of learning and development including an award-winning apprenticeship scheme.

Our customers

see page 61.

Our customers are the reason we exist.
We are dedicated to providing innovative, attractive, design-led, high quality products to new and existing customers at great value.

Our suppliers

see page 61.

We rely on our raw material suppliers and our suppliers of finished goods to manufacture our products to the highest standards, on commercially attractive terms and on short lead times. Our landlords provide the real estate that we fit out and operate as our showrooms and Customer Distribution Centres. We work with a range of key suppliers who provide our IT systems, maintain our sites and provide us with the goods and services to operate our business. Our suppliers relied on us to generate revenue and employment for them throughout the 2020 financial year.

Our communities

see page 62.

Communities and the wider public expect us to act as a responsible company and neighbour, and to positively impact the local communities in which we operate.

Our environment

see pages 62.

Our people and our customers require us to minimise any adverse impact we might have on the environment.

Our investors

see page 62.

We rely on our shareholders and providers of debt funding as essential sources of capital to further our business objectives. They rely on us to protect and manage their investments in a responsible and sustainable way that generates value for them over the long term.

Our regulators

see page 62.

We seek to enjoy a constructive and cooperative relationship with the bodies that authorise and regulate our business activities. This helps us maintain a reputation for high standards of business conduct.

Considering the long-term impact of decisions

Within the retail sector, the operational cycle is short due to a variety of consumer patterns and seasonal factors. Despite this, the Board remains mindful that its strategic decisions can have both short and long-term implications for the business and its stakeholders, and these implications are carefully assessed.

The most prevalent example of this is in the Board's decisions with regards to capital allocation. During the year, in approving the Company's budget the Board balanced:

- the need for capital expenditure on new and existing showrooms, warehouses, and systems to support operational performance; with
- a desire to remain resilient to risks, attract, and retain long term investors by growing the value of the Company and returning surplus capital to shareholders.

Considering our colleagues

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

This year as the pandemic spread, our first actions were to focus on the health and safety of our colleagues. We continued to support our furloughed colleagues at a time of growing financial uncertainty, fully protecting salaries in April and maintaining salaries at 80% of full pay until colleagues returned to work, in excess of government salary caps.

Colleague engagement

The Group benefits from having a CEO and CFO who have served with the Group as employees for several years before joining the Board. They both maintain a high degree of personal oversight and engagement in the Group's day to day operations. This knowledge of the business and active style of engagement means our Executive Directors maintain an acute insight into the mood, culture, and views of our people, which they then report on to the wider Board.

There are a number of effective workforce engagement mechanisms in place across the Group:

- Workplace, our online platform for colleagues, facilitates ongoing, meaningful performance and development conversations between managers and teams. Workplace provides a forum for positive and constructive feedback by individuals, peers, and managers.
- Employees are kept informed of performance and strategy through regular presentations, Town Hall meetings and Workplace updates from members of the Group Leadership Team.
- Employee engagement surveys are undertaken annually, and the results are reported to the Board. In addition, we use Workplace to conduct pulse surveys to help us to quickly check in and understand how colleagues are feeling. The most recent one looked at how people felt coming back to work after the pandemic shutdown.
- The Chairman and other Non-Executive Directors attend meetings with our employees, through the Employee Voice Forum with the Group People Director, and where appropriate Executive Directors and visit showrooms, factories, and warehouses.
- Our use of technology has enabled us to accommodate most meetings and communications remotely. This helps support flexible working and enabled employees working remotely during the pandemic to stay in touch.

These meetings provide effective engagement and open discussion on the key business issues, policies, and the working environment in different parts of the Group, with actions agreed on issues raised.

The Group People Director attends Board and Remuneration Committee meetings to brief on employee-related matters including: engagement activities; the results of employee opinion surveys; staff retention rates, diversity; numbers and nature of whistleblowing reports; disciplinary and grievance procedures; learning and development activity; pay and reward including gender pay gap; and people initiatives.

The Board considers that, taken together, these arrangements deliver an effective means of ensuring the Board stays alert to the views of our people. In addition, and to strengthen the Board's understanding of the issues impacting the workforce, the Board has during the year appointed a Designated Non-Executive Director to ensure a deeper understanding by the Board of the views of the workforce.

Inclusivity and diversity

Making inclusivity and diversity a central consideration helps the business to attract, retain and develop the best talent from every walk of life.

During the year we:

- Updated our Board Inclusivity and Diversity Policy and our Group Equal Opportunities Policy.
- Focused on developing flexible working with a particular focus on part-time roles within our retail teams to make them more attractive to those colleagues working around family commitments.
- Worked towards increasing the support offered to working parents through enhanced employee leave.

Considering the need to foster the Company's business relationships with customers and suppliers

Customers

As a large retail business, the sentiment of customers can be seen in the Company's underlying sales performance figures and Customer NPS scores, which the Board reviews regularly. The Executive Directors provide updates to the Board on their perceptions of consumer sentiment and the market view. The interests of customers are considered in key decisions e.g. relating to: showroom portfolio changes; selection of product lines including our third-party brands; selection and monitoring of suppliers to ensure quality and safety standards are met; freight and logistics arrangements to maximise efficiencies from order to delivery; the availability of customer credit products; and the development of our Online platform across each of our brands. With the interests of customers in mind, during the year the Board reviewed proposals in respect of: showroom openings ; capital expenditure on showrooms and warehouses; the restructuring of the Dwell operating model and the customer delivery contract with our partner Wincanton; and reviewed our insurance offering to customers. The Board took the decision to sell the Sofa Workshop subsidiary in order to focus resources on our DFS and Sofology brands.

Section 172 statement continued

Suppliers
Throughout the year the Board was briefed on major contract renegotiations and the strategy with regards to suppliers and with certain landlords of the Group's premises. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers. During the lockdown period we worked closely with all our suppliers and valued their support and assistance in agreeing payment plans that helped us to manage our cashflow position until we had stabilised the business and could recommence deliveries into our customers' homes. We have continued to work closely with our suppliers as we developed new ways of working across the Group.

Further details on ethical trading and our focus on suppliers as part of maintaining a reputation for high standards of business conduct are noted below.

Considering the impact of the Company's operations on the community and the environment

The Board supports the Group's approach to Environmental, Social and Governance matters with a view to reducing adverse impacts on the environment and supporting the communities in which we live and work. Please see pages 48 to 59 of our Sustainability and Responsibility Report for details. The Board has oversight of the Group's ESG Strategy and targets, with the Senior Independent Non-Executive Director acting as the Board sponsor in this area.

The Board intends to give further consideration in 2021 to the Group's phase 2 ESG targets.

Considering the need of the Company to maintain a reputation for high standards of business conduct

Corporate governance
Our reputation is key. It underpins our ability to earn the loyalty of our customers and to grow our business. The Board recognises the importance of operating a robust corporate governance framework, and you can read about how we comply with the UK Corporate Governance Code and our approach to governance in our Corporate Governance Report on pages 66 to 75.

Ethical trading and responsible sourcing
The Audit Committee exercises strong oversight over the Group's activities in these areas including reviewing the work of the internal audit function, and reports to the Board on such topics as appropriate.

During the year, the Board approved the Group's Employee Code of Conduct with which all our People, employees, consultants and sub-contractors must comply and the 2019 Modern Slavery Transparency Statement, published at https://www.dfscorporate.co.uk/governance/policies. A new employee training module on understanding Modern Slavery was rolled out across the Group. All our Suppliers are required to sign up to our Supplier Code of Conduct and to confirm that they comply with the Modern Slavery Act. A copy of our Supplier Code of Conduct and our Modern Slavery Statement can be found at www.dfscorporate.co.uk/governance/policies.

Considering the need to act fairly as between members of the Company

The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in the Company's Articles of Association and the Companies Act 2006. The Board recognises its legal and regulatory duties, including under the EU Market Abuse Regulation, and does not take any decisions or actions, such as selectively disclosing confidential or inside information, that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

Investor engagement
During the year, the CEO and CFO regularly held one-to-one meetings, calls, roadshows, and conferences with institutional investors. The Chairman and Senior Independent Director also engaged with certain major shareholders by way of meetings and calls. There is also regular communication with institutional investors by the Head of Investor Relations and senior management.

During 2020, the Board have engaged with investors on a range of topics, including:
- Governance including Board composition;
- Executive remuneration;
- the Group's Environmental, Social and Governance Strategy;
- Company performance against its strategy; and
- the impact of Covid-19.

The Board receives regular information on investor views in several ways:
- The Company's largest shareholders are invited to listen in to online full year and interim results presentations, at which Executive and Non-Executive Directors are present.
- The Group's corporate brokers provide feedback on market reaction and investor views after full and half year results announcements and investor roadshows.
- Analyst/broker reports and views: independent investment research analysts also have access to Executive Directors as part of their investment advisory roles and are able to attend results meetings, company visits and Capital Markets Days. The analysts' research publications provide timely feedback on financial performance, strategy, and share valuation.
- Reports from the Chairman and other Non-Executive Directors who have direct dialogue with shareholders. Shareholder feedback reports and statements made by representative associations. All shareholders have an opportunity to ask questions or represent their views formally to the Board at the AGM, or with directors after the meeting.

Investors' interests were considered as part of the Board's decisions throughout FY20 including with regard to: obtaining an additional credit facility to protect the Group's cash position at the peak of the Covid-19 pandemic; the issue of new equity finance through a non-preemptive placing of ordinary shares; and the cancellation of the interim dividend, in order to preserve cash within the Group in light of the pandemic.

The Board carefully considers the Group's cash position and forecasts when making decisions on capital allocation and the Company's dividend policy.

Regulators

Our Group is regulated by the Financial Conduct Authority in respect of the provision of credit broking. As a responsible authorised company, we seek always to cooperate and engage constructively with the FCA and meet its standards.

The Audit Committee exercises independent oversight over the regulated Finance business that includes updates on matters under discussion with the FCA.

Tax strategy[1]

We manage our tax affairs responsibly and proactively to comply with tax legislation. The Group's approach is to seek to build solid and constructive working relationships with all tax authorities.

During the year, the Board approved the Group's 2019 Tax Strategy[1] to comply with Schedule 19, paragraph 16(2) of the UK Finance Act 2016 published at https://www.dfscorporate.co.uk/governance/policies. This policy includes a requirement that the Company engages with HMRC constructively, honestly and in a timely and professional manner, and seeks to resolve disputed matters through active and transparent engagement. The Group CFO provides regular updates to the Board on tax matters.

1. Not part of the s172 requirements subject to audit

Financial reporting

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

Debt capital/credit facility providers and credit reference agencies

The Group CFO and the Company's Treasury team are responsible for managing the relationships with our bank syndicate, and for the Group's cash/debt management and financing activities.

The Group CFO provides regular reports to the Board on these activities including the Company's plans to ensure appropriate access to debt capital, monitoring the headroom and maturity schedules of our primary credit facilities.

The Board approves the Company's Treasury Policy annually.

S172 statement of non-financial information statement

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

Reporting requirement	Relevant information	Policies and standards
The Company's employees	Our Colleagues – pages 52-55 Sustainability and Responsibility report	• Diversity & Inclusivity Policy* • Equal Opportunities Policy* • Whistleblowing Policy* • Group Health and Safety Policy • Group Employment Policies
Anti-corruption and anti-bribery matters	Anti-Bribery – page 57 Sustainability and Responsibility report	• Group Code of Conduct* • Anti- Bribery Policy* • Competition Law Policy • Supplier Code of Practice Standards* • Whistleblowing Policy*
Respect for human rights	Modern Slavery – page 57 Whistleblowing – Audit Committee report page 81	• Modern Slavery Policy* • Data Protection Policy • Privacy Policy*
Social matters		• Tax Strategy*
Environmental matters	Sustainability and Responsibility – pages 50-51	• Environment Policy • Timber Sourcing Policy* • Leather policy

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

This Strategic Report was approved by the Board on 24 September 2020.
On behalf of the Board

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Board of Directors

Committee membership key

- A — Audit Committee Member
- N — Nomination Committee Member
- R — Remuneration Committee Member
- Denotes Chair
- – None

1

Ian Durant

Non-Executive Chair

Date of joining DFS: May 2017

Ian has held senior executive and non-executive positions in the retail, property, hotels and transport sectors in the UK and internationally, including twelve years based in Hong Kong when he was active in the fast growing markets of Asia. He brings to the Board 40 years of experience of managing consumer businesses, with particular experience of financial and people management, strategy development and planning, reorganisation, M&A, investor relations, and board management and listed company governance.

During his executive career he had leadership roles as a Finance Director with Liberty International, SeaContainers and Thistle Hotels, Dairy Farm International, Hong Kong Land and Hanson.

As a non-executive director he has served on the boards of UK listed companies including Westbury, Home Retail Group and Greene King. He was chairman of Capital and Counties Properties until 2018.

Qualifications: BA (Hons) in Development Studies, Economic and Social History from Kent University, Fellow of the Institute of Chartered Accountants in England and Wales and Fellow of the Association of Corporate Treasurers.

External appointments:

- Chair of Greggs plc
- Trustee and Chair of Finance and Investment Committee of RPLC (until 30 June 2020)

2

Tim Stacey

Chief Executive Officer

Date of joining DFS: July 2011

Experience: Prior to his appointment as Group CEO, Tim held a number of key leadership roles across the business. He joined as Director of Online and Business Development and led the multi-channel transformation of DFS, together with the growth and acquisition strategy.

He then took on the role of Chief Operating Officer assuming responsibility for stores, supply chain and customer service in addition to the Online operations and International development.

Tim has led the Group as CEO since November 2018, through the acquisition and development of Sofology and continued development of the Group as the clear market leader in the UK and Ireland.

Tim has a wealth of leadership and retail experience, including 12 years at Alliance Boots in roles such as Multi-Channel Director for Boots.Com and Director for Online and Business Development.

Qualifications: BA (Hons) in Accounting and Finance from Nottingham Trent University and member of the Institute of Chartered Accountants in England and Wales.

External appointments: None

3

Mike Schmidt

Chief Financial Officer

Date of joining DFS: March 2014

Experience: Prior to his appointment as CFO, Mike served as DFS's Chief Development Officer with responsibility for property, strategic development and investor relations activities. He led the acquisition of Sofology in 2017 and more recently has also served as Chair of Sofa Workshop and Dwell.

Prior to joining DFS Mike previously spent 13 years working for a number of leading investment banks including UBS and Citi, where he gained experience advising a wide range of customer-facing companies.

Qualifications: MA (Hons) in Economics and Management from Cambridge University.

External appointments: None

4

Alison Hutchinson C.B.E.

Senior Independent Non-Executive Director

Date of joining DFS: May 2018

Experience: Alison has a background in both IT and retail financial services and was previously Group CEO of Kensington Group PLC.

She has also held senior management positions, including Marketing Director, at Barclaycard having started her career at IBM where she became Global Director of Online Financial Services.

Alison has worked with the retail industry over the last 12 years to establish the fastest growing fintech charity the Pennies Foundation.

In 2016, Alison received a CBE for her services to the Economy and Charity.

Qualifications: BSc (Hons) in Technology and Business Studies from Strathclyde University.

External appointments:

- Chief Executive of The Pennies Foundation charity
- Independent Non-Executive Director of Liverpool Victoria Friendly Society Ltd
- Independent Non-Executive Director of Yorkshire Building Society

5

Jo Boydell

Independent Non-Executive Director

Date of joining DFS: December 2018

Experience: Jo Boydell has been the Chief Financial Officer of Travelodge since March 2013, and has broad based finance experience in hospitality, leisure and retail. Jo has held senior finance roles across a number of consumer-facing companies including Mothercare, Jessops, Ladbrokes plc, Hilton Group plc and EMI Group.

Qualifications: Honours Degree in Physics from Oxford University.

Associate of the Institute of Chartered Accountants in England and Wales and ICAEW Business and Finance Professional.

External appointments:

- Chief Financial Officer of Travelodge Hotels Limited

6

Steve Johnson

Independent Non-Executive Director

Date of joining DFS: December 2018

Experience: Steve has over 25 years' experience in the retail sector, in both public and private equity businesses. He served as CEO at Focus Wickes DIY Group and Woolworths, as well as chairing several other businesses. Prior to this Steve spent eight years at Asda having started his career with Bain & Co.

Qualifications: Qualifications BA (Engineering), MEng from Cambridge University.

External appointments:

- Chair of Matalan
- Senior Independent Director of Lenta Limited

7

Jane Bednall

Independent Non-Executive Director[1]

Date of joining DFS: January 2020

Experience: Jane has a strong marketing and commercial background in customer facing FTSE 50 companies. Most recently, Jane served as Chief Marketing Officer for Scottish and Southern Energy (SSE) plc and prior to that in global senior leadership positions with InterContinental Hotels Group, British Airways and Centrica.

Elected by the Retail Energy Industry, Jane also served for two years as Non-Executive Director of Smart Energy GB.

Qualifications: BA Hons Modern Languages (French, German, Spanish), from Sheffield University.

External appointments:

- Non-Executive Director EI Group

1. Appointed as Designated Non-Executive Director 8 July 2020.

Corporate governance report

"This year our governance has evolved, proportionate to the needs of the business and responsive to the fast changing circumstances of the pandemic which have proved immensely challenging".

Ian Durant
Chair of the Board
24 September 2020

2020 highlights

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

- assessing the operating and financial performance and strategy of the Group, in the context of the trading environment and market expectations
- overseeing the extension to the Group's financing and the share issuance
- developing our corporate purpose, building on the Group's values
- the appointment of a new Non-Executive Director, Jane Bednall
- the appointments of Alison Hutchinson as the Senior Independent Non-Executive Director and Steve Johnson as Chair of the Remuneration Committee
- enhancing our employee engagement arrangements, with the nomination of Jane Bednall as the Designated Non-Executive Director

Dear Shareholder

The Board recognises the importance of the role that good governance plays in the long-term success of the Group and in promoting stakeholder trust. The effective application of governance is essential to support resilience and innovation and to enable our people to flourish and deliver success through good times and bad.

This is our first Annual Report since the introduction of new disclosure requirements following the publication in 2018 of the revised UK Corporate Governance Code, and in this report you can read about how we have applied the updated principles. There are also new disclosures this year with regard to stakeholder engagement. Details of this and our full response to s.172 of the Companies Act 2006 can be found on pages 60 to 63.

Against the background of the global pandemic the Group faces an unprecedented challenge. The pandemic has had a drastic impact on the lives of our colleagues and our customers, and created an uncertain economic outlook for the UK and ongoing concerns about future UK trading arrangements with the EU. I am grateful for the response of our colleagues many of whom were furloughed for several weeks but have remained positive and supportive of our business.

I would also like to thank those colleagues who worked throughout the lockdown to maintain our online offering for customers, and who acted with pace and agility to ensure we re-opened our showrooms, restarted manufacturing and delivered to customers as quickly and safely as possible once the lockdown was relaxed. Their approach gives the Board confidence that we will emerge a stronger and more focussed business better able to face the challenges and opportunities ahead.

Through the pandemic lockdown when most of the Group's activities closed down, the Board met frequently by phone and online video to oversee the steps being taken to protect the Group's liquidity. These steps included cancelling the dividend, obtaining additional banking facilities and issuing new shares. The Board also debated plans to refocus the Group on to its core brands after the business was able to reopen and thus kept one eye on strategy whilst making the tactical decisions required to address the unprecedented short term disruption to the economy and our business.

The Board fosters a culture of openness, challenge and engagement with the Group Leadership Team and the wider senior management team. Board meeting agendas include regular "deep dives" into key operational areas. We also continue to fulfil our other core duties to oversee culture, governance, financial controls, risk and change management. This is supplemented by informal occasions for Board members to meet and discuss the plans and broader strategic issues with members of the wider management team.

Environmental, social and governance (ESG) considerations are an increasing focus for stakeholders, and the Group recognises the impact of its operations on the environment and the communities in which it operates. This year's annual report contains more detail on our ESG initiatives which we believe are both socially responsible and value creating.

During the year we have complied with all the principles and provisions of the UK Corporate Governance Code 2018 ("the Code") other than Provision 38 in respect of Executive Director pensions, as discussed further on page 71. This report details the Board's activities during the year, including how it has discharged its governance duties and applied the principles of good corporate governance.

We will be holding our Annual General Meeting in Doncaster at 2.30pm on the 13 November 2020: we will be holding the meeting virtually in order to comply with prevailing health and social distancing requirements.

Ian Durant
Chair of the Board
24 September 2020

Governance framework

DFS Furniture plc Board

Members:
Independent Non-Executive Chair
4 Independent Non-Executive Directors
2 Executive Directors

Audit Committee

Members:
4 Independent Non-Executive Directors

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, internal controls, risk management, compliance and audit.

See committee report page 76-81

Remuneration Committee

Members:
4 Independent Non-Executive Directors

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

See committee report page 84-105

Nomination Committee

Members:
Independent Non-Executive Chair
4 Independent Non-Executive Directors

The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board and succession planning for senior management.

See committee report page 82-83

This section looks at the roles and responsibilities of our Board.

The composition and role of the Board

The Board currently consists of four Independent Non-Executive Directors, an Independent Non-Executive Chair and two Executive Directors. Biographies of all members of the Board appear on page 65.

The Board is collectively responsible for the long-term success of the Company and for leading and controlling the Group and has overall authority for the management and conduct of the Group's business, strategy and development.

The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Group.

The CEO and CFO are members of the Board and are a bridge to the Group Leadership Team. The Board delegates to the Group Leadership Team the day-to-day operation of the business within defined parameters and Board meetings are scheduled to coincide with key events in the corporate and trading calendar.

The Board has adopted a formal schedule of matters reserved for its approval. This is reviewed annually to ensure it complies with the requirements of the Code and the current needs of the business. The Chair and the Non-Executive Directors meet several times each year without the Executives present, and additionally the Non-Executive Directors hold regular meetings with the CEO. The Board has implemented a Group Policy framework which is considered by the Board on annually. Individual policies and associated practices are considered by the Board throughout the year.

Whilst the Board does not manage the day to day operations of the Group, key decisions and matters which are reserved for approval of the Board are fully documented and regularly reviewed. These include the setting of, and changes to, the Group budget and strategic four-year plan, major acquisitions and disposals, the determination of interim dividends and the recommendation of final dividends, approval of the financial results, trading statements, annual report and accounts and an annual review of the effectiveness of risk management and internal control systems.

All the Directors have the right to have their concerns over or opposition to, any Board decision noted in the minutes. During the year, no such opposition or concerns were noted. The Board has adopted guidelines by which Directors may take independent professional advice at the Company's expense in the performance of their duties.

Board committees

Subject to those matters reserved for its decision, the Board has delegated to its Audit, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees which are available on the Group's corporate website, www.dfscorporate.co.uk. Separate reports for each Committee are included in this Annual Report from pages 76 to 105.

Role of the Chair and Chief Executive Officer

As the Chair, Ian Durant is responsible for leading the Board and ensuring its effectiveness in all aspects of its role. The CEO, Tim Stacey, is responsible for managing the operation of the Group to create value over the long-term. The roles are distinct and separate and clear divisions of accountability and responsibility have been agreed and documented by the Board.

Role of the Chair

- leading the Board and ensuring its effectiveness in all aspects of its role;
- promoting high standards of ethics and corporate governance;
- ensuring the submission to the Board by the Chief Executive Officer of objectives, policies and strategies for the Group, including the Group business plan and annual budget;
- maintaining the Board's review of the Group's general progress and long-term development and ensuring that effective strategic planning for the Group is undertaken;
- facilitating effective contributions of Non-Executive Directors to the leadership of the Group;
- ensuring effective communication between the Board and the Company's shareholders; and
- acting on the results of the Board's annual review of its and its Committees' and individual Directors' performances.

Role of the Chief Executive Officer

- leading the management and performance of the Group;
- planning the Group's strategies effectively;
- ensuring the effective implementation of the Board's decisions;
- maintaining an effective framework of internal controls and risk management;
- leading, motivating and monitoring performance of the Group's executive management team, focusing on succession planning and making appropriate recommendations as to the team's remuneration to the Remuneration Committee; and
- managing the Group's relations with shareholders, customers, suppliers, regulators, other public organisations, other companies and the media.

Role of the Senior Independent Director (SID)

The Senior Independent Director is an Independent Non-Executive Director who is responsible for:

- acting as a sounding board for the Chair; and
- meeting with the Company's shareholders to consider matters where it may be inappropriate to have those discussions with the Chair and Executive Directors.

Role of the Company Secretary

The Company Secretary is responsible for:

- advising the Board and its Committees on corporate governance and compliance within the Group and appropriate procedures for the management of Board and Committee meetings;
- managing the provision of timely, accurate and considered information to the Board; and
- recommending corporate governance policies and practices to the Chairman and CEO.

Board balance and independence

The Board reviews independence as part of its annual Board Review and monitors independence throughout the year.

The Board has determined that the Non-Executive Directors are independent and have a complementary set of skills and experience as shown in the table below. Further information on the diversity of the Board can be found within the Directors' biographies on pages 65.

Principal skills and experience	Retail	Customer services/ marketing	People	Operations	International	Regulatory	Finance
Ian Durant Chair	✓			✓	✓	✓	✓
Tim Stacey Chief Executive Officer	✓	✓	✓	✓			✓
Mike Schmidt Chief Financial Officer	✓				✓	✓	✓
Alison Hutchinson Senior Independent Non-Executive Director	✓	✓	✓			✓	✓
Jo Boydell Independent Non-Executive Director	✓			✓		✓	✓
Steve Johnson Independent Non-Executive Director	✓	✓	✓	✓	✓		
Jane Bednall Independent Non-Executive Director	✓	✓	✓	✓			
Luke Mayhew Senior Independent Non-Executive Director	✓	✓	✓	✓	✓		

Length of appointments

Non-Executive Directors' appointments are for an initial period of three years and are subject to annual re-election by shareholders at the Company's AGM, taking into account the requirements of the Listing Rules and continued satisfactory performance.

Neither the Chairman nor any Non-Executive Director have been in their position for more than nine years, in accordance with the recommendations made in the Code.

Board meetings

The following section provides an overview of the content and structure of the Board's meetings and illustrates that the Group's key stakeholders are central to Board discussions. Meeting agendas are agreed in advance by the Chairman, CEO and Company Secretary and are tailored to strike an appropriate balance between regular standing items, such as reports on current trading, financial performance, regulatory and health and safety, with one or two detailed "deep dives".

These enable the Board to gain a deeper understanding of the strategic direction of the business, exchange views and robustly debate elements of the Company's performance, specific projects or areas of strategic significance. Board packs are distributed in the week prior to each meeting to provide sufficient time for Directors to review their papers in advance. If Directors are unable to attend a Board meeting for any reason, they are consulted prior to the meeting and their views are made known to the other Directors.

At each Board meeting, the Board receives and discusses reports from each of the Executive Directors. In addition, and as part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team, members of the Group Leadership Team are invited to attend Board meetings to present papers to the Board. This process also affords senior managers the opportunity to bring matters to the attention of the Board.

The Board held eight scheduled meetings during the year, with one of these meetings being a strategy day with members of the Group Leadership Team.

Twelve ad hoc meetings were held in response to the Covid-19 pandemic as and when necessary, bringing the total number of Board meetings to twenty.

Corporate governance report continued

Board attendance and overview of responsibilities

Name	Meetings attended	Maximum meetings***	Independent	Responsibility and role during 2019/20	Date of appointment
CHAIRMAN					
Ian Durant Non-Executive Chair	8	8	–	Leading the Board and ensuring its effectiveness in relation to board governance, performance, and shareholder engagement.	2 May 2017
EXECUTIVE DIRECTORS – At each Board meeting, the Board receives and discusses reports from each of the Executive Directors.					
Tim Stacey Chief Executive Officer	8	8	–	Leading and managing Group performance and strategy to ensure the long-term profitable operation of the Group.	1 November 2018
Mike Schmidt Chief Financial Officer	8	8	–	Leading, managing and maximising Group financial performance, investor relations, legal and property functions.	11 July 2019
NON-EXECUTIVE DIRECTORS					
Alison Hutchinson	8	8	✓	Overseeing the implementation of the strategy and development of the Group whilst maintaining a system of internal control and risk management. Board Committee members also have further specific responsibilities in relation to reviewing the integrity of financial information, dealing with succession planning and Board diversity, and setting remuneration.	1 May 2018
Luke Mayhew*	2	2	✓		3 February 2015
Steve Johnson	8	8	✓		6 December 2018
Jo Boydell	8	8	✓		6 December 2018
Jane Bednall**	5	5	✓		1 January 2020
STANDING ATTENDEES					
Liz McDonald General Counsel and Company Secretary				Advising the Board on all corporate governance and legal issues.	
ATTENDED BY INVITATION – members of the Group Leadership Team may be invited to attend Board meetings to present papers and discuss matters of importance					
Nick Smith	5			The Group Leadership Team sits below Board level. They promote and facilitate the implementation of the strategy and Group values and oversee the day-to-day operations of each of the Group companies. Their attendance at Board meetings is part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team. This process also affords senior managers the opportunity to bring matters to the attention of the Board.	
Scott Fishburn	6				
Sally Hopson	3				
Alex Salden	1				
Russ Harte	3				
Peter Jenkins	1				
Gill Stewart	1				
Jo Shawcroft	1				

* Luke Mayhew retired from the Board on 14 November 2019, so was eligible to attend 2 scheduled Board meetings.
** Jane Bednall was appointed on 1 January 2020, so was eligible to attend 5 scheduled Board meetings.

Usually the Board splits its meetings between its Group Support Centre in Doncaster and London, as well as using a number of operational locations away from these sites in order to help to promote colleague engagement and to provide the Board with greater insight and direct feedback. During the year the meetings which took place between March and June were held via video conference due to the Covid-19 pandemic. Prior to the pandemic and subsequent lockdown, our colleagues had a number of opportunities to interact with Board members at different events, such as the DFS Conference and Employee Voice Forums.

Additionally, all of the Non-Executive Directors have visited a number of the Group's retail, warehousing and manufacturing sites throughout the UK so that they are well-versed in the operations of the business and had a chance to meet with the front-line team members as well as centrally based executives. These visits provide the Non-Executive Directors with the in-depth knowledge necessary to facilitate strong debate and supportive challenge.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet eight times, with additional telephone or online meetings to review important trading periods or strategic issues, as appropriate.

Committee meetings

All Directors are invited and did attend Audit Committee meetings, and the Chair of the Board is invited to and did attend Remuneration Committee meetings. The Chief Executive Officer is invited to attend both the Remuneration and Nomination Committee meetings, and the Chief Financial Officer is invited to attend the Remuneration Committee meetings.

Although specific information on the role and key activities of each Committee can be found in their separate Committee reports, a summary of Committee members attendance of meetings is as follows:

Name	Date of appointment	Audit Committee	Remuneration Committee	Nomination Committee
Ian Durant	2 May 2017	–	–	1/1
Alison Hutchinson	1 May 2018	3/3	4/4	1/1
Steve Johnson	6 December 2018	3/3	4/4	1/1
Jo Boydell	6 December 2018	3/3	4/4	1/1
Jane Bednall*	1 January 2020	1/1	2/2	–
Luke Mayhew**	3 February 2015	1/1	1/2	–

* Jane Bednall was appointed 1 January 2020, so was eligible for 1 Audit Committee meeting and 2 Remuneration Committee meetings.
** Luke Mayhew retired 14 November 2019, so was eligible for 1 Audit Committee meeting and 2 Remuneration Committee meetings.

Compliance with the UK Corporate Governance Code 2018:

Introduction

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

The UK Corporate Governance Code 2018 ("the Code") was published by the Financial Reporting Council in July 2018 and applies to this Annual Report. A copy of the Code can be found at www.frc.co.uk.

Compliance statement

This Corporate Governance Report, which incorporates reports from the Audit and Nomination Committees on pages 76 to 83 together with the Strategic Report on pages 1 to 63, the Directors' Remuneration Report on pages 84 to 105 and the Directors' Report on pages 106 to 109, describes and explains how the Company has applied the relevant provisions and principles of the Code, and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules throughout the year.

The current Code applies to accounting periods beginning on or after 1 January 2019. We are pleased to report that, in the first year in which we applied the new Code, the Company was compliant with all Provisions except for Provision 38. Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our incumbent Executive Directors' pension contribution rates, while in line with Remuneration Policy for existing Executive Directors, do not yet match the wider workforce. We will review how to address this Provision during the coming year as any reduction of fixed, contractual remuneration must be done so carefully and proportionally over time. We have reported in summary below how we have complied with the Provisions. Further details regarding the Executive Directors' pension contributions are set out on page 93 in the Directors' Remuneration Report.

Conflicts of interest

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

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

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

Board evaluation

In line with the Code and the supporting Guidance on Board Effectiveness, the Board carried out its fourth evaluation of its own effectiveness, and that of its various Committees, during the year. The Company appoints an external organisation to carry out the Board evaluation every third year as required under the Code. The evaluation this year was carried out by the Group Company Secretary; the evaluation in 2021 will be an externally facilitated review. The diversity and independence of the Board is also considered as part of this evaluation.

The process involved each Director, the Company Secretary and each Group Leadership Team member completing a formal questionnaire on the performance of the Board and each of the Board committees and attending a one to one session with the Senior Independent Director (SID). The questionnaire considered the balance of skills, diversity, independence and knowledge of the Company on the Board, how the Board works together, and other factors relevant to its effectiveness.

Board members have the opportunity to provide further written feedback on an anonymous basis in order to encourage them to provide honest feedback on Board dynamics and the performance of the Board and the Committees. The results of the evaluation identify areas for development which are then used as focus points for agreeing an action plan moving forward.

Stages of the Board evaluation

Stage 1

One to one session with the SID

Formal online questionnaire

Stage 2

Results collated, reported and evaluated

Stage 3

Board discussion and action plan for FY21 agreed

Results overview

The consensus was that the Board, and its Committees, had performed effectively and had addressed those areas previously identified as requiring further attention. Insights arising from this year's review are highlighted in the table below in respect of the Board, the Committees, and the Chairman.

Board	Committees	Chair
The review found that Board dynamics remain strong, with members of the Board and management team working well together. Board members confirmed that they were confident that over the previous year a great emphasis had been placed on understanding key business risks and this had led to more informed debate.	Overall, each of the Board Committees were considered to operate well. It was concluded that in terms of planning during the upcoming months additional time would be required for the Audit Committee to consider risk in greater depth in light of Covid-19.	Results show the Board is well led and the environment is managed effectively by the Chair so that Board members can contribute freely and play an active role in Board meetings.

Board action plan for FY21

- Continued exploration and application of values, culture, and strategy in alignment with the Company Purpose.
- Close monitoring of the risks arising from the ongoing impact of Covid-19 on the Group and the wider economy and of the impact of Brexit, and the mitigation of those risks.
- Further consideration and discussion surrounding all the principal current and emerging risks.
- Overseeing the structural changes and the continued progression and development of each of the Group brands.
- Monitoring the development of the Group's ESG strategy against the phase 1 ESG targets.

Election of Directors

The Board can appoint any person to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following AGM and shall then be eligible for election by shareholders. In accordance with the Articles, Jane Bednall will be offering herself for election at the forthcoming AGM, along with all the other Directors for re-election. All of the Directors stand for annual re-election in compliance with the Code.

The AGM is to be held at DFS Furniture plc's Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA, at 2.30pm on 13 November 2020, full details of which are set out in the notice of meeting accompanying this Annual Report.

As noted above, following the formal internal evaluation process of the effectiveness of the Board, the Board is satisfied that each Director remains competent to discharge their responsibilities as a member of the Board and considers that each Director's contribution is, and continues to be, important to the long term sustainable success of the Company and the specific reasons for such are set out in the directors' biographies on page 65.

Independence

At least half of the Board was made up of Independent Non-Executive Directors (not including the Chairman) throughout the reporting period. The Non-Executive Directors whom the Board considered to be independent are shown as such on page 70. The Board confirms that all the Non-Executive Directors (excluding the Chairman) were independent during the reporting period and that the Chairman was independent on appointment. The Remuneration Committee membership is made up of only independent Non-Executive Directors. Details of how the Remuneration Committee exercised its discretion during the year may be found on page 86 of the Remuneration Committee Report.

Culture and Company purpose

In compliance with the Code, the Group has established its Corporate Purpose, which is set out on page 1, along with details of the Company's Values, strategy, and culture. An explanation of our Corporate Purpose, values and strategy are set out in the Strategic Report which starts on page 1. The Board regularly discusses the importance of the Company culture and is mindful that it remains aligned with its purpose, values and strategy. Integrity and sympathy to the DFS group culture and its 50 year history are paramount when the Board recruits new members to the Board.

Diversity & experience

The diversity of the Board is considered on page 83 of this annual report. The Board specifically reflects on the issue of diversity in its succession planning and Board development and considers that the Directors have a broad range of relevant experience in order for them to continue to fulfil their roles effectively and in accordance with the Code. For example, the Audit Committee Chair held a number of senior finance roles not only prior to but concurrent with joining the Company and therefore has the required financial experience to enable her to be Committee Chair. The Remuneration Committee Chair had served on our Remuneration Committee since December 2018, prior to his appointment as Chair.

Development

Following appointment, new Directors undergo a detailed, tailored induction programme. In the case of Non-Executive Directors, this includes meeting with the Group Leadership Team and key members of the wider senior management team. New Directors also visit operational locations, including showrooms, factories, support offices, Customer Distribution Centre and delivery and service functions, as well as meeting with the Group's professional advisors including brokers, lawyers, and auditors. As such, new Directors spend considerably more than the minimum commitment.

In addition, each Director receives key information and policies that are relevant to their position. For new Executive Directors, and Non-Executive Directors for whom the appointment is their first to a UK-listed company, the induction includes details of the legal duties and obligations of being a Director of the Company.

Where any individual development needs have been identified, which may arise as a result of part of the annual Board evaluation process, then training will be provided as appropriate.

External appointments

The Executive Directors may accept appointments outside of the Group provided that such appointments do not prejudice their ability to perform their duties as Executive Directors of the Company. Tim Stacey and Mike Schmidt do not currently hold any external appointments.

The Non-Executive Directors' appointment letters anticipate a minimum time commitment of two days per month, recognising that there is always the possibility of an additional time commitment and ad hoc matters arising from time to time, particularly when the Company is undergoing a period of increased activity. The average time commitment inevitably increases where a Non-Executive Director assumes additional responsibilities such as being appointed to a Board Committee. The Board considers that each of the Non-Executive Directors' continue to have sufficient time to meet their responsibilities, in accordance with the Code. Due to the impact of the pandemic on the Group all the Directors spent considerably more time during the year than the minimum commitment required.

As part of the assessment of the time commitment required under the terms of reference for the Board should a Director wish to take on an additional external appointment, they are required to obtain the approval of the Board to ensure the Director has sufficient time to fulfil their duties.

Shareholder engagement

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

In addition, all Directors receive reports and briefings during the year about the Company's investor relations programme and receive feedback obtained by the Company's brokers after meetings, in order to maintain an understanding of market perceptions. External analysts' reports on the Group are also circulated to the Directors.

In addition to the extensive engagement carried out by the CEO and CFO, the Chairman, and Chairs of the Remuneration and Audit Committees met or spoke to a number of shareholders during the year.

The Chairman makes himself available to shareholders so that any major issues and concerns are communicated to the Board through the Chairman. All major shareholders are given the opportunity to meet with the Senior Independent Non-Executive Director and she welcomes the opportunity to meet with major shareholders when requested to do so. No requests were received during the year for the Senior Independent Non-Executive Director to meet with shareholders.

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

Interaction with all shareholders

- presentations of full year and interim results to analysts and shareholders, which are also available on the Company's corporate website.
- market announcements, through which we ensured that all investors were informed of the impact the virus was having on our business.
- the Annual Report, which sets out details of the Company's strategy, business model and performance over the past financial year and plans for future growth.
- the Annual General Meeting, where all shareholders have the opportunity to vote on the resolutions proposed and to put questions to the Board and executive team.
- the Company's corporate website (www.dfscorporate.co.uk), where investor information and news is regularly updated.

Interaction with institutional shareholders

- the CEO and CFO hold physical and online meetings with institutional investors following the full year and interim results.
- the Chairman meets with institutional shareholders where appropriate.

Interaction with private shareholders

- dial-in facility to live presentations of the full year and interim results.
- dedicated email point of contact to answer shareholder questions and queries.

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

In particular, the potential effects of MiFID II on market awareness of our investment proposition are closely monitored by the CFO so that any adverse trends can be identified and reported to the Board in a timely manner. Although no material effect has been experienced to date, this issue remains under review to enable the approach to investor relations to be tailored as appropriate.

Relationships with other stakeholders

The Group considers our customers, colleagues, suppliers, regulators, and the communities in which we operate, as our principal stakeholders in addition to our shareholders. We also believe that our wider obligations to the environment make it a principle stakeholder in our business. Our section 172 statement on pages 60 to 63 and our Sustainability and Responsibility report on pages 48 to 59 sets out more detail on how we manage our relationships with all our stakeholders.

The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise. The Chairman and Non-Executive Directors are also available to attend investor relations meetings or to request meetings with investors or analysts independently of the Executive Directors, if required.

External auditor

Our external auditor is Frances Simpson at KPMG LLP. The Audit Committee oversees the Group's relationship with its external auditor including assessing the independence and effectiveness of the audit firm. Further details are set out in the Audit Committee report on pages 76 to 81.

Internal audit

Further details relating to the internal audit function are contained within the Audit Committee report on pages 80 to 81.

Non-audit services policy

Our non-audit services policy can be found on our website and is summarised on page 79 of this annual report.

Remuneration

The remuneration policies are designed to support strategy and promote the long-term success of the Company. Details of the procedures used to determine remuneration, including separate performance-related elements, in relation to the Board and wider workforce are contained in the Remuneration Committee report on pages 98 to 99.

DTR Disclosure

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit committee and Nomination committee Reports, except for information required under DTR 7.2.6 which is contained in the Directors' Report on pages 106 to 109.

Signed on behalf of the Board of Directors.

Elizabeth McDonald
Group Company Secretary
24 September 2020

Audit Committee report

Jo Boydell
Chair of the Audit Committee
24 September 2020

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

The role of the Audit Committee

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

Key activities during FY20

- review and response to risk impacts from Covid-19
- development of new Group internal audit methodology and risk management tool
- decision taken to defer planned external audit tender process
- oversight of implementation of new lease accounting standard IFRS 16

On behalf of the Board, I am pleased to present this year's Audit Committee report following my first full year as Chair. During FY20, Luke Mayhew stepped down from the Committee following his retirement from the Board and we were pleased to welcome Jane Bednall as a new member from January 2020.

The Covid-19 pandemic has had a significant and wide-ranging impact on the risk profile of the Group, as discussed in more detail in the Risks and Uncertainties section on pages 32 to 33, and has by extension also had a significant impact on those activities for which the Committee is responsible.

Internal audit activity was temporarily suspended during the final quarter of FY20 as a consequence of the pandemic, however the progress in the period before this was very pleasing. Building on the restructure of the function last year, FY20 has seen development of a Group-wide consistent internal audit methodology, bespoke risk management tool and a significant investment in training and development for the internal audit and risk teams.

In addition, the planned external audit tender process has now been deferred until FY21, although this will still be conducted earlier than required by the relevant regulations.

The direct and wider economic impacts of the pandemic have been a key consideration for the assessment and reporting on going concern and viability. The Committee has continued to take an active role in reviewing and challenging the assumptions applied in making these assessments in the context of the Group's external financial reporting. The Committee has also received regular updates on the Group's implementation of IFRS 16 Leases which has been adopted for the first time in the current financial year and which represents a significant change to the measurement and presentation of financial results.

The effectiveness of the Committee was considered as part of the annual Board evaluation and I am pleased to report that no significant areas of concern were identified and the Committee was viewed as operating effectively.

I thank my fellow Committee members for their valuable contribution and support during a year that has seen some unprecedented challenges for the Group, and I welcome any comments or questions from shareholders.

Composition

The Audit Committee continues to be chaired by Jo Boydell, who was appointed to the role in April 2019. Other current Committee members are Alison Hutchinson, Steve Johnson and Jane Bednall (appointed in January 2020). Luke Mayhew ceased to be a Committee member on his retirement from the Board in November 2019.

The UK Corporate Governance Code ("the Code") recommends that all members of the Audit Committee are Non Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience. The Board considers that, by virtue of her current executive role, details of which are set out on page 65, Jo Boydell has recent and relevant financial experience and the Company complies with the requirements of the Code in this respect. All Committee members are Independent Non-Executive Directors and have extensive relevant commercial and operational experience in large retail/customer-facing organisations which both benefit the Committee and collectively illustrate its competence relevant to the sector in which the Group operates.

Biographies of the Independent Non-Executive Directors are included on page 65 and a summary of their principal skills and experience is shown on page 69.

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

Roles and responsibilities

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

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

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

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

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

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

Activities of the Audit Committee

The Audit Committee of the Group met three times during the year and attendance at those meetings is shown on page 71. At each meeting, standing agenda items relating to risk, internal audit results, whistleblowing and litigation issues were reviewed.

In addition, the other matters covered at each meeting are summarised below:

2019

August 2019
- Specific update on IFRS 16 transition and reporting
- FY19 full year results, including reviews of going concern and viability reporting
- External audit findings for FY19, including KPMG LLP's performance and subsequent re-appointment
- FY19 preliminary statement and Annual report
- Group risk report, including business continuity planning and results of an independent cyber risk review
- Group internal audit report
- Proposal for external audit tender process

September 2019
- FY19 full year results, including reviews of going concern and viability reporting
- External audit findings for FY19, including KPMG LLP's performance and subsequent re-appointment
- FY19 preliminary statement and Annual report
- Group risk report, including business continuity planning and results of an independent cyber risk review
- Group internal audit report
- Proposal for external audit tender process

2020

March 2020
- Interim results for FY20, including the first-time application of IFRS 16
- External audit interim review findings
- FY20 interim results announcement and presentation
- Group risk report, including impacts of emerging Covid-19 risk
- Group internal audit report
- Update on external audit tender process
- Approval of updated policy on non-audit services

A subsequent meeting in early July 2020 considered the following matters:
- Group internal audit and interim risk update
- External audit plan and strategy for FY20
- Initial review of FY20 viability analysis, including modelling of Covid-19 and Brexit risks
- Confirmation of decision to defer external audit tender

Following the FY20 year end close, at the September 2020 meeting, the Committee reviewed and approved, for consideration by the Board, the financial results for the 52 weeks ended 28 June 2020 including a review of the full year external audit. As part of that review process, the members of the Committee reviewed the Annual Report, including the adequacy of the disclosure with respect to going concern and viability reporting in order to conclude whether the Annual Report taken as a whole was fair, balanced and understandable.

This additional review by the Audit Committee, supplemented by advice received from external advisors during the drafting process, assisted the Board in determining that the report was fair, balanced and understandable at the time that it was approved.

The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans and supporting assumptions as well as sensitivity analysis and concluded that the Company's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

Performance evaluation

The evaluation of the performance of the Audit Committee was carried out as part of the wider review of Board effectiveness, further details of which can be found in the Corporate Governance report on page 72. There were no significant concerns raised from this review and the Committee was deemed to be operating effectively.

Significant issues considered in relation to the financial statements

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

Impairment of intangible assets	Note 10
As a result of business acquisitions, the Group has recognised significant balances for goodwill and brand names. Goodwill must be tested annually for impairment; other intangible assets are tested when there are indicators that they may be impaired. The assessment of potential impairment requires a number of judgements and estimates to be applied in determining the relevant future cash flows and the discount rate to be applied.	The Committee reviewed and challenged the approach taken by management to impairment testing, and assessed the reasonableness of the underlying assumptions and financial forecasts used. The Committee considered the appropriateness of the conclusions reached, including the recognition of impairment charges on goodwill and intangible assets relating to Sofa Workshop. The Committee also reviewed KPMG's report and discussed their observations and findings in this area.

Provisions	Note 20
In accordance with IFRS, the Group maintains a number of provisions, primarily relating to: the cost of satisfying guarantees offered to customers; dilapidations and other property-related liabilities; and the valuation of finished goods inventory. The determination of these provisions is inherently uncertain as they rely on using historical data to estimate future liabilities.	The Committee considered management's documented rationale and basis for these provisions to challenge and assess their reasonableness and adequacy. This included consideration of alternative valuation methodologies to provide additional supporting evidence. The Committee also reviewed KPMG's audit report and discussed their observations and findings in this area.

Going concern and viability reporting	Page 39
In addition to the statement on going concern, the Group is required to make an assessment on its longer term viability. This requires the application of a number of judgements and estimates, particularly given the current uncertainty in the UK consumer market surrounding the UK's departure from the European Union.	The Committee, along with the Group's external auditor, has reviewed management's assessment of the prospects of the Group for the three years from 28 June 2020, being a reasonable period for the assessment of key risks for a retail business given continuing political and economic uncertainties. This review included the challenging of assumptions and stress-testing of the scenario modelling, including the potential impacts of Covid-19 and Brexit, and concluded that the going concern assumption remains appropriate and the Board is able to make the viability statement on page 39 of the Strategic Report.

IFRS 16 transition	Note 1.18
The Group has adopted IFRS 16 Leases for the first time in the current financial year. This standard represents a fundamental change in the accounting and presentation of lease arrangements and depends on significant and complex underling calculations.	The Committee has received regular updates throughout the implementation process, including details of methodology and the basis of key assumptions such as applicable discount rates. The Committee has also reviewed the external presentation and disclosure of the impact of IFRS 16 on the Group's financial statements.

Assessment of effectiveness of the external audit process

The Audit Committee oversees the relationship with the external auditor and considers the re-appointment of the Company's auditor, KPMG LLP, before making a recommendation to the Board to be put to shareholders. As part of this responsibility, the Committee approved the audit plan for the 52 weeks ended 28 June 2020 and reviewed the auditor's findings and management representation letters. Prior to recommending the appointment of KPMG LLP at the forthcoming AGM to the Board, the Audit Committee reviewed the audit process, the performance of the auditor and its ongoing independence, taking into consideration input from management, responses to questions from the Committee and the audit findings reported to the Committee. Based on this review, the Committee concluded that the external audit process had been run efficiently and that KPMG LLP has been effective in its role as external auditor.

In FY19, the FRC's Audit Quality Review team commenced a review of selected areas of KPMG's audit of the Group's FY18 Annual report. The results of this review were communicated to the Committee in November 2019 and did not include any significant findings. The Committee Chair met with representatives of the FRC to ensure the findings were fully understood.

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

Following the implementation of the EU Audit reforms, the Audit Committee has agreed a policy intended to maintain the independence and integrity of the Company's auditor when acting as auditor of the Group's accounts. The policy governs the provision of non-audit services provided by the auditor and, in summary, categorises the types of non-audit services as:

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

In any event, within each of the Group's legal entities, the cumulative total of non-audit fees paid to the external auditors within each financial year must not exceed 70% of the average audit fee for the last three financial years. The above policy has been adhered to throughout the financial year ended 30 June 2019, during which no non-audit services were provided by the Group's external auditor, other than an interim review which is closely related to the audit.

Following the publication of the FRC's revised ethical standard in December 2019, the Committee reviewed and updated the Group's policy on non-audit services. These changes were not material, and primarily related to greater detail and clarity on the types of services included in the permissible category. The updated policy was approved at the March 2020 Committee meeting and will apply from the beginning of FY21.

Independence safeguards

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

KPMG LLP was appointed while the Group was under private ownership and has served the DFS business for more than 20 years. The engagement partner has rotated regularly during this time, with the current partner, Frances Simpson, assuming this role for the first time in the current financial year. Following the Company becoming a public listed entity in 2015, KPMG LLP may remain as external auditor without re-tender for ten years from that date, until the completion of the 2025 annual audit.

In last year's Annual report the Committee announced that it would conduct a tender process for the external audit during the course of FY20, with a view to appointing a firm for FY21, to address the risk that an earlier re-tender may be required should the Company enter the FTSE 350 index. Invitations to tender were duly issued to a number of selected firms, and detailed plans were established for the process with significant activity scheduled for March and April 2020. The emergence of the Covid-19 pandemic in the UK at that time prevented the completion of these activities in line with the intended approach and consequently, in line with FRC guidance, the Committee decided to pause the tender process.

It remains the Group's intention to complete a tender process ahead of the regulatory requirement to do so in 2025 in order to ensure a managed and ordered approach. Provided the public health environment permits, the tender process will be conducted during FY21 with the aim of appointing a firm for the FY22 financial year at the November 2021 Annual General Meeting.

Independence assessment by the Audit Committee

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

The Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of KPMG LLP as auditor until the AGM in 2021. As noted above, a tender process will be conducted during FY21.

Internal audit

Following its restructure during FY19 as noted in last year's report, the Group's Internal Audit and Risk function has continued to make strong progress. An updated methodology, aligned with CIIA standards, has been established and consistently applied to all internal audits with the scoring and weighting definitions amended to allow consistency across the Group's brands.

The Group has also invested in significant training and development to support the effectiveness of the internal audit function, and has successfully developed its own internal risk management tool to capture and assess risks across each brand. The Group is committed to seeking further development and innovation in its approach to risk management, and moving forward into FY21 will place an increased emphasis in particular on sharing of best practice and wider use of data analytics.

The scope and focus of the Group's internal audit plan continues to be informed by the regular formal reviews of the risk register as well as specific business requirements. The full execution of the FY20 plan was inevitably disrupted in the last quarter of the year by the Covid-19 pandemic, but prior to that point a wide ranging programme of work had been completed, including:

- Regulatory areas such as data protection and the Group's FCA regulatory responsibilities for credit broking, including complaints handling; the store environment, particularly in relation to conduct risk and stock management;
- Retail audits in all brands including a review of management and administration controls, stock management and regulatory compliance;
- Support for a full DFS brand stocktake and review of associated controls;
- Key head office functions including tax compliance and accounts payable;
- Customer Distribution Centres, with a particular focus on stock management;
- Group-wide key risk areas including whistleblowing policies and fraud risk; and
- Update of business continuity plans in early FY20, which were then subject to independent external review.

In addition, an external cyber audit was completed in FY20. This review identified areas where the Group could strengthen its approach and a dedicated cyber working group was subsequently established to progress these actions through FY20 and FY21.

Following the restart of business activities on the easing of Covid-19 restrictions, the internal audit team undertook a comprehensive audit assurance programme designed to verify the level of adherence with our Covid-19 measures at every site within our retail and distribution network. Site visits were completed by a combination of physical and virtual means, utilising video to check evidence where appropriate. Weekly reporting was issued to all stakeholders confirming a very high compliance with our Covid-19 safety measures, and remediation plans were put in place at the few sites where gaps were identified, with all return visits confirming significant improvements. In order to limit visitors to our production sites, a similar cycle of support and checks at all our manufacturing sites was conducted by the Production Health and Safety Manager.

Summarised reporting of internal audit results is provided to the Governance Risk and Compliance committee on a monthly basis and also at each Audit Committee meeting, together with summaries of themes emerging from the results and overall risk profile across the business.

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

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

Internal control and risk management

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

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

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

There are a number of governance sub-committees that focus separately on: Conduct Risk; Environmental, Social and Governance; Health and Safety; and Legal and Financial. These comprise senior and middle management responsible for the 'day to day' management of the controls to ensure the Group remains both compliant and proactively reviews its processes, risks and forthcoming changes to ensure it plans in a timely, structured and sustainable way.

The Governance, Risk and Compliance committee places emphasis on key metrics and management information designed to provide oversight of performance and highlight any potential detriment or risk to the Group while seeking to achieve the very best customer outcomes and provide a safe environment for staff, customers and data alike. During the year, this management information has continued to be developed and refined in direct association with the ongoing review of the risk register.

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

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

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

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

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

The impact on internal controls of the Covid-19 pandemic and associated changes to business operations has been considered and appropriate modifications made where necessary, for example to accommodate remote working. There have been no changes in the Company's internal control during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal controls and risk management is in place which enables the Company to identify, evaluate and manage key risks and which accords with the guidance published by the FRC. These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 32 to 38.

Whistleblowing

The Group is committed to the highest standards of openness, honesty, integrity and accountability and, as a result, has a whistleblowing policy in place. This policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. Examples include fraud, breakdown in internal controls, misleading customers, bribery, modern slavery, dishonesty, corruption and breaches of data protection or health and safety. An internal audit of the Group's whistleblowing process conducted during FY20 concluded that it was operating effectively and identified some minor areas for improvement.

During the year, there were 26 reports received through the whistleblowing process, all of which were fully investigated and addressed in accordance with the policy.

Control environment

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

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

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

Following an externally-facilitated risk-assessment exercise, the Company has also reviewed its practices and processes in order to ensure that reasonable prevention procedures are in place to prevent the facilitation of tax evasion in line with the new Criminal Finances Act 2017.

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

The Company has also updated its Tax Strategy Statement, which is published on the Company's website (www.dfscorporate.co.uk) in compliance with its duty under the Finance Act 2016, which sets out details of the Company's attitude to tax planning and tax risk.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on pages 110 and 119. As set out in the Directors' report, the Directors consider the Company's business to be a going concern. The Company's viability statement can be found on page 39.

Jo Boydell
Chair of the Audit Committee
24 September 2020

Nomination Committee report

Ian Durant
Chair of the Nomination Committee

"This year, the Nomination Committee has focused on the appointment of a new Non-Executive Director which will add diversity and experience to the Board."

The role of the Nomination Committee

The Committee makes recommendations to the Board, with the agreed terms of reference, on the appointment of Executive and Non-Executive Directors ensuring the appropriate blend of skills, knowledge and experience.

2020 highlights

- conducted a review of the composition of the Board, based on the skills, knowledge, experience and diversity of the Board and the requirements of our stakeholders
- conducted the search for a new Non-Executive Director, including consideration of candidates, and recommendation to the Board
- appointed the new Senior Independent Non-Executive Director and a new Chair of the Remuneration Committee
- reviewed the pipeline of talent within the Group Leadership Team

The Nomination Committee keeps the composition and performance of the Board under review to ensure that it has the right blend of skills, knowledge, diversity, and experience to remain effective in supporting the Company in its purpose and strategy. I was pleased with the performance of the Board through the extreme and unprecedented challenges of the Covid crisis and the need for agile and timely decision making and actions to protect the business and support the management team.During the year, after Luke Mayhew indicated his intention to step down from the Board as a Non-Executive Director at the AGM in November 2019 a review of the composition of the Board and the skills, independence and experience of the Non-Executive Directors' was undertaken and a Board succession plan developed.

As a result of that review Alison Hutchinson was appointed the Senior Independent Non-Executive Director with effect from 26 September 2019.

Following an externally facilitated search, Jane Bednall was appointed to the Board as a Non-Executive Director in January 2020. Jane brings a wealth of relevant retail and marketing experience, including digital marketing in both listed company and private equity owned businesses. Jane has settled in well and we welcome her contribution.

Due to her increased responsibilities as Senior Independent Director, Alison Hutchinson stepped down as Chair of the Remuneration Committee on 17 January 2020, and Steve Johnson was appointed Chair of the Remuneration Committee.

We are committed to having a diverse Board, in all respects, to reflect the customers we serve. We consider the Parker review and the Hampton-Alexander review when making appointments to the Board and I can report we currently have three female directors from a Board of seven directors, a 43% female representation.

This year the annual Board evaluation was conducted internally and discussed by the Nomination Committee. The performance of the Nomination Committee was reviewed, and I am pleased to report that the evaluation concluded that the Committee is operating effectively. It is our intention next year to conduct an externally facilitated board evaluation in line with the normal triennial cycle.

Composition

The Nomination Committee is chaired by Ian Durant and comprises all the Non-Executive Directors. Alison Hutchinson, Steve Johnson, and Jo Boydell were members throughout the year; Jane Bednall was appointed to the Committee in January when she joined the Board. Luke Mayhew stepped down from the Committee when he retired from the Board on 14 November 2019.

The UK Corporate Governance Code ("the Code") recommends that a majority of the Nomination Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Board considers that the Company complies with the Code.

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

The Nomination Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least once a year.

Roles and responsibilities

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and its committees (including an appraisal of skills, knowledge, experience, and diversity) and for making recommendations to the Board regarding any changes. It is also responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Committee's terms of reference are available on the Company's corporate website at www.dfscorporate.co.uk.

Activities of the Nomination Committee

The Nomination Committee met formally once during the year, with additional ad hoc meetings being held to provide updates on the changes to the composition of the Board Committees and the associated recruitment processes.

The Committee focused its activities on the appointments of the new Independent Non-Executive Director and the Senior Independent Director. The main activities of the Committee included:

- conducting the search and selection process, and engaging the services of Spencer Stuart for the appointment of Jane Bednall as an Independent Non-Executive Director from 1 January 2020 and the Designated Non-Executive Director from 1 July 2020;
- the ongoing review of the talent and succession planning for the Board and Group Leadership Team including assessment of their training and development needs;
- the internal review of the Committee's effectiveness;
- a review of Directors' time commitments and independence; and
- the consideration of the re-election of Directors at the Annual General Meeting.

Board appointments

The Nomination Committee was advised by Spencer Stuart with regards to the appointment of the new Non-Executive Director. A detailed brief was developed based on an assessment of the strategy for the business, including the likely challenges and opportunities in the years ahead, as well as defining the best cultural fit for success.

Several potential candidates were considered from which a short-list was prepared and subsequently met by members of the Nomination Committee.

The Committee felt that given Jane's strong background in marketing and in particular her experience in the digital marketing arena, as well as her commercial background working with several large customer-facing UK businesses and her prior experience as the Designated Non-Executive Director for EI Group PLC, she would be a welcome addition to the Board.

The Committee subsequently recommended the appointment of Jane Bednall as an Independent Non-Executive Director to the Board, which approved her appointment in December 2019.

All new Directors are subject to an in-depth and tailored induction process. Jane Bednall had commenced her induction and had met several members of the Group Leadership team, as well as the Company's financial advisors, legal advisors and brokers, when due to Covid-19 the remainder of her induction plan was required to be put on hold. Jane recommenced her formal induction into the Company and has visited several showrooms, and factories across the Group, once the lockdown period had come to an end.

Diversity

The Board and Group Leadership Team believe that increasing the diversity of colleagues and operational teams is an important component in delivering the Group's strategy. This is most evident in its support for gender diversity, having committed to a programme to encourage a higher proportion of female appointments across the business, subject always to there being a sufficiently experienced candidate for a specific role.

Whilst the Board has not committed to any specific diversity targets, we are pleased that our Board continues to reflect a good gender split and that our female directors play key roles within the Board.

We will continue to give due consideration to talent, retail and technology experience, and cognitive, gender and ethnic diversity when making new appointments to the Board.

Ian Durant
Chair of the Nomination Committee
24 September 2020

Steve Johnson
Chair of the Remuneration Committee
24 September 2020

"The Committee aims to ensure that our remuneration strategy supports the delivery of the Group's long-term strategy and ensures that the pay framework is appropriately flexible to act in shareholders' best interests to attract, retain and motivate our senior executives even in the most challenging and unpredictable circumstances."

The role of the Remuneration Committee

The primary responsibilities of the Committee remain the oversight of the Group's Remuneration Policy, making recommendations to the Board on the remuneration of the Executive Directors and the Chairman of the Board and oversight of the remuneration arrangements for the Group Leadership Team.

Key activities during FY20

- Reviewed and determined for the Executive Directors and Group Leadership Team:
  - Salary levels for FY21;
  - Outcomes vs. performance targets for outstanding LTIP awards;
  - Due to the impact of Covid-19 on trading, the Committee reviewed the Executive Directors annual bonus outcome and applied downward discretion resulting in no bonus payment for FY20; and
  - Performance targets and participation levels for the FY21 annual bonus and 2019 LTIP award
- Responding appropriately to the Covid-19 pandemic
- Considered developments in executive pay and corporate governance

Contents of this report

Part A: Annual statement by the Remuneration Committee Chair	85
Part B: At a glance	89
Part C: DFS's remuneration philosophy	91
Part D: Remuneration Policy summary and alignment to business strategy	92
Part E: Employee value proposition and wider workforce considerations	98
Part F: Annual report on remuneration	100

Part A: Annual statement by the Remuneration Committee Chair

Dear Shareholder,

On behalf of the Board, I am pleased to present this year's Remuneration Committee report. This report is my first as Chair of the Committee, having joined the Board and the Committee in December 2018 and succeeded Alison Hutchinson as Chair of the Committee in January 2020. I thank Alison for her support during the transition of responsibilities. During FY20, Luke Mayhew stepped down from the Committee following his retirement from the Board and we were pleased to welcome Jane Bednall as a new member from January 2020. Jane also joined the Remuneration Committee on her appointment to the Board.

The Remuneration Report provides a comprehensive picture of the structure of our remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the decisions made by the Committee as a result of business performance for this year and the intended arrangements for FY21.

The Committee is committed to ensuring that our remuneration framework supports our strategy and provides a balance between motivating and challenging our Executive Directors and Group Leadership Team to focus on our strategy and to deliver our business priorities.

This year has been overshadowed by the impact of the global pandemic on our business. Having begun the second half of the financial year in a reasonably strong position, the Group's second half financial performance was severely impacted by the imposition of lockdown which prevented the Group from delivering to our customers for most of the final quarter of the year. As we only recognise revenues when an order is delivered to the customer, this resulted in a significant reduction in revenue for FY20 and a resulting loss before tax. Further details of the financial and strategic performance of the business are given in the CEO Report and Financial Review.

The Committee's agenda for the year was another full one as we assessed year end outcomes and approved new awards, measures and targets under the Annual Bonus scheme and Long-Term Incentive Plan ("LTIP"). This was carried out in the context of a difficult retail trading landscape and the impact of global pandemic as noted above.

Given the economic challenges the retail sector is facing, the Committee agreed it would be appropriate to simplify the Executive Directors' annual bonus and create a focus on consistent financial performance throughout the year. Performance conditions were therefore reviewed and for FY21 performance will be measured against underlying EBITDA (70% of the annual bonus) and personalised strategic measures (30% of the annual bonus).

Our Remuneration Policy continues to provide appropriate flexibility, ensuring that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders. The Committee has the ability to apply malus, clawback and responsible application of discretion to override formulaic outcomes of the incentive schemes to ensure that pay outcomes are appropriate in the wider business and economic context. The Committee is firmly of the view that, in the current and likely future environment, its ability to exercise discretion across the remuneration framework is a critical tool for the good governance of the business and is in the best interests of all stakeholders.

Covid-19 impact on remuneration

This year the Committee has taken discretionary action in a number of areas due to the impact of Covid-19. The table below summarises the key components of remuneration that have been impacted and the decisions made by the Committee.

Element of remuneration	Committee decision	Rationale
2020 salary levels	To cancel 2020 salary increases for Executive Directors. In May 2020, the Directors voluntarily took a 20% reduction in pay which remained in place until the financial year end, and after the business had fully re-opened. The salary forgone will not be repaid. The senior management team also took a voluntary 20% reduction in pay for the month of May, aligning them with employees who had been furloughed and returned to work in late-May and early-June.	• As stated in the 2019 Directors' Remuneration Report, it was intended that Tim Stacey's salary increase to £420,000 and Mike Schmidt's salary increase to £306,000 (2% in line with the wider workforce) in April 2020. • However, due to the pandemic the Committee cancelled the annual salary review for the workforce to preserve cash. These increases were therefore not implemented. • Directors determined that they should temporarily reduce their pay by 20% in line with those workers who had been furloughed.
2020 bonus	To exercise downward discretion and not make any payments to Executive Directors.	• The impact of the pandemic on the financial results of the business has rendered the assessment of financial targets irrelevant. • Performance against the non-financial conditions (the NPS target and the personal objectives), have been achieved, in full or in part, and a bonus payment would ordinarily be due to the Executive Directors. • However, the Committee concluded that, given the overall financial performance it would be inappropriate to award any bonus. In consultation with the Executive Directors, the Committee therefore exercised its discretion and no bonus payments were made to the Executive Directors.
2017 LTIP vesting	The 2017 LTIP award will lapse in full in November 2020.	• The Committee set stretching targets for the EPS growth measure which were not met. • Prior to March 2019 the 2017 LTIP had been on track to partially vest in respect of the relative TSR measures. • However, the TSR measure has been severely impacted as several of the comparator retailers were able to continue operating, resulting in a disparity of share price performance over the period. • Given the negative impact of the dividend cancellation and share price performance on shareholders during this period, the Committee decided not to exercise its discretion on this occasion. • This decision will impact both current and previous employees including the current CEO who fully agreed that in the current difficult circumstances this was the correct course of action for the Committee to take.
2020 LTIP (granted in FY21)	The Committee has determined to make a grant on the normal timetable. Targets for the EPS and TSR condition will be set within 6 months from grant when the market has stabilised.	• For the 2021 LTIP grant, performance will be based on at least 50% EPS and 50% relative TSR measures (against the FTSE 250 excl. investment trust and FTSE 350 General Retailers). • However, at the present time, the Committee does not feel able to robustly set three-year EPS and TSR targets given the significant uncertainty in the wider economic environment. • Therefore, the Committee's intention is to set the targets within six months of the 2021 LTIP award being granted (in line with IA guidelines) when the market has stabilised. • Likewise, the Committee will consider the most appropriate weighting between TSR peer groups within six months when the market has stabilised.

Although it has been a difficult year, I feel confident that the Group will emerge stronger from the challenges it has been confronted by and I would like to thank the Executive Directors for their positive approach to the decisions the Committee has had to take in relation to all aspects of the remuneration outcomes. I look forward to working with them to ensure that our remuneration strategy remains flexible and realistic, aligned with our values and culture, and rewards our Executives and the senior management team appropriately.

The decisions taken this year demonstrate the value of the discretionary powers available to the Remuneration Committee in ensuring an equitable outcome for both shareholders and the business. We intend to continue to use these powers to ensure the best outcomes for all stakeholders in this continuing uncertain world.

I thank my fellow Committee members for their valuable contribution and support during a year that has seen some unprecedented challenges for the Group. As always, I welcome any comments or questions from shareholders.

Remuneration for FY21

In FY21 we will continue to operate our remuneration arrangements in line with the Policy approved at the 2018 AGM by our shareholders.

Remuneration arrangements for the CEO, Tim Stacey

As stated in the 2018 Directors' Remuneration Report, we set Tim's salary at a lower level compared to his predecessor but with the intention to increase it to £440,000 p.a. on a stepped basis over a two-year period subject to corporate performance being deemed satisfactory by the Board. We also stated that our intention is to increase the maximum annual bonus opportunity from 100% to 120% of salary in steps over 2 years. However, as set out above, due to the pandemic, the Committee determined to postpone the first step of this increase in April 2020.

The Board was satisfied that under Tim's leadership the Group has delivered solid trading performance and made good progress towards executing our long-term growth strategy. Therefore, after a review of Tim's performance over the year and through the recent crisis the Committee believes that it is appropriate to increase Tim's salary to £440,000 as originally envisaged. This is a 10% increase and will take effect in April 2021 in line with the timing of the salary review for the workforce. We note the Committee reserves the right to review this position again and it may be subject to change reflecting the shareholder experience and challenging external environment.

It should be noted that pension contributions to Tim are fixed and increases to salary over time will be non-pensionable. The Committee will review pension levels for Executive Directors as part of the next policy review to ensure they are aligned to the wider workforce by the end of 2022.

The Committee intends to increase Tim's annual bonus opportunity to 120% of salary effective from FY21 in line with the original decision. It should also be noted that, as set out in last year's Directors' Remuneration Report, Tim's annual bonus opportunity is now greater than 100% of salary so mandatory bonus deferral into shares for three years will be introduced where the payment is greater than 75% of salary in line with policy.

Base salary	£440,000 p.a.
Pension	£50,000 p.a. (fixed amount) less employer's NIC where taken as cash
Annual bonus	120% of salary
LTIP	150% of salary
Shareholding requirement	250% of salary

Remuneration arrangements the CFO, Mike Schmidt

As set out above, the intended 2% increase to Mike's salary in April 2020 was not implemented due to the financial impact of the pandemic. After a review of Mike's performance over the year and through the recent crisis where he led the successful debt and equity raising the Committee believes that it is appropriate to increase Mike's salary to £330,000. This is a 10% increase on his current salary and will take effect in April 2021 in line with the timing of the salary review for the workforce. Future increases to Mike's salary will be considered against appropriate external benchmarks and in light of his personal performance.

Mike's annual bonus opportunity will be 110% of salary. As the annual bonus opportunity is now greater than 100% of salary mandatory bonus deferral into shares for three years will be introduced where the payment is greater than 75% of salary.

As reported in 2019, Mike's pension contribution level was frozen at the level he received in his previous role. Future increases to salary will be non-pensionable and over time Mike's pension contribution as a percentage of his salary will continue to reduce (Mike's pension of £29,250 p.a. is currently equal to 9.8% of salary, this will lower to 8.8% of salary following his salary increase in April 2021). The Committee will review pension levels for Executive Directors as part of the next policy review to ensure they are aligned to the wider workforce by the end of 2022.

Base salary	£330,000 p.a.
Pension	£29,250 p.a. (fixed amount) less employer's NIC where taken as cash
Annual bonus	110% of salary
LTIP	120% of salary
Shareholding requirement	250% of salary

In relation to the performance measures for annual bonus and LTIP awards for FY20, our approach is described on pages 93 and 94.

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

Key Remuneration Element of the 2018 Code	How is this considered within DFS's remuneration framework?
Five-year period between the date of grant and realisation for equity incentives	• The LTIP has a five-year period including the performance and holding period.
Phased release of equity awards	• The LTIP ensures the phased release of equity awards through annual rolling grants.
Discretion to override formulaic outcomes for bonus and LTIP awards	• The Policy contains the ability to override formulaic outcomes and apply discretion where deemed necessary.
Post-cessation shareholding requirement	• We have implemented a minimum shareholding requirement to include a two-year post-cessation shareholding requirement.
Pension alignment	• Pension contributions have been frozen for the most recent appointment to the Board (as discussed above). • The Committee will review pension levels for Executive Directors as part of the upcoming policy review to ensure they are aligned to the wider workforce by the end of 2022.
Extended malus and clawback provisions	• The current malus and clawback provisions reflect requirements of the Code and best practice.
Effective engagement with workforce	• We have appointed a Designated Non-Executive Director (Jane Bednall) who will attend the Employee Voice Forums and engage with the workforce.

Wider workforce considerations
DFS have always believed that the people in our business are fundamental to its success. We are committed to creating an inclusive working environment for all our staff and to rewarding our employees in a fair manner. In this year's report, on pages 98 to 100 we have included some further information on our employee value proposition, our evolving diversity and inclusion policies and accomplishments towards fostering an inclusive and engaging working environment. We are also reporting our CEO pay ratio for the first time this year, see page 100 for further details.

This year the Group continued to develop the role of the Employee Voice Forum. The Employee Voice Forum representatives did an excellent job of voicing their ideas and their colleagues' feedback. Going forward the Employee Voice Forum will continue to play a key role in enabling the Non-Executive Directors to understand the views of our colleagues.

In order to provide further momentum, we have decided to appoint a Designated Non-Executive Director as recommended by the Corporate Governance Code. Jane Bednall has taken on this role from 1 July 2020.

In the coming year I, along with the Designated Non-Executive Director and other Board members, will attend Employee Voice Forums and we will seek to understand the views of our employees across the Group. The Committee will continue to seek to use the feedback received from these meetings as a valuable insight when making wider remuneration decisions, including those relating to the reward principles and Executive Director remuneration.

Committee performance
The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board has confidence in the quality of the Committee's work.

Looking forward
The Committee remains focused on ensuring that we implement the Policy so that it retains and motivates a talented senior leadership team to deliver the business strategy and create sustainable value for shareholders. During the year the Committee will be focused on the review of the Remuneration Policy and will be seeking to work with our investors to develop a policy in line with our culture and values and aligned to our business strategy. A proposal will be put to shareholders at the 2021 Annual General Meeting for approval.

We trust that the information set out in this report provides you with what you need to be able to support the advisory resolution to be put to shareholders on this remuneration report at the Company's AGM on 13 November 2020.

If you would like to discuss any aspect of this Remuneration Report, I would be very happy to hear from you. You can contact me through the Company Secretary, Liz McDonald. I will also be available at the Company's 2020 AGM to answer any questions in relation to this Remuneration Report.

Steve Johnson
Chair of the Remuneration Committee
23 September 2020

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the 2018 Corporate Governance Code and the Listing Rules.

AGM Shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Annual Report on Remuneration (2019 AGM)	175,603,649	5,012,061	50,972
	97.23%	2.77%	–
Approve Policy (2018 AGM)	166,426,128	4,252,410	396
	97.51%	2.49%	–

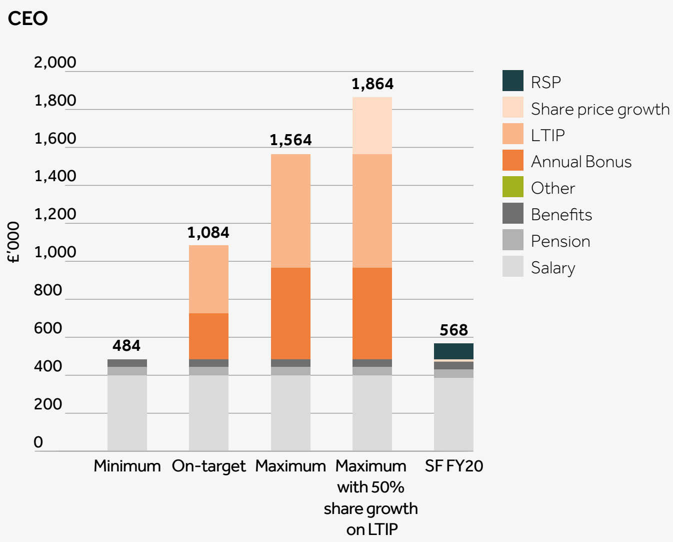
Part B: Remuneration in FY20 – at a glance

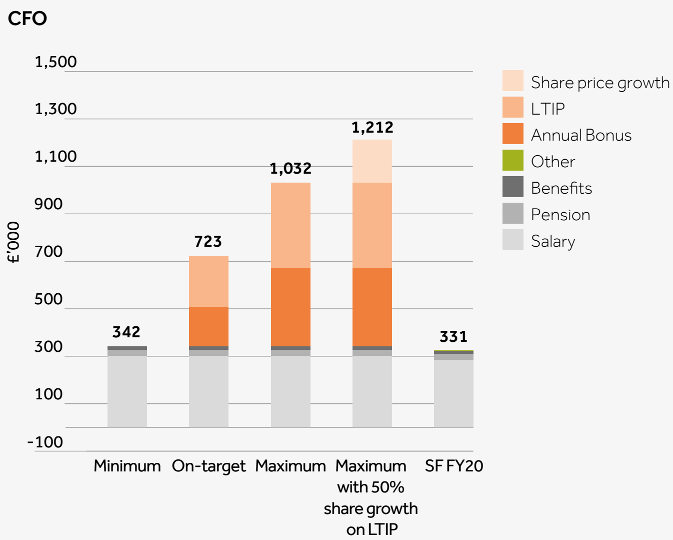
This section briefly highlights performance and remuneration outcomes for FY20, and our approach for FY21. More detail can be found on pages 100 to 105. Full details of the Policy which was approved by shareholders at the 2018 AGM can be found on www.dfscorporate.co.uk.

The 'At a Glance' section contains a summary of the remuneration for Tim Stacey (CEO) and Mike Schmidt (CFO).

FY20 Single Figure outcomes and our Policy

The graphs below illustrate the CEO and CFO's FY20 single figure outcome as compared to the Policy approved by shareholders in December 2018. The full explanatory notes for each element of remuneration are detailed on pages 92 to 94 in the Annual Report on Remuneration.





Notes:
- Minimum pay is fixed pay only (i.e. salary + benefits + pension).
- On-target pay includes fixed pay, 50% of the maximum bonus (equal to 60% of salary for the CEO and 55% of salary for the CFO) and 60% vesting of the LTIP awards (with grant levels of 150% of salary for the CEO and 120% of salary for the CFO).
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards.
- Maximum with 50% share growth shows the maximum scenario with 50% share price growth on the LTIP award over the vesting period.
- All amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying at 1 July 2020. The value of taxable benefits is the cost of providing those benefits in the year ended 28 June 2020. The Executive Directors are also permitted to participate in HMRC tax advantaged all-employee share plans, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Annual bonus FY20 outturn

The annual bonus targets and outcomes for FY20 are based on the financial year up to year ended 28 June 2020 (as described on page 101 of this annual report). When assessing the non-financial elements of the Annual Bonus, the NPS target was achieved in full and the personal objectives had been completed in full or in part prior to lockdown, on which an element of the bonus payment would ordinarily have been due to the Executive Directors. However, the Committee concluded that, given the overall financial performance and the impact on shareholders due to the cancellation of the dividend, it would be inappropriate to award any bonus to the Executive Directors. In consultation with the Executive Directors, the Committee therefore exercised its discretion to override the formulaic outcome and no bonus payments were made to the Executive Directors.

2017 LTIP award vesting in 2020

The chart shows the outcome of the 2017 LTIP awards, for which the performance period ended on 28 June 2020.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Earning per share	50%	4% p.a.	10% p.a.	0%	0%
TSR vs FTSE 250 index*	25%	Index	Index + 10% p.a.	-0.97% below index	0%
TSR vs FTSE 350 retail index	25%	Index	Index + 10% p.a.	-0.35% below index	0%
Total	100%				0%

* Excluding Investment Trusts

The resultant vesting of LTIPs is set out in the table below:

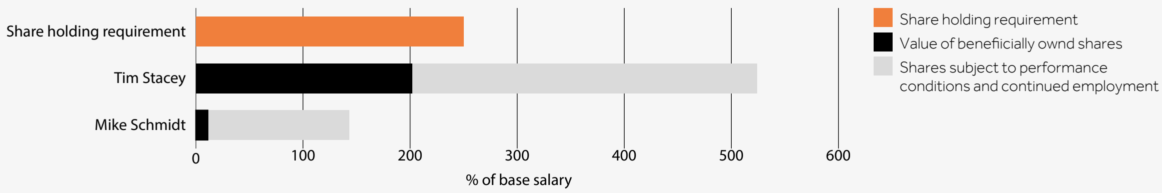
	Number of shares granted	Award vesting (% max)	Number of shares vesting	Value of shares vesting	Value attributable to share price movement	Value of dividend equivalents due	Value of resultant award
CEO	125,000	0%	0	0	0	0	0

Level of shareholdings

Below we present a summary of the level of shareholding for the CEO, Tim Stacey and CFO, Mike Schmidt. In this summary, we have illustrated the current share interests of the Executive Directors, taking into account shares which are owned outright or vested, shares which are unvested and shares which remain subject to performance.

The shareholding requirement is 250% of salary and must be built up over a five-year period and then subsequently maintained. As noted earlier, a post-cessation shareholding requirement has been implemented.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 104. At the year end the value of the CEO's shares equalled 202% of salary, and the CFO's share equalled 11% of salary, based on a closing share price of £1.69 as at 28 June 2020.



Notes:
(i) Beneficial interests include shares held directly or indirectly by connected persons.
(ii) Represents 2017, 2018 and 2019 LTIP shares and remaining 2017 RSP shares, which are subject to ongoing performance conditions for Tim Stacey. Represents 2018 and 2019 LTIP shares and remaining 2017 and 2018 RSP shares, which are not subject to performance conditions for Mike Schmidt.
(ii) Shareholding requirement calculation is based on the share price at the end of the year (£1.69 at 28 June 2020).

Part C: DFS's remuneration philosophy

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

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

THINK CUSTOMER

BE REAL

AIM HIGH

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

Our Remuneration Policy principles are designed to help us achieve our goal

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

The following section sets out details on the application of our Policy.

Part D: Summary of the Remuneration Policy and alignment to business strategy

DFS's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering our strategy designed to promote the long-term success of the Group.

The Group's focus is to deliver long-term, sustainable growth for shareholders. Our strategy will transform our Group in the medium term by focusing on three interrelated pillars. The Committee is of the view that the performance measures within the annual bonus and LTIP directly relate to delivery against the wider strategy, as shown below.

Leading sofa retailing in the digital age

Initiatives

1. Drive DFS Core
2. Build the Platforms
3. Unlock New Growth

Group Metrics

- Growth in Underlying Gross Sales
- Increasing PBT Margin
- Strong Cash Generation
- Growth Lease Adjusted ROCE

How we measure success through our incentive arrangements

Annual bonus			
Revenue	1	2	3
PBT	1	3	
Cash flow	1		
NPS	1	2	
Strategic	1	2	3
LTIP			
EPS	1	3	
Relative TSR	3		

The table below sets out an overview of the key areas of the approved Policy and summarises how the Committee applied the Policy in FY20, together with details of how the Committee intends to implement the Policy in FY21.

Operation	Maximum Opportunity	Performance measures/ assessment and recovery provisions	Implementation for financial year ended 28 June 2020	Implementation for financial year ending 30 June 2021
Base salary To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group				
Salaries are reviewed annually, and any change will take effect from 1 April.	Annual percentage increases are generally consistent with the range awarded across the Group, unless a higher increase is proposed due to specific circumstances as determined by the Committee.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.	CEO, Tim Stacey: £400,000. CFO Mike Schmidt £300,000. As set out in the Chairman's statement, the intended FY20 increases were cancelled due to the pandemic and a 20% voluntary reduction taken from May-July 2020.	CEO, Tim Stacey: £400,000 to £440,000 (10% increase in April 2021) – see page 87 for further details, this increase will be kept under review. CFO, Mike Schmidt: £300,000 to £330,000 (10% increase April 2021) – see page 87 for further details, this increase will be kept under review.
Benefits To provide competitive benefits and to attract and retain high calibre employees				
Market standard benefits reviewed periodically to ensure market competitive.	Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits.	No performance or recovery provisions apply.	Normal company benefit provision.	No change.

Pension To provide a competitive Company contribution that enables effective retirement planning.				
Contribution to a personal pension scheme or cash allowance in lieu of pension benefits.	The maximum contribution to a personal pension scheme or cash in lieu is equal to £50,000. Pension contributions for new Executive Directors will be reviewed to ensure compliance with corporate governance best practice around alignment with the workforce. Where pension contribution is taken as a salary supplement the amount will be reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the Company from this alternative.	No performance or recovery provisions apply.	CEO, Tim Stacey: £50,000 (fixed) less employer's NIC where taken as cash. CFO, Mike Schmidt £29,500 (fixed) less employer's NIC where taken as cash.	CEO, Tim Stacey: £50,000 (fixed) less employer's NIC where taken as cash. CFO, Mike Schmidt: £29,250 (fixed) less employer's NIC where taken as cash.
Annual Bonus Incentivises the achievement of annual objectives which support the Group's short-term performance goals.				
Bonus awards are granted annually. The performance period is one financial year with pay-out determined by the Committee following the year end, based on achievement against a range of financial and non-financial targets.	Maximum awards under the Annual Bonus are up to 120% of salary. Where maximum awards are increased above 100% of salary, then the Committee will determine that bonus deferral shall apply to part of the annual bonus earned. Where deferral applies, bonus payments greater than 75% of salary will be deferred into shares for three years. There will be no payment made for threshold performance. 100% of maximum will be paid for stretch performance. The Committee may award dividend equivalents on those shares to Plan participants to the extent that they vest.	Performance targets and weightings will be set annually based on a range of financial and non-financial measures. Financial targets govern the majority of bonus payments. The Committee retains discretion to adjust targets and weightings in respect of annual bonus awards as required. Malus and clawback provisions apply.	CEO, Tim Stacey 110% of salary. CFO, Mike Schmidt: 100% of salary. Performance conditions: • Revenue (15%) • Profit before tax (25%) • Cash Flow (20%) • Net Promoter Score (20%) • Personal objectives (20%) See page 101 for details of targets and outcomes against them for FY20.	CEO, Tim Stacey: 120% of salary. CFO, Mike Schmidt: 110% of salary. To simplify the annual bonus and create a focus on the Group's financial performance the performance conditions for FY21 have been simplified to the following: • EBITDA (70%) • Personal objective (30%) Targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

Directors' remuneration report continued

Long-term incentive plan Incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders				
Annual grants of performance share awards (LTIP awards). Three year vesting period subject to the achievement of the performance measures. Two year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors. Participants may be entitled to dividend equivalents on LTIP awards that have vested.	Maximum LTIP awards are equal to 150% of base salary. Targets are typically structured as a challenging sliding scale, with no more than 20% of the maximum award vesting for achieving the threshold performance level through to full vesting for substantial out-performance of the threshold.	Awards vest based on performance against challenging targets, aligned with the delivery of the Company's long-term strategy. Performance measures (metric, targets, and weightings) are reviewed annually. Malus and clawback provisions apply.	LTIP award level of 150% of salary granted to Tim Stacey (CEO) and 120 % of salary granted to Mike Schmidt (CFO) with a three year performance period and two year holding period. • Adjusted EPS growth (50%) • TSR relative to FTSE 250 excl. investment trusts (15%) • TSR relative to FTSE 350 General Retailers Index (35%) See below for full details of the LTIP awards granted in the reporting year.	LTIP award level of 150% of salary will be granted to Tim Stacey (CEO), and 120% salary to Mike Schmidt (CFO), with a three year performance period and two year holding period. For the FY21 LTIP grant, performance will be based on at least 50% EPS and 50% relative TSR measures (against the FTSE 250 excl. investment trust and FTSE 350 General Retailers). At the present time, the Committee does not feel able to robustly set three-year EPS and TSR targets given the significant uncertainty in the wider economic environment. Therefore, the Committee's intention is to set the targets within six months of the 2021 LTIP award being granted (in line with IA guidelines) when the market has stabilised. Likewise, the Committee will consider the most appropriate weighting between TSR peer groups within six months when the market has stabilised.
Minimum shareholding requirements To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.				
The Executive Directors are required to build or maintain (as relevant[1]) a minimum shareholding in the Company.	Not applicable.	Not applicable.	250% of salary for Executive Directors to be built up over five years.[1] For FY20 and beyond, the Committee determined that a shareholding requirement would continue to apply for two years post cessation of employment for the Executive Directors.	No change to shareholding requirements for FY21.

1. Executive Directors are not required to purchase shares to satisfy this requirement.

Illustration of the operation of the Policy

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Base salary				
	Pension and benefits				
Bonus	Cash bonus	Where bonus opportunity is increased above 100% of salary, bonus deferral applies if the bonus outcome is greater than 75% of salary (3-year deferral)			
LTIP	Long-term incentive plan (3-year performance period)			2 year-post vesting holding period	

Chairman and Non-Executive Director Fees

Fees for the Chairman and Non-Executive Directors were reviewed in October 2019 and a 2% increase was to be applied to all fees with effect from 1 April 2020. These increases were in line with those awarded to the wider workforce. In March 2020, due to the impact of the Coronavirus pandemic the 2020 pay increase was cancelled for the wider workforce and the Committee agreed that the increase in fees for the Chairman and Non-Executive Directors would also be cancelled. In April, the Committee agreed that to support the Group, and in line with the voluntary decision by the Executive Directors and senior management team, the Chairman and Non-Executive Directors would also take a temporary 20% reduction in their fees for May and June 2020. The senior management team's reduction only applied during May 2020.

The following table sets out the annual fee rates for the Non-Executive Directors as at 28 June 2020:

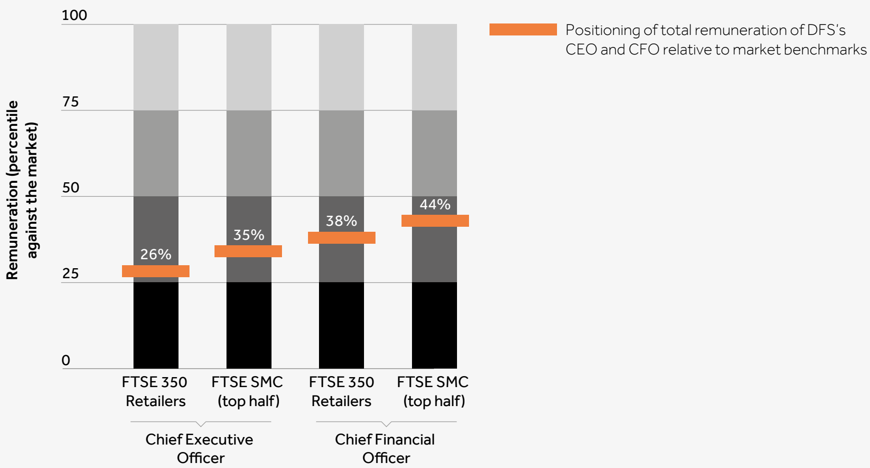
	FY20[i] **£**	FY19 £	% change
Chairman fee	**184**	184	0%
Senior Independent Director fee	**61**	61	0%
Chair of Audit/ Remuneration Committee fee	**58**	58	0%
Independent Non-Executive Director fee	**51**	51	0%

(i) The Non-Executive Directors, in line with the Executive Directors and senior management, agreed to take a 20% reduction in fees for May and June.
(ii) Non-Executive Director fees will be kept under review for future periods. To the extent there are any increases to fees these will be in line with those awarded to the wider workforce and would be effective no earlier than April 2021.

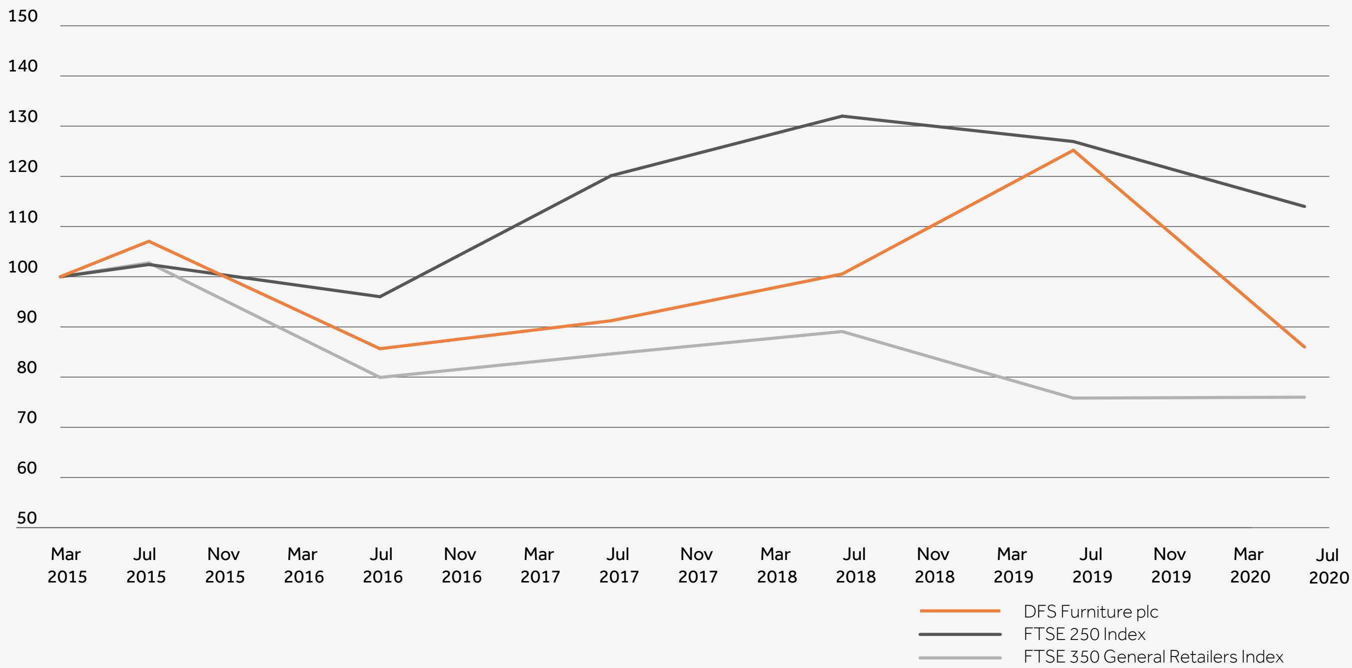
Pay comparisons

Comparison of Executive Director Policy quantum to our peers

When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant market for talent against which we can compare remuneration levels. We believe the top half of the FTSE SmallCap and FTSE 350 General Retailers are of a similar size and currently represent our key markets for senior executive talent. The following chart shows the relative position of target total remuneration for our CEO and CFO compared to these talent markets.



Remuneration of CEO role versus wider company performance since IPO
The chart below illustrates the Group's Total Shareholder Return performance against the FTSE250 Index and FTSE 350 General Retailers Index since 5 March 2015, the date of IPO, to the end of FY20 (28 June 2020). The peer groups here represent the Company's key markets for investment capital (noting this is distinct from the peer groups used for pay benchmarking above).



The table below indicates the total single figure of remuneration for the CEO since IPO, along with the annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity.

	FY20	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	Tim Stacey	Ian Filby	Ian Filby	Ian Filby	Ian Filby	Ian Filby
Single Figure	**568**	464	374	673	666	804	790
Annual Bonus (% of max)	**0%**	26.2%	32.2%	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**0%**	28.6%	28.6%	0%	0%	n/a	n/a

Notes:
1. Tim Stacey became CEO and Executive Director on 1 November 2018.
2. The Committee applied downward discretion to override the formulaic outcome of the 2020 annual bonus to zero.
3. Tim Stacey's single figure for FY20 includes an award under the DFS Restricted Share Plan which was made to the CEO prior to his appointment as an Executive Director. The award had a value of £97.7k and vested on 16 November 2019.

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

We note that the 2019 figures used to calculate the % changes below reflect the 11-month financial year. No Directors received a salary or fee increase for FY20.

% change FY19 – FY20		**Base salary**	**Benefits**	**Annual bonus**
CEO	Tim Stacey	2%	41%	-100%
CFO	Mike Schmidt	39%	0%	-100%
	Ian Durant	5%	n/a	n/a
	Jane Bednall	n/a	n/a	n/a
	Jo Boydell	81%	n/a	n/a
	Alison Hutchinson	17%	n/a	n/a
	Steve Johnson	79%	n/a	n/a
Non-Executive Directors	Luke Mayhew	-63%	n/a	n/a
Employee pay		0%	n/a	n/a

Notes:
1. In line with the regulations, this analysis will be extended up to five years in the future.
2. Tim Stacey became the CEO and Executive Director on 1 November 2018. The change in CEO remuneration is Tim Stacey's FY20 remuneration compared to FY19 remuneration which has been calculated by adding together the remuneration paid to Tim Stacy and the previous CEO Ian Filby in respect of the period these individuals were Executive Directors in FY19.
3. Mike Schmidt became the CFO and Executive Director on 11 July 2019. Nicola Bancroft stepped down from the CFO role and the Board in March 2019. The change in CFO remuneration is Mike Schmidt's FY20 remuneration compared to FY19 remuneration for Nicola Bancroft which represents remuneration for only 9 months of the year. We note that Mike Schmidts joining base salary level was the same as his predecessors (£300,000) and he did not receive a salary increase for FY20.
4. No annual bonus was paid to Executive Directors for FY20.
5. Whilst the NED's all took a 20% reduction in their fees in May and June to support the business through the pandemic (see single figure remuneration table for Non-Executive Directors on page 103 for further details), the changes in fees above also represent a number of changes to roles:
   a. Luke Mayhew stepped down from the Board on 15 November 2019.
   b. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019.
   c. Jane Bednall was appointed to the Board on 1 January 2020.
   d. Jo Boydell was appointed to the Board on 6 December 2018 and appointed as Chair of the Audit Committee on 1 April 2019.
   e. Steve Johnson was appointed to the Board and its Committees on 6 December 2018 and appointed as the Chair of the Remuneration Committee on 17 January 2020.
6. With regards to the annual bonus for the wider employee population, payments for targets achieved (for the NPS and personal performance measures) have been withheld until the first half of FY2021 and are subject to achievement of a financial underpin.

Relative Importance of spend on pay

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

Significant distributions	**2020**	2019	% change
Employee remuneration	**£186.5m**	£167.4m	+11.4%
Distributions to shareholders (dividends and share buybacks)	**£17.0m**	£23.8m	-28.6%

Notes:
1. The above figures are taken from notes 4, 21 and 22 to the financial statements.

Part E: Employee value proposition and wider workforce considerations

The Committee oversees remuneration of the Chairman, Executive Directors, and the Group Leadership Team, having regard to pay conditions across the Group. The Committee's focus is on determining the Policy and practices to ensure that the incentives operated by the Company align with its culture and strategy. In line with the Code, the Committee has oversight of wider workforce pay and policies and incentives, which enables it to ensure that the approach to Executive remuneration takes into account the approach to broader workforce pay.

Wider workforce employee value proposition

The Group employs over 5,000 people across the UK, Republic of Ireland, the Netherlands, and Spain. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our people across all parts of the Group. The various factors which make up our "Fair Deal" proposition is set out below.

Area	Details
Pay and benefits	• We have a clear reward philosophy across the Group as highlighted previously • We aim to be the market median payer of remuneration for good individual performance, believing that this approach balances fairness to the employee as well as responsible use of shareholders' funds • Employees can share in our success via bonus schemes and the Sharesave scheme which is available in the UK and Republic of Ireland
Working environment	• We strive to create a positive working environment and promote the right behaviours through evidence of objective decision making, equity of treatment and trust in doing the right things in the right way • Company-wide groups generate positive engagement more broadly with activities such as the #HealthySelfie campaign in the 'Living Well' Workplace group • We launched Workplace by Facebook as an internal communication and engagement tool in 2017, and currently more than 2,300 of our colleagues use it daily to connect teams and support business efficiencies • We also continue to receive external recognition for excellence in employee conditions by the retention of our Top Employer certification from the Top Employers Institute
Development opportunities	• We provided access to development opportunities enabling growth within function or cross-functionally • We have an award-winning apprenticeship programme. To date, 65 young people have successfully completed the programme and now hold permanent positions in the Group in a variety of areas including service upholstery, manufacturing, retail, and administration • We provided access to development opportunities enabling growth within function or cross-functionally • We actively participate in the national development of apprenticeship standards in manufacturing and retail for our industry
Recognition	• We provide monetary and non-monetary recognition • We have visible celebrations of achievements • We have opportunities for peer-led and hierarchical recognition

Cascade of remuneration across the group

The policy described above applies specifically to Executive Directors of the Company. The Committee believed that the structure of management and employee reward at DFS should be linked to DFS's strategy and performance. The table below illustrates how the remuneration framework operates below the Executive Directors.

Level	Employee numbers	Fixed remuneration	Annual bonus or sales commission plans	Restricted share plan	Long-Term incentive plan	Sharesave	Shareholding guidelines
Executive Directors	2	✓	✓		✓	✓	✓
Group Leadership Team	8	✓	✓	✓	✓	✓	
Head of divisions/ functions	c.75	✓	✓	✓		✓	
Managers	c.335	✓	✓	✓		✓	
All employees	c.4,952	✓	✓			✓	

Notes:
1. Manager population may participate in the restricted share plan by invitation.

Oversight of wider workforce pay and policies

In order for the Committee to carry out its oversight review of wider workforce pay and policies and incentives under the Code, the Committee has approved a process by which it will be provided with additional information, in the form of a Workforce Report, to carry out these responsibilities. This is an annual summary setting out the key details of remuneration changes for the senior management and the wider workforce. The Committee appreciates that the level and type of remuneration offered will vary depending on an individual employee's level of seniority, the nature of their role, and the Group brand to which they belong.

The first Committee report is due to be considered by the Committee in FY21. Details of the findings on the alignment of pay across the Group will be communicated to employees and reported on in next year's report.

Consideration of employee views

In setting the policy for Directors, the pay, and conditions of other employees of the Group are taken into account, including any base salary increases awarded. As described above, the Committee will be provided with data on the remuneration structure for management level tiers below the Executive Directors and will use this information to ensure consistency and fairness of approach throughout the Company.

As reported in 2019 DFS set up its Employee Voice Forum in June 2019. Attendees have been chosen from our front-line teams, with representatives from all areas of the Group providing feedback from their areas. In November, the Non-Executive Directors attended the Employee Voice Forum along with the Group People Director and topics covered included executive pay and employee share schemes. Other sessions planned during the year had to be cancelled due to the pandemic and the majority of the representatives being furloughed.

The purpose of these sessions is to understand the views of our employees better and ensure their views are factored in as part of decision making including, where appropriate, decisions on remuneration.

The Employee Voice Forum operates in addition to existing open communication via Workplace, and employee views are sought in an active program of engagement surveys, which are shared with the Board and with the Committee. The results of the surveys and the actions taken by the business are communicated back to employees.

During the year the Board again reviewed how best to engage and communicate with our employees and concluded that in addition to the Employee Voice Forum, a Designated Non-Executive Director would be appointed to enhance our employee engagement arrangements.
Jane Bednall was duly appointed to this role from 1 July 2020.

Gender pay gap reporting and diversity and inclusiveness initiatives

Gender pay gap reporting

The UK Government Equalities Office legislation requires employers with more than 250 employees to disclose information on their gender pay gap annually. The Group is confident our male and female employees receive equal pay for equivalent jobs. We published our gender Pay Gap Reporting for 2019 in April 2020 and it is available online: https://www.dfscorporate.co.uk/media/48485/2019-Group-Gender-Pay-Gap-Narrative-1-.pdf

We recognise that there continues to be a gender pay gap in the business, although the mean and median gaps fell 3.6% and 3.1% respectively in the year. The Group's employee base has an approximate two-thirds male, one-third female split driven mainly by the fact that historically our manufacturing, supply chain and retail business areas have, for various reasons, attracted a predominantly male workforce. Analysis shows that our 14.8% mean and 10.1 % median pay gap is a result of more men in senior positions throughout all business areas. We note that we have no positions in the Group where there is a gender pay gap for men and women performing the same job.

The Group has several initiatives in place to work towards closing the gap. These are part of wider diversity and inclusiveness initiatives, which are described below.

Further information can be found in the Sustainability Report on pages 54 to 55 of this Annual Report.

Inclusivity and diversity

DFS is committed to ensuring that all our employees can thrive and prosper. The Company is committed to addressing the gender pay gap and a number of steps are in place to promote equality and diversity in the workforce as well as prohibiting discrimination in any form:

- We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. Wherever practicable we offer training and make adjustments to ensure disabled employees are not disadvantaged in the workplace
- We are actively working to improve female representation in key business areas with a traditional skew towards men
- We are setting performance targets for a large proportion of the management population to focus on the gender split across all sectors of our business
- We are offering recruitment development workshops for hiring managers with a dedicated section on unconscious bias training
- We are building assessment criteria into our online recruitment processes that remove gender bias
- We have introduced Group wide family friendly policies and increased time off for parents
- We have introduced flexible working and are creating the tools, mechanisms, and environment to offer this to all employees
- An equal split between male and female colleagues on Apprenticeships and Management Training programmes
- The Board is kept aware of progress and initiatives with regards to inclusivity and diversity

CEO Pay ratio

This is the first year in which we are required to disclose the CEO Pay ratio.

The Company has adopted Option B: Gender Pay Gap data, this approach was considered appropriate due to data availability. The Committee will continue to determine the most appropriate methodology (Option A, B or C) to be used each year, by considering the robustness of the calculation methodology as well as the availability of data and operational time constraints.

The relevant employees at each quartile were identified in April 2020, this was as a result of using the Gender Pay Gap data which is calculated for the period covering 5th April 2020.The pay and benefits data for the relevant 25th, 50th and 75th percentile employees is taken from the 12-month period ending in June 2020, financial year FY20. The pay and benefits figure includes:

- all earnings paid through the payroll, e.g. salary, bonus, long term incentives
- the value of the employer pension contributions
- any other taxable benefits, e.g. private medical, company car etc
- no elements of pay were omitted and there was no departure from the single figure methodology

Pay and benefits for the relevant employees have been calculated on a full-time equivalent basis and there was no reliance on estimates.

The lower quartile, median and upper quartile employees were identified from the gender pay gap data where the hourly pay for employees was ranked. A sample of 10 employees pay and benefits either side of the initially identified employees was reviewed to ensure that the appropriate representative employees are selected.

The table below compares the FY20 single total figure of remuneration for the CEO with that of employees who are paid at the 25th, 50th and 75th percentile of the employee population.

FY20 Data: Single Figure Total Remuneration

Year	Method	Measure	CEO	25th percentile	50th percentile	75th percentile
		Pay Ratio		24:1	20:1	16:1
2020	**Option B**	**Salary**	**£386,667**	**£21,850**	**£25,648**	**£30,367**
		Total pay and benefits	**£568,399**	**£23,644**	**£28,740**	**£35,048**

Part F: Annual Report on Remuneration for the Financial Year ended 28 June 2020

Single total figure of remuneration for Executive Directors – audited

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

Name	Year	Base salary	Taxable Benefits[1]	Bonus	LTIP	RSP[2]	Pension[5]	Other[6]	Total Fixed	Total Variable	Total
Tim Stacey	**2020**	**387**	**40**	**0**	**0**	**98**	**43**	**0**	**470**	**98**	**568**
	2019	267	21	70	77[4]	–	29	0	317	147	464
Mike Schmidt[3]	**2020**	**289**	**13**	**0**	**0**	**–**	**27**	**2**	**331**	**–**	**331**

Notes:

1. Taxable benefits comprise car, private medical insurance (including cover for spouses and dependents), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses – the value of which has been included in the Taxable Benefits column.
2. This is an award under the DFS Restricted Share Plan that was made to the CEO prior to his appointment as an Executive Director. The award vested on 16 November 2019 and was subject to a share price performance condition. The share price increase attributed to this award is £11,181.
3. As Mike Schmidt was not an Executive Director during 2019, the table only shows his single figure for 2020.
4. The 2016 LTIP award which vested in 2019 for Tim Stacey has been restated using the actual share price on vesting of £2.14 as at 15/11/2019.
5. Where pension contribution is taken as a salary supplement the amount is be reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the company from this alternative.
6. The 'Other' column for Mike Schmidt represents a car allowance supplement.

Incentive outcomes for 2020

Annual bonus outturn for the year – audited

As reported in the Chairs statement the impact of the pandemic on the financial results of the business has rendered the assessment of financial targets irrelevant. When assessing the non-financial elements of the Annual Bonus, the NPS target was achieved in full and the personal objectives had been completed, in full or in part prior to lockdown, on which an element of the bonus payment would ordinarily have been due to the Executive Directors. However, the Committee concluded that, given the overall financial performance and the impact on shareholders due to the cancellation of the dividend, it would be inappropriate to award any bonus to the Executive Directors. In consultation with the Executive Directors, the Committee therefore exercised its discretion and no bonus payments were made to the Executive Directors.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Group revenue	15%	£991.7m	£1,035.5m	£1,059m	0%
Group underlying PBT	25%	£52.1m	£56.6m	£59.0m	0%
Group net debt	20%	£46.2m	£50.2m	£52.4m	0%
Net promoter score	20%		See note above		
Personal objectives	20%		See note above		–
Bonus outcome following discretion (% maximum)					0%
Bonus opportunity for FY20 following discretion (% salary)					0%
Total bonus outcome following discretion (£)					0

LTIP awards vesting in relation to performance in 2019/20 – audited

The 2017 award was granted on 15 November 2017 and was assessed against the performance targets at the end of FY20 (i.e., to 28 June 2020). The final level of vesting of these awards was 0% as set out on in Part B At a glance on page 90 .

However, as set out in the single figure table Tim Stacey received 45,635 shares in relation to his Restricted Share Plan award as granted on 16 November 2017 prior to becoming CEO. This award was subject to a share price performance condition which was met.

LTIP awards granted in FY20 (2019 award)

The CEO, Tim Stacey was granted an award over 248,275 shares, in the form of nil cost options, equivalent to 150% of salary on 25 October 2019 and the CFO, Mike Schmidt was granted an award of 148,965 shares, in the form of a nil cost option, equivalent to 120% of salary on 25 October 2019 (the number of shares granted was based on a share price of £2.42 (which was the average of the closing share price on the three days prior to the grant). The performance period for the 2019 award is from 1 July 2019 and will end 30 June 2022. The performance measures are based on Adjusted EPS and Relative TSR and details are set out below.

For FY20, we applied an absolute range for the EPS measure (50% of the LTIP award) as the Committee felt that it was more appropriate to adopt an absolute range as it gave the clearest line of sight for management and shareholders alike.

As reported in 2019, the Committee confirmed that the comparator groups within the TSR measure would be weighted more heavily towards the UK retail sector as the more relevant group. Therefore, for the 2019 LTIP award, the split between the FTSE 350 General Retailers Index and the FTSE 250 Index (excluding Investment Trusts) was 35:15 (50% of the LTIP award).

Director	Number of shares granted in form of a nil-cost option	Face value of shares at date of grant (£)	Minimum value at vesting (£)
Tim Stacey	248,275	600,000	120,000
Mike Schmidt	148,965	360,000	72,000

Directors' remuneration report continued

(1) Adjusted EPS (50% of the award)
Adjusted EPS will be measured by reference to the reported Adjusted EPS figure for the Financial Year ending in 2022. This portion of the award will vest as follows:

Adjusted EPS for the Financial Year ending in 2022	Percentage of this portion of Award Vesting
Less than 23.5p	Nil
23.5p	20%
28.5p	100%
Between 23.5p and 28.5p	Between 20% and 100% on a straight-line basis

(2) Total Shareholder Return (TSR) (50% of the award)
TSR growth will be measured against two indices: the FTSE 250 Index (excluding investment trusts) and the FTSE 350 General Retailers Index. The performance period for this award commenced at the beginning of the Company's FY20 and shall terminate at the end of the FY22. This portion of the award will vest as follows:

FTSE 250 Index (15% of the award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 250 Index return	Nil
Equal to FTSE 250 Index return	20%
10% p.a. above the FTSE 250 Index return	100%
Between FTSE 250 Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

FTSE 350 General Retailers Index (35% of the award)

TSR Growth p.a.	Percentage of this portion of Award Vesting
Below FTSE 350 General Retailers Index return	Nil
Equal to FTSE 350 General Retailers Index return	20%
10% p.a. above the FTSE 350 General Retailers Index return	100%
Between FTSE 350 General Retailers Index return and the Index plus 10% p.a.	Between 20% and 100% on a straight-line basis

LTIP awards to be granted in FY21 (2020 award)
For the FY 2021 LTIP grant, Executive Directors will be awarded quantum in line with policy. Performance will be based on EPS and relative TSR (against the FTSE 250 index excluding investment trusts and FTSE 350 General Retailers). However, at the present time, the Committee does not feel able to robustly set three-year EPS and TSR targets given the significant uncertainty in the wider economic environment. Therefore, the Committee's intention is to set the targets within six months of the 2020 LTIP award being granted (in line with IA guidelines) when the market has stabilised. Likewise, the Committee will consider the most appropriate weighting between TSR peer groups within six months when the market has stabilised.

SAYE awards – audited
There were no SAYE awards granted to Executive Directors during the year.

Payment to past directors
None

Payment for loss of office
None

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

Single figure remuneration table for Non-Executive Directors – audited

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

Director		Fees £'000	Other £'000	Total £'000
Ian Durant	**2020**	**177**	**1**	**178**
	2019	168	–	168
Luke Mayhew	**2020**	**21**	**–**	**21**
	2019	56	–	56
Alison Hutchinson	**2020**	**61**	**–**	**61**
	2019	52	–	52
Jo Boydell	**2020**	**56**	**–**	**56**
	2019	31	–	31
Steve Johnson	**2020**	**52**	**–**	**52**
	2019	29	–	29
Jane Bednall	**2020**	**24**	**–**	**24**

Notes:
1. 2019 figures reflect the 11-month financial year.
2. The NED's all took a 20% reduction in their fees in May and June to support the business through the pandemic.
3. Luke Mayhew stepped down from the Board on 15 November 2019.
4. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019.
5. Jane Bednall was appointed to the Board on 1 January 2020.
6. Steve Johnson was appointed as Chair of the Remuneration Committee on 17 January 2020.
7. Ian Durant other remuneration relates to health insurance benefit in kind.

Shareholding and other interests at 28 June 2020 – audited

Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain (as relevant) a personal shareholding equal to 250% of their base salary in the Company (this applies to existing Executive Directors only) over a five-year period from appointment.

	Shareholding at 28 June 2020			Interests in shares under the LTIP (Conditional shares)				
Director	Number of beneficially owned shares[1]	% of salary held[2]	Shareholding requirement met	Subject to conditions	Not subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 28 June 2020
Tim Stacey[3]	477,208	202%	no	761,449	–	–	–	1,238,657
Mike Schmidt[4]	19,375	11%	no	181,007	54,098	–	–	254,480
Ian Durant	44,666	n/a	n/a	–	–	–	–	46,666
Jane Bednall	13,333	n/a	n/a	–	–	–	–	13,333
Jo Boydell	13,333	n/a	n/a	–	–	–	–	13,333
Alison Hutchinson	13,333	n/a	n/a	–	–	–	–	13,333
Steve Johnson	26,666	n/a	n/a	–	–	–	–	26,666
Luke Mayhew[5]	44,121	n/a	n/a	–	–	–	–	44,121
Total	652,035	–	–	942,456	54,098	–	–	1,635,259

Notes:
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Shareholding requirement calculation is based on the share price at the end of the year (£1.69 at 28 June 2020).
3. Tim Stacey's interests in share, subject to conditions include 106,484 shares under his 2017 RSP award.
4. Mike Schmidt's interests in shares, not subject to conditions, refer to his outstanding 2017 and 2018 RSP awards. The RSP awards were granted to Mike prior to him becoming Executive Director and have no performance conditions attached to them.
5. Luke Mayhew stepped down from the Board on 15 November 2019 the shareholding was correct at that date.

At 21 September 2020 there had been no movement in Directors' shareholdings and share interests from 28 June 2020.

Outstanding share awards

The following share awards remain outstanding as at 28 June 2020 for the Executive Directors (excluding the 2017 LTIP award for which performance has been tested):

Director	Type of award	Date of grant	Number of awards	Award vested	Awards lapsed	Outstanding awards	Market price on date of grant	Norma vesting date
Tim Stacey	2017 LTIP[1]	16/11/17	125,000	–	–	125,000	£1.90	16/11/20
	RSP	16/11/17	106,484	–	–	106,484	£1.90	16/11/20
	2018 LTIP	30/11/18	281,690	–	–	281,690	£2.13	30/11/21
	2019 LTIP	25/10/19	248,275	–	–	248,275	£2.42	25/10/22
Mike Schmidt	2017 RSP[2]	16/11/17	35,789	–	–	35,789	£1.90	16/11/20
	2018 RSP[2]	30/11/18	18,309	–	–	18,309	£2.13	30/11/21
	LTIP	30/11/18	32,042	–	–	32,042	£2.13	30/11/21
	2019 LTIP	25/10/19	148,965	–	–	148,965	£2.42	25/10/22

Notes:
1. The 2017 LTIP award will lapse on 16 November 2020.
2. Mike Schmidt's 2017 and 2018 RSP awards were granted prior to him becoming an Executive Director.

Details of LTIP award performance conditions

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Threshold level vesting	Maximum vesting
2018 LTIP	EPS growth	50%	Reporting underlying EPS	23.0p	28.5p	20%	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	20%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%
2019 LTIP	EPS growth	50%	Reporting underlying EPS	23.5p	28.5p	20%	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	20%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%

Statement of implementation of Policy for the year ending 28 June 2020

See pages 92 to 95.

Matters covered during the Committee's meetings in FY20

As at 28 June 2020, the Committee consisted of the following members:

- Steve Johnson Chair
- Alison Hutchinson
- Jo Boydell
- Jane Bednall

The key matters covered by the Committee during the year are summarised below.

Matter	Sep 19	Dec 19	Mar 20	Jun 20
Approved bonus outcomes for 2019	•			
Approved bonus scorecard for FY20 and monitored interim performance	•		•	•
Signed-off LTIP performance outcomes for 2016 LTIP	•			
Approved LTIP performance targets for 2020 LTIP and monitored performance		•		•
Signed-off Directors Remuneration Report	•			
Review of corporate governance code changes and market practice update			•	
Chair Fee Review	•			
Gender pay reporting and diversity and inclusiveness initiatives			•	
Retail Management and Sale Colleague reward review			•	
The Committee agreed to apply downward discretion to override the formulaic outcome for the bonus outcomes for 2020 for Executive Directors				•
The Committee reviewed and made changes to remuneration for Directors and the senior management team in light of Covid-19				•
Reviewed format for wider workforce remuneration reporting				•

Note:
Details of meeting attendance by Committee members can be found on page 71 of this Annual Report.

Internal and external support for the Committee

The Chairman, the CEO and the CFO attend meetings at the invitation of the committee but are not present when their own remuneration is being discussed. The Company Secretary acts as Secretary to the Committee. The Committee is supported by the Group People Director, Finance and Company Secretariat functions.

The Committee received external advice in FY20 from PwC during the year. The Committee appointed PwC as its advisers after a tender process in July 2015. PwC are considered by the Committee to be objective and independent. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee reviewed the nature of all the services provided during the year by PwC and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to PwC in respect of services to the Committee during the year were £72,387. Fees were determined based on the scope and nature of the projects undertaken for the Committee.

Service Contracts for Executive Directors

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

	Date of contract	Notice period
Tim Stacey	21 May 2018	6 months (Executive) or 12 months (Company)
Mike Schmidt	12 July 2019	6 months (Executive) or 6 months (Company)

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

Letters of appointment for Non-Executive Directors

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

Each Non-Executive Director is subject to annual re-election at the Company's AGM.

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

	Date of appointment
Ian Durant	2 May 2017
Alison Hutchinson	1 May 2018
Jo Boydell	6 December 2018
Steve Johnson	6 December 2018
Jane Bednall	1 January 2020

For and on behalf of the Committee

Steve Johnson
Chair of the Remuneration Committee
24 September 2020

Directors' report

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

The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 52 weeks ended 28 June 2020.

The Company has no overseas subsidiaries but operates branches in the Republic of Ireland, Spain and the Netherlands.

The Directors present their Annual Report and audited financial statements for the 52 weeks ended 28 June 2020, in accordance with section 415 of the Companies Act 2006.

As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 63 as the Board considers them to be of strategic importance as well as some matters contained within the Directors' remuneration report on pages 84 to 105.

Specifically, these matters are:
- Future business developments and our strategy and objectives (contained throughout the Strategic Report);
- Employees, which can be found on pages 52 to 55;
- Risk management on pages 32 to 38;
- Total global Group greenhouse gas emissions for FY20 on page 51;
- The Corporate Governance statement, set out on pages 66 to 75; and
- Information on how the Directors have had regard for the Company's stakeholders and complied with their responsibilities under s172, and the effect of that regard, on pages 60 to 63.

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R.

The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

Board of Directors

The membership of the Board and biographical details of the Directors are provided on pages 64 and 65. Changes to the Directors during the year and up to the date of this report are set out below. Details of Directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 103. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 104. Further information regarding employee share option schemes is provided in note 25 to the financial statements.

The Directors who served during the financial year were as follows:

Director	Position	Service in the year ended 28 June 2020
Ian Durant	Chair	Served throughout the year
Luke Mayhew	Senior Independent Non-Executive Director	Resigned 14 November 2019
Mike Schmidt	Chief Financial Officer	Appointed 11 July 2019
Tim Stacey	Chief Executive Officer	Served throughout the year
Alison Hutchinson	Senior Independent Non-Executive Director	Served throughout the year
Jo Boydell	Independent Non-Executive Director	Served throughout the year
Steve Johnson	Independent Non-Executive Director	Served throughout the year
Jane Bednall	Independent Non-Executive Director	Appointed 1 January 2020

The appointment and replacement of directors is governed by the Company's Articles of Association (the "Articles"), the UK Corporate Governance Code (the "Code"), and the Companies Act 2006 and related legislation. The Articles of Association provide that a Director may be appointed by an ordinary resolution of the shareholders or by the existing directors either to fill a vacancy or as an additional Director. All of the Directors will, in accordance with the Code, retire from office and seek re-election at the Company's Annual General Meeting (the "AGM") on 13 November 2020, with the exception of Jane Bednall who will seek election for the first time.

Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

The Company may, by ordinary resolution, declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends and also any fixed rate dividend whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

Executive Directors' Contracts
The Executive Directors serve under rolling contracts that are terminable upon 6 months' notice from the Company and 12 months' notice from the Executive Director. The Non- Executive Directors are under letters of appointment. Copies of service contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and able to devote sufficient time to discharge their responsibilities.

Directors' interests
Information about the Directors' interests in the Ordinary Shares of the Company on 28 June 2020, or date of appointment if later, and any subsequent changes as at 23 September 2020 is set out in the Directors' remuneration report on pages 103 to 104.

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

Directors' conflicts of interest
The Company has procedures in place for identifying and managing potential and actual conflicts of interest. Should a Director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with any Group company, they should notify the Board in writing or at the next Board meeting. The Board has discretion whether to authorise any such conflicts of interest, in accordance with the Companies Act 2006 and the Company's Articles. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Change of control and significant agreements
The Company is not a party to any significant agreements which take effect, alter, or terminate, solely upon the event of a change of control in the Company following a takeover bid. However, in the event of a change of control of the Company, the Company is obliged to give written notice to its lenders. Each individual lender then has the right to give written notice to the Company to demand early repayment of its outstanding loans to that lender and to cancel that lender's commitments in full.

The Company's share option plans, and its Long-Term Incentive Plan, contain provisions regarding a change of control. Outstanding options and awards may vest on a change of control, subject to the satisfaction of any relevant performance conditions.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Employees
As at the year end the Company employed 5,372 employees (as set out in the gender analysis table on page 55). The Group places considerable value on the involvement of its employees and uses a number of ways to engage with employees on matters that impact them and on the performance of the Group. These include the annual employee engagement survey as well as regular employee business briefings by the Group Leadership Team in the form of "Town Hall" broadcasts across the Group and our Employee Voice Forums at which the Non-Executive Directors meet with employee representatives to discuss key issues.

The Company believes in encouraging employee share ownership and operates an all-employee Save As You Earn Scheme.

Articles of Association
The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders. No amendments are proposed at the 2020 AGM.

Financial Results
The Group's results for the year are set out in the consolidated financial statements on pages 120 to 151. The Company only results of DFS Furniture plc are set out on pages 152 to 156.

Dividends
On 25 March 2020, as part of our update on the impact of Covid-19, the Board of Directors announced its decision to cancel the intended interim ordinary dividend of 3.7 pence per share which had been due to be paid to shareholders on 17 June 2020. This decision was made as part of the proactive steps we have taken to strengthen our balance sheet and maximise liquidity for the likely duration of the crisis. This step preserved close to £8m of cash. The terms of the £70m incremental banking facility obtained in April preclude the payment of dividends at present and the Board has subsequently announced the decision not to pay a final dividend for FY20 and that it does not currently anticipate paying a dividend for FY21. While this was a difficult decision, it was taken to protect the Group during the immediate crisis and throughout the recovery period.

No interim dividend	(last year 3.7p per share)
No proposed final dividend	(last year 7.5p per share)
Total dividend of 0.00p per share for 2019/20	(last year 11.2p per share)

Directors' report continued

Annual General Meeting ('AGM')

The Company's next AGM will take place virtually, at 2.30pm on 13 November 2020 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA, and the Chair of each of the Board's Committees will be available to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM, including the resolutions to be proposed, will be sent to shareholders at least 21 clear days prior to the date of the meeting.

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

Share capital

Details of the Company's share capital are set out in note 22 to the consolidated financial statements. In order to maintain liquidity during the year and at the peak of the Covid-19 pandemic, the Company increased the number of issued shares by 42,606,119 and as at 24 September 2020, the Company had an issued share capital of 255,636,720 Ordinary Shares of £1.50 each.

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

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

Authority to purchase own shares

At the last AGM of the Company on 14 November 2019, the Company was authorised to purchase a maximum of 10% of the Company's issued share capital. This authority will expire at the close of the next AGM on 13 November 2020 unless revoked, varied or renewed prior to that meeting.

Since the date of the last Annual Report, the Company purchased 400,000 shares in order to satisfy Long Term incentive plans and 978,246 treasury shares have been utilised to satisfy share-based employee-awards and SAYE options. As at the date of this Annual Report, 266,473 Ordinary shares of £1.50 each are held by the Company as treasury shares with the expectation that they will be utilised to satisfy future share-based employee-award/SAYE option obligations.

A resolution will be proposed at the 2020 AGM to renew this authority.

Authority to allot shares

At the last AGM of the Company on 14 November 2019, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £106,092,941 (or up to £212,185,882 in connection with an offer by way of a rights issue).

As at the date of this Annual Report, 42,606,119 shares have been issued under this authority. This authority will expire at the conclusion of the 2020 AGM unless revoked, varied or renewed prior to that meeting.

A resolution will be proposed at the 2020 AGM to renew this authority.

Substantial Shareholders

As at 21 September 2020, the Company has been notified of the following holdings of voting rights in its shares under Rule 5 of The Disclosure Guidance and Transparency Rules of the Financial Conduct Authority:

Investor	Number of voting rights	% voting rights	Date of last notification
Aviva Investors	19,900,155	7.8	30 Apr 2020
Liontrust AssetMgt	19,709,335	7.7	25 Nov 2019
Franklin Templeton Investments	19,451,033	7.6	13 Apr 2020
JO Hambro Capital Mgt	19,253,988	7.5	24 Nov 2017
Pelham Capital Mgt	18,742,760	7.3	12 Dec 2019
Aberforth Partners	16,311,222	6.4	4 Oct 2018
Stadium Capital Mgt	15,624,674	6.1	26 Sept 2017
Aberdeen Standard Investments (Standard Life)	13,045,209	5.1	10 Apr 2020

Financial risk management

The Company's objectives and policies on financial risk management, including information on credit, liquidity and market risks can be found in note 24 to the financial statements.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 28 June 2020 or the previous financial year. The Group has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Charitable donations

Charitable donations made by the Group during the year amounted to £115,378 (2019: £142,500). Further information regarding the Company's charitable donations can be found in the sustainability and responsibility report on pages 58 to 59.

Going concern

The Group has a £250.0m revolving credit facility in place until August 2022, and in April 2020, to increase resilience to the short-term effects of the Covid-19 pandemic, secured an additional twelve month facility of £70.0m from the same group of lending banks. In the same month the Group also secured to £63.9m of equity funding from a placing of ordinary shares. During the period from the inception of the additional £70.0m facility through to June 2021, existing covenants on the revolving credit facility (of 3.0x net debt/EBITDA and 1.5x Fixed Charge Cover) have been replaced by new minimum quarterly EBITDA and net debt covenants. At the date of approval of these financial statements, none of the £70.0m facility had been utilised and a further £170.0m of the revolving credit facility remained undrawn, giving the Group a total of £240.0m available facility in addition to cash in hand, at bank (£47.8m as at 21 September 2020).

The Directors have prepared cash flow forecasts for the Group covering a period of 18 months to March 2022. These forecasts indicate that the Group will be in compliance with the minimum quarterly EBITDA and net debt covenants applicable for that period, which are assessed monthly, as well as the original covenants which become effective once more from June 2021. These forecasts include a number of assumptions in relation to: level of customer order intake; gross profit margins; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These downside scenarios include specific consideration of a range of impacts that could arise from the continued coronavirus pandemic and the UK's exit from the EU. These scenarios included: significantly reduced customer spending; a second lockdown during FY21 leading to reduced order intake and customer deliveries; disruptions to manufacturing and supply chain causing delays in receiving stock; and possible changes in the regulatory environment surrounding product warranty insurance. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group and Company to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the coronavirus pandemic, and are confident that the Group and Company have 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 twelve months from the date of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

Auditor and disclosure of information to auditor

The Directors who held office at the date of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each such Director has taken all the reasonable steps that they ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006. KPMG LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it as the Company's auditor will be proposed at the forthcoming AGM.

Subsequent events

Following the end of the financial year, the Group completed the sale of The Sofa Workshop Limited on 18 September 2020. Between 28 June 2020 and the date of signing this report there have been no other reportable subsequent events.

Elizabeth McDonald
Group Company Secretary
24 September 2020

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

We confirm that, to the best of our knowledge:

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

In addition, the Directors consider the Annual Report and financial statements, take as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 23 September 2020 and signed on its behalf by:

Elizabeth McDonald
Group Company Secretary
24 September 2020

Independent auditor's report

Independent auditor's report to the members of DFS Furniture plc

1. Our opinion is unmodified

We have audited the financial statements of DFS Furniture plc ("the Company") for the 52 week period ended 28 June 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1 to both the Group and parent Company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 June 2020 and of the Group's loss for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 6 July 2015. The period of total uninterrupted engagement is for the 6 financial years ended 28 June 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£1.8m (2019:£1.4m) 3.6% (2019: 5.0%) of three financial year average absolute Group profit/loss before tax excluding non-underlying items (2019: Group profit before tax excluding non-underlying items)	
Coverage	72% (2019:100%) of Group loss before tax (2019: Group profit before tax)	
Key audit matters		**vs 2019**
Recurring risks	Going concern	▲
	The impact of uncertainties due to the UK departure from the European Union on our audit	◀▶
	Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies	▲
	DFS Trading guarantee provision	◀▶
Transitional risk	New: Implementation of IFRS 16	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

2. Key audit matters: including our assessment of risks of material misstatement continued

Going concern. Refer to page 39 (Viability reporting), page 78 (Audit Committee Report), page 109 (Directors' report) and page 125 (accounting policy).	***Disclosure quality:*** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and the parent Company's business model and how those risks might affect the Group's and the parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and the parent Company's available financial resources over this period were: • The impact of the Covid-19 pandemic and the risk of any future periods of lockdown either in the UK, China or other significant supplier territories , leading to reduced order intake and customer deliveries and disruption to the Group's manufacturing or supply chain; • The impact of Brexit on the Group's supply chain; and • Regulatory changes to the sale of financial products, including extended warranties. There are also less predictable but realistic second order impacts, such as the impact of Brexit or Covid-19 on the erosion of consumer confidence, which could result in a rapid reduction in sales. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	***Our procedures included:*** • **Funding assessment:** assessed the committed level of finance, and its expiry, to determine the level of financing available to the Group and its associated covenants. Considered covenant compliance, both in the financial year and for the forecast period; • **Historical comparisons:** critically assessed historical results in order to consider the directors' track record of forecasts versus actual cash flows achieved in the current financial year and previously; • **Benchmarking assumptions:** Benchmarked the key assumptions behind the cash flow forecasts to third party evidence, including analyst reports and market data; • **Sensitivity analysis:** Considered sensitivities over the level of available financial resources, including associated covenant compliance, indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. This was done through stress testing the forecasts to reflect severe but plausible downside situations, including various Covid-19 lockdown scenarios, a reduction in sales due to a decrease in consumer confidence, disruptions to manufacturing and supply chain causing delays in receiving stock and the potential impact of a change in regulation around warranty insurance products; • **Evaluation of directors' intent:** Evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, including reduction in non-essential capital expenditure and marketing costs. • **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure through our specific entity understanding, industry and market analysis and through cumulative audit knowledge. ***Our results*** We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).

	The risk	Our response
The impact of uncertainties consequent upon the UK's departure from the European Union on our audit. Refer to page 33 (principal risks), page 39 (Viability reporting), and page 78 (Audit Committee Report)	***Extreme levels of uncertainty:*** The UK left the European Union (EU) on 31 January 2020 and entered an implementation period which is due to operate until 31 December 2020. At that point current trade agreements with the European Union terminate. The UK is entering negotiations over future trading relationships with the EU and a number of other countries. Where new trade agreements are not in place World Trade Organisation (WTO) arrangements will be in force, meaning among other things import and export tariffs, quotas and border inspections, which may cause delivery delays. Different potential outcomes of these trade negotiations could have wide ranging impacts on the Group's operations and the future economic environment in the UK and EU. All audits assess and challenge the reasonableness of estimates, in particular as described in *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* below and *Going concern* above, and related disclosures; and the appropriateness of the going concern basis of preparation of the financial statements (see above). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The uncertainty over the UK's future trading relationships with the rest of the world and related economic effects give rise to extreme levels of uncertainty, with the full range of possible effects currently unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from the UK's departure from the EU in planning and performing our audits. ***Our procedures included:*** • **Our knowledge of the business:** We considered the directors' assessment of risks arising from different outcomes to the trade negotiations for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* , *Going concern* and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from these uncertainties and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* and *Going concern* we considered all of the disclosures concerning uncertainties related to the UK's future trading relationships together, including those in the strategic report, comparing the overall picture against our understanding of the risks. ***Our results*** As reported under *Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies* , we found the resulting estimates and related disclosures, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the impact of the UK's departure from the EU.

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Recoverability of goodwill and of the parent’s investment in subsidiaries and receivables from other group companies. (Group’s goodwill £509.3m; 2019 £514.6m; impairment expense £5.3m (2019: nil) parent Company’s investment in subsidiaries £245.3m; 2019: £244.1m; parent Company’s receivables £355.4m; 2019 £293m). Refer to page 78 (Audit Committee Report), pages 128 to 130 (accounting policy), note 10 on pages 142 to 143 (financial disclosures), and notes 2 and 3 to parent Company financial statements on page 155 (financial disclosures).	***Subjective estimate:*** There is a risk, particularly in light of current political and economic uncertainty and more challenging market conditions, that the business may not meet expected growth projections in order to support the carrying value of goodwill, or the parent Company’s investment in subsidiaries, or recoverability of its receivables from other group companies. This risk remains significant in light of recent financial years of trading performance for the Group falling behind internal and market expectations. The directors considered the recoverability of the goodwill balances, the parent Company investment in subsidiaries and recoverability of receivables from other group companies through a value in use calculation that had underlying assumptions of varying sensitivities. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	***Our procedures included:*** • **Historical comparisons**: Compared the Group’s previous forecasts against actual outcomes to assess the historical reliability of the forecasting; • **Benchmarking assumptions:** Compared the Group’s trading forecasts against current trading performance and anticipated growth in the furniture retail sector, and investigated any significant deviations, in order to challenge the assumptions included in the forecasts. This was performed by comparing the anticipated growth in the forecasts to industry projections and applying our knowledge of the Group and of the retail sector; • **Sensitivity analysis:** Performed sensitivity analysis over revenue, profit margins, terminal growth rate, and discount factor in order to determine their impact on the value in use calculations; • **Our sector experience:** Engaged our own valuation specialists to assess and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculation, benchmarking each input against our own expectations, and comparing the overall rate to an expected range based on our own benchmarks; • **Comparing valuations:** Compared the sum of the discounted cash flows for all CGUs and the parent company net asset position to the Group’s market capitalisation to assess the reasonableness of those cash flows and the reasonableness of the carrying value of those assets; and • **Assessing transparency:** Considered the adequacy of the Group’s disclosures around the carrying value of goodwill and the impairment analysis, as well as the disclosures around the recoverability of parent company investments. ***Our results*** We found the carrying amount of goodwill in the Group, the parent Company’s investment in subsidiaries and recoverability of receivables from other group companies to be acceptable (2019: acceptable).

	The risk	Our response
DFS Trading guarantee Provision. Refer to page 78 (Audit Committee Report), pages 128 to 130 (accounting policy) and note 20 on page 146 (financial disclosures).	***Subjective estimate:*** The guarantee provision reflects the estimated cost of fulfilling the obligations arising from the product guarantee provided to retail customers of DFS Trading. The amount of the provision is inherently uncertain and there is significant estimation involved in the provision model, including assumptions around: average cost per claim, volume of claims, and the average period over which customer service telephone calls are received ("phasing assumption"). The effect of these matters is that, as part of our risk assessment, we determined that the guarantee provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work we reassessed the degree of estimation uncertainty to be less than that materiality.	***Our procedures included:*** • **Historical comparisons:** Compared expected volumes of customer service calls and assumptions relating to the number and value of claims received per service call, against historical data; • **Test of details:** Tested key inputs of the calculated cost per customer service call to supporting internal documentation and benchmarking to third party costs per call. • **Expectation vs outcome:** Compared the timing of when items were sold to the timing over which calls are expected to arise in order to corroborate the phasing assumption; • **Methodology evaluation:** Assessed the reasonableness of Group's forecasting methodology by comparing the prior period's provision recognised to the costs incurred during the current financial year in relation to servicing calls received. Assessed alternative methodologies considered and prepared by the Group as confirming evidence; • **Sensitivity analysis:** Performed sensitivity analysis on key inputs to the calculation of the provision, including average cost per claim and the percentage of orders on which calls are received, in order to determine their impact on the calculations; and • **Assessing transparency:** Determined whether the Group's disclosures in relation to the provision, the assumptions on which it is based and sensitivities around those assumptions are adequate. ***Our results*** We found the resulting estimate of the guarantee provision to be acceptable (2019: acceptable).

Independent auditor's report continued

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
IFRS 16 transition. (Right of Use Asset on transition £445.0m; Lease Liability on transition £548.6m) Refer to page 78 Audit Committee Report), pages 130 to 131 (accounting policy) and note 1.18 on pages 130 to 134 (financial disclosures).	***Accounting Application/Subjective Estimate:*** The Group adopted IFRS 16 – Leases from 1 July 2019 using the modified retrospective method. Given the magnitude of the adjustment arising on its adoption, there exists a material risk of error on transition. IFRS 16 requires that what was previously operating lease liabilities be recognised on the balance sheet for the first time together with the associated right-of-use (ROU) assets. The calculation of ROU assets and lease liabilities require assumptions to be made. These assumptions include, but are not limited to, duration of the lease term and discount rate. The effect of these matters is that, as part of our risk assessment, we determined that the amount of ROU assets and liabilities contained a high degree of estimation uncertainty, with a potential range of reasonable customer outcomes greater than our materiality for the financial statements as a whole.	***Our procedures included:*** • **Accounting analysis:** We assessed the Group's accounting policy in light of the adoption of IFRS 16 in the financial year to assess if the transition adjustments were made appropriately. • **Benchmarking assumptions:** We compared the discount rates calculated and used by the Group to external and internal data such as confirmations from the Group's bank syndicate and independent property yield valuation; • **Test of details:** Tested a sample of leases to assess if the key terms had been recorded appropriately and performed recalculation procedures for management's models; and • **Assessing transparency:** We assessed whether the Group's disclosures detailing the transition adjustments on adoption of IFRS 16 are adequately disclosed. ***Our results*** We found the resulting amounts adopted for IFRS 16 assets and liabilities on transition to be acceptable.

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

Materiality for the Group financial statements as a whole was set at £1.8m (2019: £1.4m), determined with reference to a benchmark of three financial year average absolute Group profit/loss before tax excluding non-underlying items, of which it represents 3.6% (2019: 5.0% of Group profit before tax, excluding non-underlying items).

The group audit team performed procedures on the items excluded from normalised Group profit before tax.

Materiality for the parent Company financial statements as a whole was set at £1.0m (2019: £0.7m), determined with reference to a benchmark of the parent Company total assets, of which it represents 0.17% (2019: 0.13%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.09m (2019: £0.07m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2019: 9) reporting components, we subjected 4 (2019: 4) to full scope audits for Group purposes.

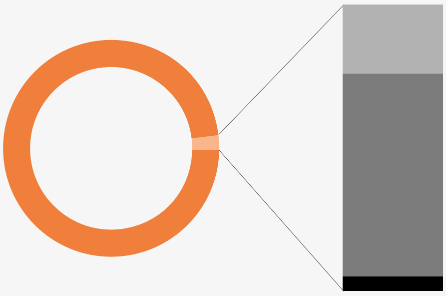
For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

* The remaining 28% (2019: 7%) of total Group loss before tax is represented by 5 (2019: 5) reporting components, none of which individually represented more than 5% (2019: 5%) of either of total Group revenue or total Group assets.

The work on all components, including the audit of the parent company, was performed by the Group audit team. Component materialities ranged from £1.0m to £1.5m (2019: £0.7m to £1.2m), having regard to the mix of size and risk profile of the Group across the components.

Three financial year average absolute Group profit/loss before tax, excluding non-underlying items (2019: Group profit before tax excluding non-underlying items)
50.2m (2019: £28.2m)

Group materiality
£1.8m (2019: £1.4m)



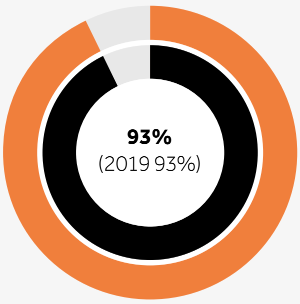
£1.8m
Whole financial statements materiality (2019: £1.4m)

£1.5m
Range of materiality at 9 components (£0.1m-£1.5m) (2019: £0.7m to £1.2m)

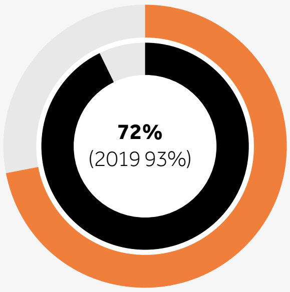
£0.09m
Misstatements reported to the audit committee (2019: £0.07m)

Revenue   Group materiality

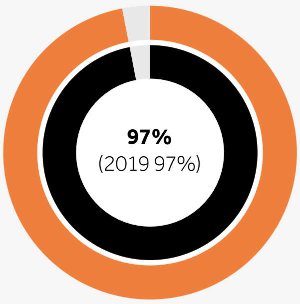
Group Revenue



Group loss before tax



Group total assets



Full scope for group/statutory audit purposes 2020
Full scope for group/statutory audit purposes 2019
Residual components

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the parent Company or the Group or to cease their operations, and as they have concluded that the parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period"). Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the parent Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the parent Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 109 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Independent auditor's report continued

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:
- the directors' confirmation within the Viability Reporting (page 39) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Reporting of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Reporting. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and the parent Company's longer-term viability.

Corporate governance disclosures

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 110, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified financial service litigation as the area most likely to have such an effect, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Frances Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants 1 Sovereign Square Sovereign Street Leeds
LS1 4DA

24 September 2020

Consolidated income statement

for 52 weeks ended 28 June 2020 (48 weeks ended 30 June 2019)

	Notes	52 weeks to 28 June 2020 Underlying £m	Non-underlying £m	Total £m	48 weeks to 30 June 2019 Underlying £m	Non-underlying £m	Total £m
Gross sales	1, 2	**935.0**	**–**	**935.0**	1,165.0	–	1,165.0
Revenue	2	**724.5**	**–**	**724.5**	901.0	–	901.0
Cost of sales		**(307.4)**	**(3.1)**	**(310.5)**	(383.8)	–	(383.8)
Gross profit		**417.1**	**(3.1)**	**414.0**	517.2	–	517.2
Selling and distribution costs		**(287.5)**	**(2.1)**	**(289.6)**	(392.8)	–	(392.8)
Administrative expenses	3	**(67.7)**	**(0.2)**	**(67.9)**	(59.3)	(4.4)	(63.7)
Operating profit before depreciation, amortisation and impairment		**61.9**	**(5.4)**	**56.5**	65.1	(4.4)	60.7
Depreciation		**(81.9)**	**–**	**(81.9)**	(23.3)	–	(23.3)
Amortisation		**(6.8)**	**–**	**(6.8)**	(4.9)	–	(4.9)
Impairments		**(0.3)**	**(11.2)**	**(11.5)**	–	–	–
Operating (loss)/profit	2, 3	**(27.1)**	**(16.6)**	**(43.7)**	36.9	(4.4)	32.5
Finance income	5	**0.1**	**–**	**0.1**	0.2	–	0.2
Finance expenses	5	**(37.6)**	**–**	**(37.6)**	(10.3)	–	(10.3)
(Loss)/profit before tax		**(64.6)**	**(16.6)**	**(81.2)**	26.8	(4.4)	22.4
Taxation	6	**11.1**	**0.9**	**12.0**	(5.1)	0.8	(4.3)
(Loss)/profit for the period		**(53.5)**	**(15.7)**	**(69.2)**	21.7	(3.6)	18.1
Earnings per share							
Basic	7	**(24.3)p**	**(7.1)p**	**(31.4)p**	10.3p	(1.7)p	8.6p
Diluted	7	**(24.3)p**	**(7.1)p**	**(31.4)p**	10.1p	(1.7)p	8.4p

Consolidated statement of comprehensive income

for 52 weeks ended 28 June 2020 (48 weeks ended 30 June 2019)

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit for the period	**(69.2)**	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	**3.9**	9.7
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**(8.3)**	(6.1)
Recognised in finance expense	**0.7**	(0.6)
Income tax on items that are or may be reclassified subsequently to profit or loss	**0.4**	(0.5)
Other comprehensive (expense)/income for the period, net of income tax	**(3.3)**	2.5
Total comprehensive (expense)/income for the period	**(72.5)**	20.6

Consolidated balance sheet

at 28 June 2020 (30 June 2019)

	Note	28 June 2020 £m	30 June 2019 £m
Non-current assets			
Property, plant and equipment	8	**74.1**	89.9
Right of use assets	8, 9	**384.5**	–
Intangible assets	10	**532.5**	539.0
Other financial assets	12	**0.8**	1.4
Deferred tax assets	13	**24.0**	8.7
		1,015.9	639.0
Current assets			
Inventories	14	**58.9**	54.8
Other financial assets	12	**4.5**	6.3
Trade and other receivables	15	**22.2**	32.8
Current tax assets		**7.8**	–
Cash and cash equivalents		**62.3**	29.8
		155.7	123.7
Total assets		**1,171.6**	762.7
Current liabilities			
Trade payables and other liabilities	16	**(216.0)**	(225.1)
Lease liabilities	9, 16	**(88.6)**	–
Provisions	20	**(11.9)**	(5.0)
Other financial liabilities	17	**(0.1)**	–
Current tax liabilities		**–**	(0.8)
		(316.6)	(230.9)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(218.7)**	(194.0)
Lease liabilities	9, 16	**(428.6)**	–
Provisions	20	**(3.9)**	(5.6)
Other financial liabilities	17	**(1.9)**	(0.7)
Other liabilities	16	**–**	(79.7)
		(653.1)	(280.0)
Total liabilities		**(969.7)**	(510.9)
Net assets		**201.9**	251.8
Equity attributable to owners of the Company			
Share capital	22	**383.4**	319.5
Share premium	22	**40.4**	40.4
Merger reserve	22	**18.6**	18.6
Treasury shares	22	**(0.7)**	(2.1)
Cash flow hedging reserve	22	**3.3**	7.0
Retained earnings		**(243.1)**	(131.6)
Total equity		**201.9**	251.8

These financial statements were approved by the Board of Directors on 24 September 2020 and were signed on its behalf by

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Company registered number: 7236769

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 28 July 2018	**319.5**	**40.4**	**18.6**	**(3.3)**	**4.0**	**(126.8)**	**252.4**
Profit for the period	–	–	–	–	–	18.1	18.1
Other comprehensive income/(expense)	–	–	–	–	3.0	(0.5)	2.5
Total comprehensive income/(expense) for the period	–	–	–	–	3.0	17.6	20.6
Dividends	–	–	–	–	–	(23.8)	(23.8)
Treasury shares issued	–	–	–	1.2	–	(1.2)	–
Share based payments	–	–	–	–	–	2.6	2.6
Balance at 30 June 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**7.0**	**(131.6)**	**251.8**
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	–	(26.4)	(26.4)
Adjusted balance at 1 July 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**7.0**	**(158.0)**	**225.4**
Loss for the year	–	–	–	–	–	(69.2)	(69.2)
Other comprehensive income/(expense)	–	–	–	–	(3.7)	0.4	(3.3)
Total comprehensive income/(expense) for the year	–	–	–	–	(3.7)	(68.8)	(72.5)
Dividends	–	–	–	–	–	(15.9)	(15.9)
Purchase of own shares	–	–	–	(1.1)	–	–	(1.1)
Treasury shares issued	–	–	–	2.5	–	(1.2)	1.3
Shares issue	63.9	–	–	–	–	–	63.9
Settlement of share based payments	–	–	–	–	–	(1.6)	(1.6)
Share based payments	–	–	–	–	–	2.4	2.4
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	**(0.7)**	**3.3**	**(243.1)**	**201.9**

Consolidated cash flow statement

for 52 weeks ended 28 June 2020 (48 weeks ended 30 June 2019)

	Note	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit for the period		**(69.2)**	18.1
Adjustments for:			
Income tax expense		**(12.0)**	4.3
Financial income		**(0.1)**	(0.2)
Financial expenses		**37.6**	10.3
Depreciation of property, plant and equipment		**21.3**	23.3
Depreciation of right of use assets		**60.6**	–
Amortisation of intangible assets		**6.8**	4.9
Impairment of assets		**11.5**	–
Gain on sale of property, plant and equipment		**(1.1)**	(0.8)
Settlement of share based payments		**(1.6)**	–
Share based payment expense		**2.4**	2.6
Increase in trade and other receivables		**(1.6)**	(1.6)
Increase in inventories		**(4.1)**	(0.4)
Increase/(decrease) in trade and other payables		**4.7**	(10.2)
Increase/(decrease) in provisions		**6.6**	(0.3)
Net cash from operating activities before tax		**61.8**	50.0
Tax paid		**(6.1)**	(7.4)
Net cash from operating activities		**55.7**	42.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.4**	1.2
Interest received		**0.1**	0.2
Acquisition of property, plant and equipment		**(16.8)**	(17.5)
Acquisition of other intangible assets		**(6.6)**	(6.9)
Net cash from investing activities		**(21.9)**	(23.0)
Cash flows from financing activities			
Interest paid		**(9.0)**	(7.7)
Interest paid on lease liabilities		**(29.2)**	–
Payment of lease liabilities[1]		**(36.3)**	(3.5)
Drawdown/(repayment) of borrowings		**25.0**	(2.0)
Proceeds on issue of shares		**63.9**	–
Purchase of own shares		**(1.1)**	–
Proceeds from sale of own shares		**1.3**	–
Ordinary dividends paid		**(15.9)**	(23.8)
Net cash from financing activities		**(1.3)**	(37.0)
Net increase/(decrease) in cash and cash equivalents		**32.5**	(17.4)
Cash and cash equivalents at beginning of period		**29.8**	47.2
Cash and cash equivalents at end of period	26	**62.3**	29.8

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

Notes to the consolidated financial statements
at 28 June 2020

1 Accounting policies
DFS Furniture plc ("the Company") is a public company incorporated and domiciled in England in the United Kingdom (Company number: 07236769). The address of the registered office is 1 Rockingham Way, Redhouse Interchange, Adwick-Le-Street, Doncaster, South Yorkshire, DN6 7NA.

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

These annual financial statements are the first in which the Group has applied IFRS 16 Leases, further details of which are presented in note 1.18. With the exception of the adoption of IFRS 16, the accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.17.

1.1 Basis of preparation
The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), other than the early adoption of the IFRS 16 Covid-19 Related Rent Concessions Amendment which has yet to be endorsed by the EU (as detailed in note 1.18). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 28 June 2020 (last year 48 weeks to 30 June 2019).

The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"); these are presented on pages 152 to 156.

Going concern
The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The Group has a £250.0m revolving credit facility in place until August 2022, and in April 2020, to increase resilience to the short-term effects of the Covid-19 pandemic, secured an additional twelve month facility of £70.0m from the same group of lending banks. In the same month the Group also secured £63.9m of equity funding from a placing of ordinary shares. During the period from the inception of the additional £70.0m facility through to June 2021, existing covenants on the revolving credit facility (of 3.0x net Debt / EBITDA and 1.5x Fixed Charge Cover) have been replaced by new minimum quarterly EBITDA and net debt covenants. At the date of approval of these financial statements, none of the £70.0m facility had been utilised and a further £170.0m of the revolving credit facility remained undrawn, giving the Group a total of £240.0m available facility in addition to cash in hand, at bank (£47.8m as at 21 September 2020).

The Directors have prepared cash flow forecasts for the Group covering a period of 18 months to March 2022. These forecasts indicate that the Group will be in compliance with the minimum quarterly EBITDA and net debt covenants applicable for that period, which are assessed monthly, as well as the original covenants which become effective once more from June 2021. These forecasts include a number of assumptions in relation to: level of customer order intake; gross profit margins; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These downside scenarios include specific consideration of a range of impacts that could arise from the continued coronavirus pandemic and the UK's exit from the EU. These scenarios included: significantly reduced customer spending; a second lockdown during FY21 leading to reduced order intake and customer deliveries; and disruptions to manufacturing and supply chain causing delays in receiving stock; and possible changes in the regulatory environment surrounding product warranty insurance. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group and Company to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the coronavirus pandemic, and are confident that the Group and Company have 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 twelve months from the date of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

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

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

1 Accounting policies continued

1.3 Gross sales and revenue

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

Many of the Group's customers choose to take advantage of the interest-free credit that the Group makes available. This credit is provided by external finance houses, who pay the Group the gross sales value of the customer order on delivery, less a fee for taking responsibility for payment collection and bearing the full credit risk for any future default by the customer. The fee due to the finance house varies depending on the amount borrowed by the customer, the length of the repayment term and the LIBOR rate at the time of the transaction.

In calculating reported revenue in accordance with IFRS the Group is required to deduct these fees from the value of the customer order. Reported revenue will therefore vary depending on the proportion of customers who choose to take up the interest free credit offer, the average duration of the interest free loan period and the prevailing LIBOR rates.

For the purposes of managing its business the Group focuses on gross sales, which is defined as the total amount payable by customers, inclusive of VAT and other sales taxes and prior to any accounting adjustments for interest-free credit fees or aftercare product costs. The directors believe gross sales is a more transparent measure of the activity levels and performance of its stores and online channels as it is not affected by customer preferences on payment options. Accordingly gross sales is presented in this annual report in addition to statutory revenue, with a reconciliation between the two measures provided in note 2 to the financial statements.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised when goods have been delivered to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured. Receipt of goods by the customer represents the completion of the Group's performance obligation under the sales contract and payment is received prior to or immediately after delivery. Expected future costs of satisfying the Group's obligations under long-term product guarantees offered to customers are determined at the time of the sale, provided for separately (note 20) and charged to cost of sales.

1.4 Expenses

Non-underlying items

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

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

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

Royalty payments

Royalties payable to brand partners on sales of branded products are charged to cost of sales when the related product is delivered to the customer.

Finance income and expenses

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

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

1.5 Employee benefits

Defined contribution plans

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

Short-term benefits

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

Share based payments

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

1 Accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• buildings	50 years
• plant and equipment	3 to 10 years
• motor vehicles	4 years

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

Notes to the consolidated financial statements continued
at 28 June 2020

1 Accounting policies continued

1.10 Leases

Policy applicable to 30 June 2019.

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

Operating lease payments

Payments made under operating leases were recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received were recognised in the income statement as an integral part of the total lease expense. The Group had no significant contingent rental arrangements.

Finance lease payments

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

1.11 Intangible assets and goodwill

Goodwill

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

Other intangible assets

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

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

Amortisation

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

- computer software and website costs — 3 years
- acquired brand names — 10 to 20 years

1.12 Inventories

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

1.13 Impairment

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

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

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

1.14 Provisions

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

Details of provisions recognised are in note 20 and the related significant estimates and judgements in note 1.17.

1 Accounting policies continued

1.15 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

1.16 Derivative financial instruments and hedging

Derivative financial instruments

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

Cash flow hedges

On adoption of IFRS 9, the Group made the election to continue to apply the hedge accounting requirements of IAS 39 to all of its hedging relationships. Therefore, where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented within the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

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

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

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

1.17 Significant areas of estimation and judgement

In the application of the Group's accounting policies, the Directors are required to make judgments, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, and may differ from actual results. No significant areas of judgement arose in the current financial statements. Significant areas of estimation for the Group are explained below:

Contingent consideration

The terms of the acquisition of Sofology Limited included deferred contingent consideration payable based on profits of the acquired business post-acquisition. The value of this deferred consideration has yet to be finalised, and therefore the financial statements include a provision for the amount potentially payable of £5.0m. This estimate is based on an analysis of the detailed terms of the sale and purchase agreement and consideration of the possible outcomes of the expert determination process. The final value of the consideration payable may therefore materially differ from the amount accrued.

Notes to the consolidated financial statements continued
at 28 June 2020

1 Accounting policies continued

1.17 Significant areas of estimation and judgement continued

The following are other areas of important estimates and judgements relating to material balances in the Group's financial statements, but which do not meet the IFRS-defined criteria of a significant estimate:

Going concern

In making the assessment of going concern for the Group and the Company, the Directors consider a number of assumptions and estimates relating to the future performance of the Group, as detailed in note 1.1. The Directors are satisfied that no reasonably possible change in these estimate would result in a change in the going concern assessment of the Group or the Company and therefore it is not considered a significant estimate as at 28 June 2020.

Goodwill impairment

Goodwill is tested annually for impairment by comparing its carrying value to a calculation of the value in use of the relevant cash-generating units. This exercise requires estimates to be made of future cash flows arising from each cash-generating unit and the appropriate discount rate to apply. Further details of the key assumptions underlying the calculation detailed in note 10. The Directors are satisfied that no reasonably possible change in these estimates would result in a change in the going concern assessment of the Group or the Company and therefore it is not considered a significant estimate as at 28 June 2020.

Customer guarantees

The Group maintains a provision for its obligations under long term product guarantees offered to its customers. In determining the value of this provision estimates are made of the number of future claims that will be received and the cost of satisfying those claims. Further details are provided in note 20. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 28 June 2020.

Discount rates (IFRS 16)

The lease liability is initially recognised at the present value of the remaining lease payments, discounted at the interest rate implicit in the lease or, if that rate cannot be readily determined, 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

Taking these factors into consideration 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%.

Net realisable value of inventories

As detailed in note 14, the Group makes estimates of applicable selling prices to determine the net realisable value of inventories. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 28 June 2020.

1.18 New accounting standards

In the period ended 28 June 2020, the Group has adopted IFRS 16. 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 28 June 2020 that have a material impact on the Group's results.

A number of new or revised standards and interpretations have been issued which are not yet effective or endorsed by the EU, and which have not therefore been applied by the Group in these financial statements.

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 48 weeks ended 30 June 2019 reflect the requirements of IAS 17, while those presented for the 52 weeks ended 28 June 2020 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.

1 Accounting policies continued

1.18 New accounting standards continued

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;
- 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;
- use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Covid-19-related rent concessions amendment – deferrals of lease payments as a direct result of Covid-19 have been assessed as non-modifying.

The published Covid-19 related rent concessions amendment has been applied to all relevant rent concessions during the financial year. These concessions did not include waivers of rent payable. The amount recognised in the income statement as a consequence of applying the practical expedient to changes in lease payments arising from rent concessions was £0.3m, all rent concessions relate to deferrals of lease payments. The Group has elected to adopt the amendment early, although it has yet to be endorsed by the EU.

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; 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.

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 consolidated financial statements continued
at 28 June 2020

1 Accounting policies continued
1.18 New accounting standards 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	5.4	14.1
		639.0	439.9	1,078.9
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	427.6	1,190.3
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	(26.4)	225.4
Equity attributable to owners of the Company				
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)	(26.4)	(158.0)
Total equity		251.8	(26.4)	225.4

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.

1 Accounting policies continued

1.18 New accounting standards 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 IFRS 16 £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 52 week period to 28 June 2020 is summarised below:

		52 weeks to 28 June 2020		
	Note	Presented under IAS 17 £m	Impact of IFRS 16 £m	Presented under IFRS 16 £m
Gross sales		**935.0**	**–**	**935.0**
Revenue		**724.5**	**–**	**724.5**
Cost of sales		**(310.5)**	**–**	**(310.5)**
Gross profit		**414.0**	**–**	**414.0**
Selling and distribution costs		**(369.0)**	**79.4**	**(289.6)**
Administrative expenses		**(68.3)**	**0.4**	**(67.9)**
Operating (loss)/profit before depreciation, amortisation and impairment	i	**(23.3)**	**79.8**	**(56.5)**
Depreciation	ii	**(25.9)**	**(56.0)**	**(81.9)**
Amortisation		**(6.8)**	**–**	**(6.8)**
Impairments	iii	**(7.1)**	**(4.4)**	**(11.5)**
Operating loss		**(63.1)**	**19.4**	**(43.7)**
Finance income		**0.1**	**–**	**0.1**
Finance expenses	iv	**(11.9)**	**(25.7)**	**(37.6)**
Loss before tax		**(74.9)**	**(6.3)**	**(81.2)**
Taxation	v	**11.9**	**0.1**	**12.0**
Loss for the period		**(63.0)**	**(6.2)**	**(69.2)**

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. Right of use asset impairment recognised under IFRS 16
iv. Unwind of discount on IFRS 16 lease liabilities.
v. Tax effect on net income statement differences.

Notes to the consolidated financial statements continued
at 28 June 2020

1 Accounting policies continued

1.18 New accounting standards continued

The impact of IFRS 16 to the balance sheet as at 28 June 2020 is summarised below:

	Note	28 June 2020 IAS 17 £m	IFRS 16 adjustment £m	28 June 2020 IFRS 16 £m
Non-current assets				
Property, plant and equipment	i	85.0	(10.9)	**74.1**
Right of use assets	ii	–	384.5	**384.5**
Intangible assets		532.5	–	**532.5**
Other financial assets		0.8	–	**0.8**
Deferred tax assets	iii	18.5	5.5	**24.0**
		636.8	379.1	**1,015.9**
Current assets				
Inventories		58.9	–	**58.9**
Other financial assets		4.5	–	**4.5**
Trade and other receivables	iv	23.8	(1.6)	**22.2**
Current tax assets		7.8	–	**7.8**
Cash and cash equivalents		62.3	–	**62.3**
		157.3	(1.6)	**155.7**
Total assets		794.1	377.5	**1,171.6**
Current liabilities				
Trade payables and other liabilities	v	(243.2)	27.2	**(216.0)**
Lease liabilities	vi	–	(88.6)	**(88.6)**
Provisions		(13.2)	1.3	**(11.9)**
Other financial liabilities		(0.1)	–	**(0.1)**
Current tax liabilities		–	–	**–**
		(256.5)	(60.1)	**(316.6)**
Non-current liabilities				
Interest bearing loans and borrowings		(218.7)	–	**(218.7)**
Lease liabilities	vi	–	(428.6)	**(428.6)**
Provisions	vii	(8.8)	4.9	**(3.9)**
Other financial liabilities		(1.9)	–	**(1.9)**
Other liabilities	v	(73.7)	73.7	**–**
		(303.1)	(350.0)	**(653.1)**
Total liabilities		(559.6)	(410.1)	**(969.7)**
Net assets		234.5	(32.6)	**201.9**
Equity attributable to owners of the Company				
Share capital		383.4	–	**383.4**
Share premium		40.4	–	**40.4**
Merger reserve		18.6	–	**18.6**
Treasury shares		(0.7)	–	**(0.7)**
Cash flow hedging reserve		3.3	–	**3.3**
Retained earnings		(210.5)	(32.6)	**(243.1)**
Total equity		234.5	(32.6)	**201.9**

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.

2 Segmental analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Executive Board. 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.

	External sales		Internal sales		Total gross sales	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
DFS	**697.1**	850.2	**–**	–	**697.1**	850.2
Sofology	**181.7**	237.7	**–**	–	**181.7**	237.7
Other segments	**56.2**	77.1	**0.1**	0.5	**56.3**	77.6
Eliminations	**–**	–	**(0.1)**	(0.5)	**(0.1)**	(0.5)
Gross sales	**935.0**	1,165.0	**–**	–	**935.0**	1,165.0

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Total segments gross sales	**935.0**	1,165.0
Less: value added and other sales taxes	**(146.4)**	(183.5)
Less: costs of interest free credit and aftercare products	**(64.1)**	(80.5)
Revenue	**724.5**	901.0
Of which:		
Furniture sales	**676.0**	839.5
Sales of aftercare products	**48.5**	61.5
Revenue	**724.5**	901.0

52 weeks to 28 June 2020

	DFS £m	**Sofology £m**	**Other £m**	**Total £m**
Revenue	**535.2**	**143.7**	**45.6**	**724.5**
Cost of sales	**(212.6)**	**(72.3)**	**(22.5)**	**(307.4)**
Gross profit	**322.6**	**71.4**	**23.1**	**417.1**
Selling & distribution costs (excluding property costs)	**(191.6)**	**(47.8)**	**(20.9)**	**(260.3)**
Brand contribution (segment profit)	**131.0**	**23.6**	**2.2**	**156.8**
Property costs				**(27.2)**
Underlying administrative expenses				**(67.7)**
Underlying EBITDA				**61.9**

48 weeks to 30 June 2019

	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 & 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

Notes to the consolidated financial statements continued
at 28 June 2020

2 Segmental analysis continued

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Underlying EBITDA	**61.9**	65.1
Non-underlying items	**(16.6)**	(4.4)
Depreciation & amortisation	**(88.7)**	(28.2)
Impairments	**(0.3)**	–
Operating (loss)/profit	**(43.7)**	32.5
Finance income	**0.1**	0.2
Finance expenses	**(37.6)**	(10.3)
(Loss)/profit before tax	**(81.2)**	22.4

A geographical analysis of revenue is presented below:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
United Kingdom	**701.7**	872.0
Europe	**22.8**	29.0
Total revenue	**724.5**	901.0

	Assets		Liabilities	
	28 June 2020 £m	30 June 2019 £m	28 June 2020 £m	30 June 2019 £m
DFS	**1,009.8**	645.4	**(594.3)**	(236.6)
Sofology	**145.5**	91.0	**(143.9)**	(66.1)
Other segments	**23.5**	34.6	**(55.1)**	(37.4)
Total segments	**1,178.8**	771.0	**(793.3)**	(340.1)
Loans and financing	**–**	–	**(218.7)**	(194.0)
Financial assets/(liabilities)	**5.3**	7.7	**(2.0)**	(0.7)
Current tax	**7.8**	–	**–**	(0.8)
Deferred tax	**24.0**	8.7	**–**	–
Eliminations	**(44.3)**	(24.7)	**44.3**	24.7
Total Group	**1,171.6**	762.7	**(969.7)**	(510.9)

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

	Additions to non-current assets		Depreciation, amortisation and impairment	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
DFS	**22.2**	24.5	**66.2**[1]	19.5
Sofology	**7.6**	3.8	**18.8**[2]	5.9
Other segments	**1.3**	1.1	**15.2**[3]	2.8
Total Group	**31.1**	29.4	**100.2**	28.2

Additions to non-current assets include both tangible and intangible non-current assets but excludes amounts arising on transition to IFRS 16.

1. DFS: includes impairment charges of £1.2m (2019: £nil).
2. Sofology: includes impairment charges of £0.3m (2019: £nil).
3. Other segments: includes impairment charges of £10.0m (2019: £nil).

3 Operating profit

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

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Depreciation on tangible assets (including depreciation on right of use assets)	**81.9**	23.3
Amortisation of intangible assets	**6.8**	4.9
Impairment of tangible assets	**5.2**	–
Impairment of intangible assets	**1.0**	–
Impairment of goodwill	**5.3**	–
Net gain on disposal of property, plant and equipment	**(1.1)**	(0.8)
Cost of inventories recognised as an expense	**317.1**	393.8
Write down of inventories to net realisable value	**7.2**	0.2
Other costs of sales	**(13.8)**	(10.2)
Operating lease rentals	**1.9**	73.6

During the period the Group received Government support through the Coronavirus Job Retention Scheme totalling £19.5m (2019: £nil).

Non-underlying items	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Acquisition related professional fees	**–**	0.2
Integration costs	**–**	3.3
Restructuring costs	**2.3**	0.9
Impairment of goodwill and brand names	**6.3**	–
Impairment of tangible and right of use assets	**4.9**	–
Write down of inventories on restructuring	**3.1**	–
	16.6	4.4

Non-underlying costs in the current year arose in connection with the restructure of the Dwell brand and the sale of Sofa Workshop following the end of the financial year. The goodwill and intangible brand name relating to Sofa Workshop was fully impaired, together with right of use and other tangible assets relating to stores being closed. In addition, related inventories impacted by the restructure were written down to a reduced net realisable value. Other restructuring costs included redundancy costs and operational costs associated with exiting closed locations.

In the prior period acquisition related fees, additional consideration and integration costs arose on the Group's acquisition of Sofology Limited. Restructuring costs related 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.

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Auditor's remuneration:		
Audit of these financial statements	**0.3**	0.2
Audit of the financial statements of Group subsidiaries	**0.1**	0.1
Amounts receivable by the Company's auditor and its associates in respect of:		
All other services	**–**	–
	0.4	0.3

During the period, an amount of £20,000 was receivable by the Company's auditor in respect of the review of the Group's interim financial statements (2019: £20,000).

4 Staff numbers and costs

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

	Number of employees	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Production	**1,160**	1,132
Warehouse and transport	**1,056**	1,097
Sales and administration	**3,281**	3,227
	5,497	5,456

Notes to the consolidated financial statements continued
at 28 June 2020

4 Staff numbers and costs continued
The aggregate payroll costs of these persons were as follows:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Wages and salaries	**163.1**	145.7
Social security costs	**15.5**	15.5
Other pension costs	**5.5**	3.7
	184.1	164.9
Share based payment expense (equity settled)	**2.4**	2.6
	186.5	167.5
Coronavirus Job Retention Scheme income	**(19.5)**	–
	167.0	167.5

Aggregate remuneration payable to directors in respect of qualifying services was as follows:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Emoluments	**1.1**	1.2
Pension contributions	**0.1**	0.1
Gain on exercise of share options	**0.1**	0.4

One director accrued retirement benefits under pension schemes in the period (2019: nil). All of the directors' pension contributions were to defined contribution schemes.

5 Finance income and expense

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Finance income		
Interest income on bank deposits	**0.1**	0.2
Total finance income	**0.1**	0.2
Finance expense		
Interest payable on senior revolving credit facility	**(7.6)**	(6.8)
Bank fees	**(0.5)**	(0.2)
Fair value lease adjustment unwind	**–**	(2.7)
Unwind of discount on provisions	**–**	(0.1)
Interest on lease liabilities	**(29.2)**	(0.5)
Other interest	**(0.3)**	–
Total finance expense	**(37.6)**	(10.3)

6 Taxation
Recognised in the income statement

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Current tax		
Current period	**(2.6)**	5.8
Adjustments for prior years	**–**	(0.3)
Current tax (credit)/expense	**(2.6)**	5.5
Deferred tax		
Origination and reversal of temporary differences	**(6.8)**	(1.4)
Deferred tax rate change	**(1.9)**	0.1
Adjustments for prior years	**(0.7)**	0.1
Deferred tax credit	**(9.4)**	(1.2)
Total tax (credit)/expense in income statement	**(12.0)**	4.3

6 Taxation continued

Reconciliation of effective tax rate

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit before tax for the period	**(81.2)**	22.4
Tax using the UK corporation tax rate of 19% (2019: 19%)	**(15.4)**	4.3
Non-deductible expenses	**2.5**	1.1
Tax exempt revenues	**–**	(0.3)
Effect of tax rates in foreign jurisdictions	**0.2**	0.3
Amounts not recognised/(previously not recognised) on losses	**2.9**	(0.9)
Adjustments in respect of share options	**0.4**	–
Adjustment in respect of prior years	**(0.8)**	(0.3)
Impact of change in tax rate on deferred tax balances	**(1.8)**	0.1
Total tax (credit)/expense	**(12.0)**	4.3

The Finance Act 2016, which was substantively enacted in September 2016, included provisions to reduce the rate of UK corporation tax to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. In November 2019 a change to this provision was made which holds the rate of UK corporation tax at 19% with no further reduction.

Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, a tax rate of 19% has been applied when calculating deferred tax assets and liabilities at 28 June 2020 (17% at 30 June 2019).

Income tax recognised in other comprehensive income

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Effective portion of changes in fair value of cash flow hedges	**0.9**	1.6
Net change in fair value of cash flow hedges reclassified to profit or loss	**(1.6)**	(1.1)
Adjustments in respect of share options	**0.1**	–
Impact of change in tax rate on deferred tax balances	**0.2**	–
	(0.4)	0.5

7 Earnings per share

Statutory earnings per share

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

Diluted earnings per share is calculated using the same net profit or loss for the financial period attributable to ordinary equity holders of the parent company, but increasing the weighted average number of ordinary shares by the dilutive effect of potential ordinary shares. Potential ordinary shares arise from employee based payment arrangements (note 24). Where share based payments are subject to performance conditions, they are included as potential ordinary shares to the extent that the performance conditions have been met at the reporting date. Details of share based payment vesting conditions are provided in the Director's Remuneration Report.

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Basic total earnings per share	**(31.4)**	8.6
Diluted total earnings per share	**(31.4)**	8.4

Notes to the consolidated financial statements continued
at 28 June 2020

7 Earnings per share continued
Statutory earnings per share continued

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit for the period attributable to equity holders of the parent Company	**(69.2)**	18.1

	28 June 2020 No.	30 June 2019 No.
Weighted average number of shares in issue for basic earnings per share	**220,289,976**	212,008,955
Dilutive effect of employee share based payment awards	**–**	3,144,296
Weighted average number of shares in issue for diluted earnings per share	**220,289,976**	215,153,251

Underlying earnings per share

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

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit for the period attributable to equity holders of the parent Company	**(69.2)**	18.1
Non-underlying loss after tax	**15.7**	3.6
Underlying (loss)/profit for the period attributable to equity holders of the parent Company	**(53.5)**	21.7

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Underlying basic earnings per share	**(24.3)**	10.3
Underlying diluted earnings per share	**(24.3)**	10.1

8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Right of use assets £m	Total £m
Cost					
Balance at 28 July 2018	8.4	144.0	27.2	–	179.6
Additions	0.3	17.8	4.4	–	22.5
Disposals	(0.1)	(0.2)	(3.3)	–	(3.6)
Balance at 30 June 2019	8.6	161.6	28.3	–	198.5
Recognised on adoption of IFRS 16	–	–	–	434.5	434.5
Reclassifications	–	(1.3)	(17.1)	18.4	–
Additions	–	15.9	0.9	7.7	24.5
Remeasurements	–	–	–	(2.9)	(2.9)
Disposals	–	(1.8)	(0.1)	(3.3)	(5.2)
Balance at 28 June 2020	**8.6**	**174.4**	**12.0**	**454.4**	**649.4**
Depreciation and impairments					
Balance at 28 July 2018	1.1	74.5	12.9	–	88.5
Depreciation charge for the period	0.2	17.6	5.5	–	23.3
Disposals	–	(0.1)	(3.1)	–	(3.2)
Balance at 30 June 2019	1.3	92.0	15.3	–	108.6
Reclassifications	–	(0.7)	(7.2)	7.9	–
Depreciation charge for the period	0.2	19.3	1.8	60.6	81.9
Disposals	–	(1.9)	–	(3.0)	(4.9)
Impairments	–	0.8	–	4.4	5.2
Balance at 28 June 2020	**1.5**	**109.5**	**9.9**	**69.9**	**190.8**

8 Property, plant and equipment continued

Net book value					
At 28 July 2018	7.3	69.5	14.3	–	91.1
At 30 June 2019	7.3	69.6	13.0	–	89.9
At 28 June 2020	**7.1**	**64.9**	**2.1**	**384.5**	**458.6**

Leased plant and equipment
For the period to 30 June 2019, the total net book value of motor vehicles and plant and equipment was £10.5m in respect of assets held under finance leases. Depreciation for that period on these assets was £3.6m. These have been reclassified to right of use assets on transition to IFRS 16.

Capital commitments
At 28 June 2020 the Group had contracted capital commitments of £1.7m (2019: £5.4m) for which no provision has been made in the financial statements.

9. Leases

Right of use assets

	Property £m	Vehicles £m	Equipment £m	Total £m
Cost				
On adoption of IFRS 16	434.5	–	–	434.5
Reclassification	–	17.1	1.3	18.4
Additions	2.4	5.3	–	7.7
Remeasurements	(2.9)	–	–	(2.9)
Disposals	–	(3.3)	–	(3.3)
At 28 June 2020	**434.0**	**19.1**	**1.3**	**454.4**
Depreciation and impairment				
Reclassification	–	7.2	0.7	7.9
Depreciation charge for the period	56.1	4.2	0.3	60.6
Disposals	–	(3.0)	–	(3.0)
Impairment of right of use asset	4.4	–	–	4.4
At 28 June 2020	**60.5**	**8.4**	**1.0**	**69.9**
Net book value at 28 June 2020	**373.5**	**10.7**	**0.3**	**384.5**

Amounts recognised in the consolidated balance sheet as at 28 June 2020:

	2020 £m
Current lease liabilities	**88.6**
Non-current lease liabilities	**428.6**

For more information on the maturity of the Group's lease liabilities, see note 24.

Amounts recognised in the consolidated income statement for the 52 weeks to 28 June 2020:

	52 weeks to 28 June 2020 £m
Interest on lease liabilities	**29.2**
Variable lease payments not included in the measurement of lease liabilities	**2.1**
Income from subleasing right of use assets	**(1.0)**
Expenses relating to short term leases and low value leases	**0.8**

Amounts recognised in the consolidated cash flow statement for the 52 weeks to 28 June 2020:

	52 weeks to 28 June 2020 £m
Total cash outflow for lease liabilities	**64.9**

Notes to the consolidated financial statements continued
at 28 June 2020

9 Leases continued
Right of use assets continued
Non-cancellable short term lease rentals are payable as follows:

	28 June 2020 £m	30 June 2019 £m
Less than one year	**1.2**	84.4
Between one and five years	**–**	312.0
More than five years	**–**	298.7
	1.2	695.1

The Group has entered into short term leases in respect of warehouses and equipment.

At 28 June 2020, future rentals receivable under non-cancellable leases where the Group is the lessor were £2.1m (2019: £8.1m).

10 Intangible assets

	Computer software £m	Brand Names £m	Goodwill £m	Total £m
Cost				
Balance at 28 July 2018	21.1	16.8	514.6	552.5
Additions	6.9	–	–	6.9
Balance at 30 June 2019	28.0	16.8	514.6	559.4
Additions	6.6	–	–	6.6
Balance at 28 June 2020	**34.6**	**16.8**	**514.6**	**566.0**
Amortisation and impairments				
Balance at 28 July 2018	14.0	1.5	–	15.5
Amortisation charge for the period	3.5	1.4	–	4.9
Balance at 30 June 2019	17.5	2.9	–	20.4
Amortisation charge for the period	5.3	1.5	–	6.8
Impairments	–	1.0	5.3	6.3
Balance at 28 June 2020	**22.8**	**5.4**	**5.3**	**33.5**
Net book value				
At 28 July 2018	7.1	15.3	514.6	537.0
At 30 June 2019	10.5	13.9	514.6	539.0
At 28 June 2020	**11.8**	**11.4**	**509.3**	**532.5**

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

	Goodwill	
	28 June 2020 £m	30 June 2019 £m
DFS Trading Limited	**479.9**	479.9
Sofology Limited	**28.4**	28.4
The Sofa Workshop Limited	**–**	5.3
DFS Spain Limited	**1.0**	1.0
	509.3	514.6

Goodwill is tested annually for impairment on the basis of value in use. The key assumptions underlying the calculations are: factors influencing the cash flows generated, such as future sales volumes and changes in selling prices and direct costs; the long term growth rate expected for the market; and the discount rate applied.

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations for each cash generating unit. Selling prices and related costs are based on past practice and expected future changes in the market. A terminal value was then calculated on the basis of the four year plan and the expected long-term growth rate for the UK upholstery furniture sector of 2.0%. These cash flow forecasts were then discounted at pre-tax discount rates between 8.0% and 11.1% (2019: 10.7%-12.2%). The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

10 Intangible assets continued

For the DFS brands and Sofology, these calculations showed a significant headroom between the calculated value in use and the carrying value of goodwill in the financial statements. A number of sensitivities were then applied to the base case model to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. This analysis applied a number of challenging scenarios, including: possible shortfalls in cash flows compared to plan, a decrease in the long term growth rate of the UK upholstery market, and changes in applicable discount rates. On the basis of this analysis the Directors concluded that a reasonably possible change in assumptions would not lead to an impairment being recognised.

Subsequent to the end of the financial year, The Sofa Workshop Limited was disposed of by the Group (see note 28). The market value of the business, as evidenced by the sale proceeds receivable on disposal, was below the carrying value of the related assets and accordingly the associated goodwill and brand name were fully impaired at 28 June 2020.

11 Investments in subsidiaries

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

	Principal activity
Diamond Holdco 2 Limited[1]	Intermediate holding company
Diamond Holdco 7 Limited[1]	Intermediate holding company
DFS Furniture Holdings plc[1]	Intermediate holding company
DFS Furniture Company Limited[1]	Intermediate holding company
DFS Trading Limited[1]	Furniture retailer
Coin Retail Limited (Jersey)[2]	Intermediate holding company
Coin Furniture Limited1	Furniture retailer
The Sofa Workshop Limited[3]	Furniture retailer
DFS Spain Limited[1]	Furniture retailer
Sofology Limited[4]	Furniture retailer
C.S Lounge Suites Limited[1]	Dormant
Soundsofa Limited[1]	Dormant
Loveseats Limited[1]	Dormant
Slothworks Limited[1]	Dormant
Sofaworks Limited[1]	Dormant
Sleepology Limited[1]	Dormant
Haydock Furniture Limited[5]	Dormant

Registered offices:
1. Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster DN6 7NA.
2. 13-14 Esplanade, St Helier, Jersey JE1 1BD.
3. 2nd Floor, Mill Pool House, Mill Lane, Godalming, Surrey, GU7 1EY.
4. Ashton Road, Golborne, Warrington, WA3 3UL.

12 Other financial assets

	28 June 2020 £m	30 June 2019 £m
Non-current		
Foreign exchange contracts	**0.8**	1.4
Current		
Foreign exchange contracts	**4.5**	6.3

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 24).

Notes to the consolidated financial statements continued
at 28 June 2020

13 Deferred tax
Deferred tax assets and liabilities are attributable to the following:

	28 June 2020 £m	30 June 2019 £m
Fixed asset timing differences	**6.2**	3.9
Fair value lease creditor	**–**	4.8
IFRS 16	**10.3**	–
Remeasurement of derivatives to fair value	**(0.6)**	(1.1)
Tax losses carried forward	**6.3**	1.5
Brand names	**(2.0)**	(2.2)
Share based payments	**1.0**	1.1
Corporate interest restriction	**1.8**	–
Other temporary differences	**1.0**	0.7
Net tax assets	**24.0**	8.7

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
At start of period	**8.7**	8.0
Recognised on adoption of IFRS 16	**5.4**	–
Credited/(charged) to the income statement:		
Fixed asset timing differences	**2.3**	0.1
Fair value lease creditor	**–**	(0.2)
IFRS 16	**0.1**	–
Tax losses carried forward	**4.8**	0.6
Brand names	**0.2**	–
Share based payments	**–**	0.3
Corporate interest restriction	**1.8**	–
Other temporary differences	**0.3**	0.4
Recognised in the statement of comprehensive income	**0.4**	(0.5)
At end of period	**24.0**	8.7

Deferred tax assets on losses of £6.8m (2019: £3.5m) have not been recognised as there is uncertainty over the utilisation of these losses.

14 Inventories

	28 June 2020 £m	30 June 2019 £m
Raw materials and consumables	**7.4**	5.9
Finished goods and goods for resale	**63.2**	56.5
	70.6	62.4
Provision for net realisable value	**(11.7)**	(7.6)
	58.9	54.8

In applying its accounting policy for inventory, the Group identifies those items where there is a risk that net realisable value does not exceed cost, due to either the age of condition of the item. An estimate of the net realisable value of such items is made based on the sale of similar items in the past, taking into account expected future opportunities for sale, and their carrying value reduced by an appropriate provision.

15 Trade and other receivables

	28 June 2020 £m	30 June 2019 £m
Trade receivables	**10.4**	9.1
Prepayments	**10.1**	22.8
Accrued income	**0.9**	0.6
Other receivables	**0.8**	0.3
	22.2	32.8

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

16 Trade payables and other liabilities

	28 June 2020 £m	30 June 2019 £m
Current		
Payments received on account	**86.8**	42.2
Trade payables	**41.9**	106.9
Other creditors including other tax and social security	**39.0**	26.9
Accruals	**48.3**	43.3
Deferred income	**–**	1.9
Lease liabilities	**88.6**	3.9
	304.6	225.1

	28 June 2020 £m	30 June 2019 £m
Non-current		
Fair value lease creditor	**–**	24.0
Accruals	**–**	34.1
Deferred income	**–**	13.4
Lease liabilities	**428.6**	8.2
	428.6	79.7

Payments on account represent contract liabilities under IFRS 15, which will be realised through revenue in the subsequent financial year. Trade payables do not bear interest and are paid within agreed credit terms. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the reporting date.

For more information on lease liabilities, see note 1.18.

17 Other financial liabilities

	28 June 2020 £m	30 June 2019 £m
Non-current		
Interest rate derivatives	**1.9**	0.7
Current		
Foreign exchange contracts	**0.1**	–

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

18 Other interest-bearing loans and borrowings

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

	28 June 2020 £m	30 June 2019 £m
Senior revolving credit facility	**220.0**	195.0
Unamortised issue costs	**(1.3)**	(1.0)
Lease liabilities	**218.7**	194.0

The revolving credit facility bears interest at a rate of 3 month LIBOR plus 2.60% and is repayable in full on 2 August 2022. The revolving credit facility is secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Company and DFS Furniture Holdings plc. On 25 September 2019 the Group increased the size of the revolving credit facility from £230.0m to £250.0m through an accordion facility. On 28 April 2020 an additional Facility B of £70.0m was made available through the revolving credit facility bearing interest at a rate of LIBOR plus 3.75% and repayable on 28 April 2021. The Facility B has not been drawn to date.

For more information on the maturity of the Group's lease liabilities, see note 24.

Notes to the consolidated financial statements continued
at 28 June 2020

19 Employee benefits

Defined contribution pension plans

The Group operates a number of defined contribution pension plans under which contributions by the employees and the Group are administered by trustees in funds separate from the Group's assets. The costs of these schemes are charged to the income statement as they become payable under the rules of the scheme. The total pension cost of the Group for the period was £5.5m (2019: £3.7m).

20 Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 30 June 2019	7.4	2.4	0.8	10.6
Impact of IFRS 16	–	(1.4)	–	(1.4)
Balance at 1 July 2019	7.4	1.0	0.8	9.2
Provisions made during the period	5.2	0.7	0.4	6.3
Transferred from accruals	–	–	5.0	5.0
Provisions used during the period	(4.5)	(0.1)	(0.1)	(4.7)
Balance at 28 June 2020	**8.1**	**1.6**	**6.1**	**15.8**
Current	5.6	0.2	6.1	11.9
Non-current	2.5	1.4	–	3.9
	8.1	**1.6**	**6.1**	**15.8**

The Group offers a long-term guarantee on its upholstery products and in accordance with accounting standards a provision is maintained for the expected future cost of fulfilling these guarantees on products which have been delivered before the reporting date. In calculating this provision the key areas of estimation are the number of future claims, average cost per claim and the expected period over which claims will arise (nearly all claims arise within two years of delivery). The Group has considered the sensitivity of the calculation to these key areas of estimation, and determined that a 10% change in either the average cost per claim or the number of expected future calls would change the value of the calculated provision by £0.6m. The directors have therefore concluded that reasonably possible variations in estimate would not result in a material difference.

Property provisions relate to an estimate of dilapidation costs based on anticipated lease expiries and renewals and will predominantly be utilised more than five years from the reporting date.

Other provisions relate to payment of refunds to customers for payment protection insurance policies and other regulatory costs, and deferred consideration payable on the Group's November 2017 acquisition of Sofology. Under the terms of the acquisition, deferred contingent consideration was payable based on underlying earnings before interest, tax, depreciation and amortisation of the acquired business for the twelve months ended 30 September 2018. The acquisition accounting reflected the Directors' estimate that no further consideration would be payable, based on the immediate post-acquisition performance. Subsequent performance of the acquired business strengthened and in FY18 £5.0m of additional consideration was accrued and recognised as a non-underlying expense in the income statement. While the Directors' view of the amount potentially payable has not changed, there is increased uncertainty on the timing of the settlement and accordingly the £5.0m accrued has been reclassified to provisions. On determination and settlement, any difference between the final amount due and the amount provided will be recognised as a non-underlying expense or credit.

21 Dividends

The following dividends were recognised and paid during the period:

	Pence per ordinary share	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
Final ordinary dividend for FY18	7.5p	**–**	15.9
Interim ordinary dividend for FY19	3.7p	**–**	7.9
Final ordinary dividend for FY19	7.5p	**15.9**	–
		15.9	23.8

The Directors do not recommend a final dividend in respect of the financial period ended 28 June 2020.

22 Capital and reserves

Share capital

Ordinary shares of £1.50 each	Number of shares '000	Ordinary shares £m
Allotted, called up and fully paid		
At the start of the financial period	213,030	319.5
Issued during the year	42,607	63.9
At the end of the financial period	255,637	383.4

On 23 April 2020, 42,606,119 new ordinary shares were issued at nominal value of £1.50 for cash consideration of £63,909,179. The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in Company's Articles of Association and the Companies Act 2006. Further information on share capital is given in the Directors' Report on page 108.

Share premium

The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue ordinary shares on 11 March 2015.

Merger reserve

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

Treasury shares

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

During the period ending 28 June 2020 the Company purchased 400,000 of its own ordinary shares at a total cost of £1.1m for the purpose of satisfying employee share based payment awards. During the period 990,451 of these shares (2019: 511,489) were used to satisfy employee share based payment awards. At 28 June 2020 the company had 266,473 ordinary shares held in treasury (2019: 856,924).

Cash flow hedging reserve

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

23 Financial instruments: categories and fair value

	28 June 2020 £m	30 June 2019 £m
Financial assets		
Derivatives in designated hedging relationships	**5.3**	7.7
Loans and receivables	**11.2**	9.4
Cash	**62.3**	29.8
Financial liabilities		
Derivatives in designated hedging relationships	**(2.0)**	(0.7)
Senior revolving credit facility	**(218.7)**	(194.0)
Amortised cost	**(101.0)**	(210.2)
Fair value	**(5.0)**	–
Finance lease obligations	**(517.2)**	(12.1)

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.

Financial liabilities measured at fair value through profit and loss relate to acquisition contingent consideration and are categorised as level 3 under the requirements of IFRS 7 as they are not based on observable 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.

Notes to the consolidated financial statements continued
at 28 June 2020

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

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

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

28 June 2020	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Trade and other payables	**90.2**	**–**	**–**	**–**	**90.2**
Lease liabilities	**88.0**	**85.9**	**214.5**	**235.3**	**623.7**
Senior revolving credit facility	**4.6**	**3.9**	**220.6**	**–**	**229.1**
Other liabilities	**11.9**	**2.5**	**–**	**1.4**	**15.8**
	194.7	**92.3**	**435.1**	**236.7**	**958.8**
Derivatives: net settled	**0.9**	**0.8**	**0.1**	**–**	**1.8**
Derivatives: gross settled					
Cash in flows	**(107.7)**	**(34.3)**	**–**	**–**	**(142.0)**
Cash out flows	**114.5**	**27.1**	**–**	**–**	**141.6**
Total cash flows	**202.4**	**85.9**	**435.2**	**236.7**	**960.2**

30 June 2019	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	199.6	–	–	–	199.6
Lease liabilities	4.3	3.6	5.1	–	13.0
Senior revolving credit facility	5.8	5.8	211.5	–	223.1
Other liabilities	4.9	2.2	0.6	2.1	9.8
	214.6	11.6	217.2	2.1	445.5
Derivatives: net settled	0.7	–	–	–	0.7
Derivatives: gross settled					
Cash in flows	(135.9)	(68.6)	–	–	(204.5)
Cash out flows	143.6	55.7	–	–	199.3
Total cash flows	223.0	(1.3)	217.2	2.1	441.0

Interest rate risk management
The Group's operating profit is affected by the cost of providing interest free credit to its customers. A fall in LIBOR rates would have a positive impact on operating profit and a rise in LIBOR rates would impact operating profit negatively. However, with the current low LIBOR rates any increases or decreases at present would largely be mitigated by the LIBOR 'floor' mechanisms used by the external providers of credit to the Group's customers. Excluding the effect of these floors, an increase in LIBOR of one percentage point would reduce the Group's reported revenue by 0.5%.

The Group is exposed to interest rate risk on its senior revolving credit facility, which bears interest at a floating rate of 3 month GBP LIBOR plus 2.10%. In order to provide some certainty over the future cash flows associated with this debt, the Group has in place four participating interest rate swaps and caps. The effect of these instruments is to fix the interest rate payable on the senior revolving credit facility to a maximum level while allowing the Group to retain some benefit on a proportion of the facility where LIBOR remained below 1.39%. The fair values of the Group's interest rate derivatives are as follows:

	28 June 2020 £m	30 June 2019 £m
Interest rate swaps		
Derivatives in designated hedging relationships	**(1.9)**	(0.7)

24 Financial instruments: risk management continued

Foreign exchange risk management

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

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

	28 June 2020		30 June 2019	
	Notional amount £m	**Fair value £m**	Notional amount £m	Fair value £m
Derivatives in designated hedging relationships				
US Dollar	**141.7**	**4.1**	199.3	5.9

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

	Assets		**Liabilities**	
	28 June 2020 £m	30 June 2019 £m	**28 June 2020 £m**	30 June 2019 £m
US Dollar	**7.7**	6.4	**(7.8)**	(16.3)
Euro	**4.4**	4.8	**(0.1)**	(1.1)

Foreign currency sensitivity analysis

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

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

Positive figures represent an increase in profit or equity.

	Income statement		**Equity**	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
US Dollar	**–**	1.0	**(14.7)**	(20.7)
Euro	**(0.4)**	(0.4)	**–**	–

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

Financial risk management

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

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

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

Capital management

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

Notes to the consolidated financial statements continued
at 28 June 2020

25 Share based payments

The Group has three share based payment schemes in operation:

Long Term Incentive Plan (LTIP)

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

LTIP awards vest after a three year performance period subject to the achievement of performance measures based on earnings per share and total shareholder return targets. Further information on LTIP performance targets and awards made to Directors is given in the Directors' Remuneration Report on pages 101 to 102.

Restricted Share Plan (RSP)

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

RSP awards vest after a three year performance period (other than those granted shortly after Admission vested in July 2017). Awards granted prior to June 2019 were not subject to other performance conditions. For awards granted in FY20, 50% of an individual participant's award is subject to a performance measure based on earnings per share.

Save as Your Earn (SAYE)

SAYE schemes are currently available to all employees in the UK and Republic of Ireland, with invitations to participate generally issued on an annual basis and subject to HMRC rules. The current maximum monthly savings limit for the schemes is £500. Options are granted at the prevailing market rate less a discount of 20% and vest three years from the date of grant.

The movements in outstanding awards under each of the schemes are summarised below:

	LTIP No.	RSP No.	SAYE No.
Outstanding at the beginning of the period	2,027,337	3,560,690	2,613,436
Granted	616,340	1,132,586	1,376,384
Forfeited	(370,663)	(240,604)	(52,413)
Exercised	(170,380)	(847,608)	(715,925)
Lapsed	(426,412)	–	(262,356)
Cancelled	–	–	(450,668)
Outstanding at the end of the period	**1,676,222**	**3,605,064**	**2,508,458**
Weighted average remaining contractual life (months)	**17.3**	**15.5**	**20.3**
Weighted average share price at exercise	**£2.15**	**£2.15**	**£2.56**

At 28 June 2020 the weighted average exercise price of outstanding SAYE options was £1.79 (2019: £1.83) and the range of exercise prices was £1.61 to £1.88 (2019: £1.61 to £2.62).

Fair value calculations

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

	LTIP	RSP	SAYE
Grant date	25 October 2019	25 October 2019	25 November 2019
Share price at date of grant	£2.46	£2.46	£2.35
Exercise price	Nil	Nil	£1.88
Volatility[3]	28.0-29.4%	–[2]	29.4%
Expected life	3 years	3 years	3.1 years
Risk free rate	0.4%	–[2]	0.4%
Dividend yield	–[1]	4.6%	4.6%
Fair value per share			
Market based performance conditions[3]	£1.00-£1.10	–	–
Non-market based performance condition / no performance condition	£2.46	£2.15	£0.50

1. LTIP participants are entitled to receive dividend equivalents on unvested awards therefore dividend yield does not impact the fair value calculation.
2. Volatility and risk free rates do not impact the fair value calculation for awards with no exercise price or market based performance condition.
3. The 2019 LTIP grant included a number of required holdings periods, giving a range of volatility and fair values.

25 Share based payments continued

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

The total share based payment expense included in administration costs in respect of the above schemes was £2.4m (2019: £2.6m).

26 Net debt

	30 June 2019 £m	IFRS 16 transition £m	Cash flow £m	Other non-cash changes £m	**28 June 2020 £m**
Cash in hand, at bank	29.8	–	32.5	–	**62.3**
Cash and cash equivalents	29.8	–	32.5	–	**62.3**
Senior revolving credit facility	(194.0)	–	(25.0)	0.3	**(218.7)**
Lease liabilities	(12.1)	(536.6)	36.3	(4.8)	**(517.2)**
Total net debt	(176.3)	(536.6)	43.8	(4.5)	**(673.6)**

	28 July 2018 £m	Cash flow £m	Other non-cash changes £m	**30 June 2019 £m**
Cash in hand, at bank	47.2	(17.4)	–	**29.8**
Cash and cash equivalents	47.2	(17.4)	–	**29.8**
Senior revolving credit facility	(195.7)	2.0	(0.3)	**(194.0)**
Finance lease liabilities	(10.5)	3.5	(5.1)	**(12.1)**
Total net debt	(159.0)	(11.9)	(5.4)	**(176.3)**

Non-cash changes include the addition of new finance leases within the period of £7.7m (2019: £5.1m) and the amortisation of capitalised debt issue costs of (£0.3m) (2019: £0.3m).

27 Related parties

Key Management Personnel

At 28 June 2020, Directors of the Company held 0.3% of its issued ordinary share capital (2019: 0.2%), and a further 0.1% (2019: 0.0%) was held by other key management personnel.

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

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Emoluments	**2.9**	3.9
Share based payments expense	**0.7**	0.8
Company contributions to money purchase schemes	**0.2**	0.1
	3.8	4.8

28 Subsequent events

On 26 August 2020, the Group agreed the sale of the entire issued share capital of The Sofa Workshop Limited for cash consideration of £0.3m. This sale was subject to the receipt of regulatory approval from the FCA which was received on 1 September 2020 and the transaction formally completed on 18 September 2020.

Company balance sheet
at 28 June 2020

	Note	28 June 2020 £m	30 June 2019 £m
Non-current assets			
Investments	2	**246.5**	244.1
Current assets			
Amounts due from group companies	3	**356.7**	293.0
Current liabilities			
Amounts due to group companies	4	**(112.0)**	(94.9)
Net assets		**491.2**	442.2
Capital and reserves			
Called up share capital	5	**383.4**	319.5
Share premium	5	**40.4**	40.4
Merger reserve	5	**18.6**	18.6
Treasury shares	5	**(0.7)**	(2.1)
Retained earnings		**49.5**	65.8
Equity shareholders' funds		**491.2**	442.2

These financial statements were approved by the Board of Directors on 24 September 2020 and were signed on its behalf by:

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Company statement of changes in equity
at 28 June 2020

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Retained earnings £m	Total equity £m
Balance at 28 July 2018	**319.5**	**40.4**	**18.6**	**(3.3)**	**88.1**	**463.3**
Profit for the period	–	–	–	–	–	–
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive income/(expense) for the period	–	–	–	–	–	–
Dividends	–	–	–	–	(23.7)	(23.7)
Treasury shares issued	–	–	–	1.2	(1.2)	–
Share based payments	–	–	–	–	2.6	2.6
Balance at 30 June 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**65.8**	**442.2**
Profit for the period	–	–	–	–	–	–
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive income/(expense) for the period	–	–	–	–	–	–
Dividends	–	–	–	–	(15.9)	(15.9)
Purchase of own shares	–	–	–	(1.1)	–	(1.1)
Treasury shares issued	–	–	–	2.5	(1.2)	1.3
Shares issue	63.9	–	–	–	–	63.9
Settlement of share based payments	–	–	–	–	(1.6)	(1.6)
Share based payments	–	–	–	–	2.4	2.4
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	**(0.7)**	**49.5**	**491.2**

Notes to the Company financial statements
at 28 June 2020

1 Accounting policies
Basis of preparation
The financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In these financial statements the Company has applied the exemption available under FRS101 in respect of the following disclosures:
- a cash flow statement and related notes
- comparative period reconciliations
- disclosures in respect of transactions with wholly owned subsidiaries
- disclosures in respect of capital management
- the impact of new but not yet effective IFRSs

As the consolidated accounts of the Company include the equivalent disclosures, the Company has also taken the exemption available under FRS 101 in respect of IFRS 2 *Share Based Payments* disclosures of group settled share based payments. Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account. The Company's profit for the period was £nil (2019: £nil).

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern
The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The Company heads a Group which has a £250.0m revolving credit facility in place until August 2022, and in April 2020, to increase resilience to the short-term effects of the Covid-19 pandemic, secured an additional twelve month facility of £70.0m from the same group of lending banks. In the same month the Group also secured £63.9m of equity funding from a placing of ordinary shares. During the period from the inception of the additional £70.0m facility through to June 2021, existing covenants on the revolving credit facility (of 3.0x Net Debt/EBITDA and 1.5x Fixed Charge Cover) have been replaced by new minimum quarterly EBITDA and net debt covenants. At the date of approval of these financial statements, none of the £70.0m facility had been utilised and a further £170.0m of the revolving credit facility remained undrawn, giving the Group a total of £240.0m available facility in addition to cash in hand, at bank (£47.8m as at 21 September 2020).

The Directors have prepared cash flow forecasts for the Company and its Group covering a period of 18 months to March 2022. These forecasts indicate that the Group will be in compliance with the minimum quarterly EBITDA and net debt covenants applicable for that period, which are assessed monthly, as well as the original covenants which become effective once more from June 2021. These forecasts include a number of assumptions in relation to: level of customer order intake; gross profit margins; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These downside scenarios include specific consideration of a range of impacts that could arise from the continued coronavirus pandemic and the UK's exit from the EU. These scenarios included: significantly reduced customer spending; a second lockdown during FY21 leading to reduced order intake and customer deliveries; disruptions to manufacturing and supply chain causing delays in receiving stock; and possible changes in the regulatory environment surrounding product warranty insurance. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group and Company to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the coronavirus pandemic, and are confident that the Group and Company have 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 twelve months from the date of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

Investments
Investments are stated at cost, less any accumulated impairment losses. Carrying values of investments in subsidiary companies are reviewed at each reporting date to determine whether there is any indication of impairment. If any such exists, then the investment's recoverable amount is estimated based on a value in use calculation. An impairment loss is recognised if the carrying amount of the investment exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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

1 Accounting policies continued

Taxation

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

Share based payments

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

Treasury shares

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

Audit fees

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements.

Directors' remuneration and staff numbers

The Company has no employees other than the Directors, who did not receive any remuneration for their services directly from the Company in either the current or preceding period. See note 27 in the Group consolidated accounts for Key Management Personnel compensation.

2 Investments

	Shares in subsidiary undertakings	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Cost and net book value		
At the start of the financial period	**244.1**	241.5
Additions	**2.4**	2.6
At the end of the financial period	**246.5**	244.1

Details of the Company's investments are given in note 10. Additions in the current and prior period relate to capital contributions made in respect of share based payments schemes for the Group's employees. Although the value of the Company's market capitalisation at 28 June 2020 relative to its net assets was a potential impairment indicator, value in use calculations derived from cash flow forecasts prepared for the Company and its Group supported the carrying value of the Company's investments in subsidiary undertakings and accordingly no impairment loss was recognised.

3 Debtors

	28 June 2020 £m	30 June 2019 £m
Amounts due from subsidiary undertakings (non-interest bearing, repayable on demand)	**356.7**	293.0

4 Creditors: amounts due in less than one year

	28 June 2020 £m	30 June 2019 £m
Amounts due to subsidiary undertakings (non-interest bearing, repayable on demand)	**112.0**	94.9

Notes to the Company financial statements continued
at 28 June 2020

5 Capital and reserves
Share capital

Ordinary shares of £1.50 each	Number of shares '000	Ordinary shares £m
Allotted, called up and fully paid		
At the start of the financial period	**213,030**	319.5
Issued during the year	**42,607**	63.9
At the end of the financial period	**255,637**	383.4

On 23 April 2020, 42,606,119 new ordinary shares were issued at the nominal value of £1.50. The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in Company's Articles of Association and the Companies Act 2006.

Share premium
The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue ordinary shares on 11 March 2015.

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

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

During the period ending 28 June 2020 the Company purchased 400,000 of its own ordinary shares at a total cost of £1.1m for the purpose of satisfying employee share based payment awards. During the period 990,451 of these shares (2019: 511,489) were used to satisfy employee share based payment awards. At 28 June 2020 the Company had 266,473 ordinary shares held in treasury (2019: 856,924).

Financial history

		FY20	**FY20 pre IFRS 16**	FY19[3] 52 weeks	FY19[2] 48 weeks	FY18[1]	FY17	FY16
Gross sales	£m	**935.0**	**935.0**	1,287.2	1,165.0	1,125.6	990.8	980.4
Revenue	£m	**724.5**	**724.5**	996.2	901.0	870.5	762.7	756.0
Underlying EBITDA	£m	**61.9**	**(13.8)**	90.2	65.1	76.1	82.4	94.4
Underlying (loss)/profit before tax excluding brand amortisation	£m	**(63.1)**	**(55.3)**	50.2	28.2	38.3	50.2	64.6
(Loss)/profit before tax	£m	**(81.2)**	**(74.9)**	43.6	22.4	25.8	50.1	64.5
Basic earnings per share	p	**(31.4)**	**(28.5)**	16.5	8.6	8.9	18.7	28.3
Ordinary dividends per share	p	**–**	**–**	11.2	11.2	11.2	11.2	11.0
Special dividends per share	p	**–**	**–**	–	–	–	9.5	–
Purchase of own shares	£m	**1.1**	**1.1**	–	–	–	–	3.7
Total shareholder return	%	**-32.5**	**-32.5**	+31.9	+31.5	+1.9%	+6.5%	-21.5%

Notes:
1. Sofology acquired 30 November 2017.
2. Audited statutory period: 48 weeks ended 30 June 2019.
3. Unaudited pro-forma period: 52 weeks ended 30 June 2019.

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 to FY20

The Group changed its accounting reference date to 30 June in the previous year and accordingly the statutory audited results for FY19 were the 48 weeks ended 30 June 2019. To enable meaningful comparatives for reported key performance indicators, unaudited pro-forma figures for the 52 weeks ended 30 June 2019 have also been presented. These pro-forma figures are calculated by adding unaudited results per the Group management accounts for the 4 weeks to 28 July 2018 to the audited statutory results for the 48 weeks to 30 June 2019.

APM	Definition	Rationale
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.
LTM FY19	Last twelve months/52 weeks ended 30 June 2019 (unaudited, pro-forma period).	A twelve month 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.
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.	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation	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 twelve months.	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.

Key performance indicators

Reconciliations to IFRS measures

EBITDA	Note	FY20 £m	LTM FY19 £m	FY19 £m
Operating (loss)/profit	2	**(43.7)**	54.3	32.5
Depreciation	3	**81.9**	25.8	23.3
Amortisation	3	**6.8**	5.0	4.9
Impairments	3	**11.5**	–	–
EBITDA		**56.5**	85.1	60.7

Underlying EBITDA	FY20 £m	LTM FY19 £m	FY19 £m
EBITDA	**56.5**	85.1	60.7
Non-underlying operating items	**5.4**	5.1	4.4
Underlying EBITDA	**61.9**	90.2	65.1

EBITDA (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m	FY19 £m
Operating (loss)/profit	2	**(43.7)**	54.3	60.7
Impact of IFRS 16	1.18	**19.4**	–	–
Operating (loss)/profit (pre-IFRS 16)	1.18	**(63.1)**	54.3	32.5
Depreciation (pre-IFRS 16)	1.18	**25.9**	25.8	23.3
Amortisation (pre-IFRS 16)	1.18	**6.8**	5.0	4.9
Impairments (pre-IFRS 16)	1.18	**7.1**	–	–
EBITDA (pre-IFRS 16)	1.18	**(23.3)**	85.1	60.7

Underlying EBITDA (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m	FY19 £m
EBITDA (pre-IFRS 16)	1.18	**(23.3)**	85.1	60.7
Non-underlying operating items (pre-IFRS 16)		**9.5**	5.1	4.4
Underlying EBITDA (pre-IFRS 16)		**(13.8)**	90.2	65.1

Free cash flow (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m
Underlying EBITDA (pre-IFRS 16)		**(13.8)**	90.2
Acquisition of property, plant and equipment (pre-IFRS 16)	8	**(16.8)**	(19.4)
Acquisition of other intangible assets	10	**(6.6)**	(6.9)
Cash capital expenditure (pre-IFRS 16)		**(23.4)**	(26.3)
Share based payment expense	4	**2.4**	2.6
Increase in debtors (pre-IFRS 16)		**9.1**	(1.9)
Increase in inventories		**(4.0)**	3.2
Increase in trade and other payables (pre-IFRS 16)		**8.6**	25.5
Decrease in provisions (pre-IFRS 16)		**11.3**	(0.7)
Change in working capital (pre-IFRS 16)		**27.4**	28.7
Free cash flow generation (pre-IFRS 16)		**(9.8)**	92.6

Underlying profit before tax and brand amortisation (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m	FY19 £m
(Loss)/profit before tax	2	**(81.2)**	43.6	22.4
Impact of IFRS 16	1.18	**6.3**	–	–
(Loss)/profit before tax (pre-IFRS 16)	1.18	**(74.9)**	43.6	22.4
Non-underlying items (pre-IFRS 16)		**16.6**	5.1	4.4
Amortisation of brand names	10	**1.5**	1.5	1.4
Underlying (loss)/profit before tax and brand amortisation (pre-IFRS 16)		**(56.8)**	50.2	28.2

Alternative performance measures continued

Key performance indicators continued

Net debt (pre-IFRS 16)	30 June 2019 £m	Cash flow £m	Other non-cash changes £m	28 June 2020 £m
Cash in hand, at bank	29.8	32.5	–	62.3
Cash and cash equivalents	29.8	32.5	–	62.3
Senior revolving credit facility	(194.0)	(25.0)	0.3	(218.7)
Finance lease liabilities (pre-IFRS 16)	(12.1)	4.5	(5.2)	(12.8)
Total net debt	(176.3)	12.0	(4.9)	(169.2)

Return on capital employed	Note	**FY20 £m**	LTM FY19 £m
Operating (loss)/profit (pre-IFRS 16)	1.18	**(63.1)**	54.3
Non-underlying operating items (pre-IFRS 16)		**16.6**	5.1
Operating lease charge (pre-IFRS 16)		**79.9**	80.2
Pre-tax return (pre-IFRS 16)		**33.4**	139.6
Effective tax rate		**17.1%**	19.0%
Tax adjusted return (A) (pre-IFRS 16)		**27.7**	113.1
Property, plant and equipment (pre-IFRS 16)		**85.0**	89.9
Computer software	10	**11.8**	10.5
		96.8	100.4
Inventories	14	**58.9**	54.8
Trade receivables	15	**10.4**	9.1
Prepayments (pre-IFRS 16)		**11.7**	22.8
Accrued income	15	**0.9**	0.6
Other receivables	15	**0.8**	0.3
Payments received on account	16	**(86.8)**	(42.2)
Trade payables	16	**(41.9)**	(106.9)
Working capital (pre-IFRS 16)		**(46.0)**	(61.5)
8 times lease charge (pre-IFRS 16)		**639.2**	641.6
Total capital employed (B) (pre-IFRS 16)		**690.0**	680.5
ROCE (A/B) (pre-IFRS 16)		**4.0%**	16.6%

Shareholder information

Contacts

Chief Executive Officer
Tim Stacey

Chief Financial Officer
Mike Schmidt

Group Company Secretary & General Counsel
Elizabeth McDonald

Investor relations
Philip Hutchinson

Corporate website
www.dfscorporate.co.uk

Registered office
DFS Furniture plc
1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
DN6 7NA

Corporate advisers:

Auditor
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Remuneration advisor
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Embankment Place London
WC2N 6RH

Brokers
Peel Hunt Limited & Jefferies International Limited

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

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Equiniti is a trading name of Equiniti Limited.

Equiniti helpline: 0371 384 2030.
Overseas holders should contact +44 (0)121 415 7047.

Lines are open 9.00am to 5.00pm, Monday to Friday (excluding public holidays).

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

For institutional investor enquiries, please contact:
Tulchan Group
85 Fleet Street
London EC4Y 1AE
+44 20 7353 4200

Annual General Meeting 2019
This year's AGM will be held virtually, at 2.30pm on 13 November 2020 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA

Financial calendar

FY20 full year results	24 September 2020
Annual General Meeting	13 November 2020

DFS Furniture plcw
1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
DN6 7NA

www.dfscorporate.co.uk
www.dfs.co.uk

Report and Accounts
Registered number 7236769
28 June 2020

Company No. 07236769

Designed and produced by emperor
Visit us at emperor.works

Halo Luxe Space

DFS Furniture plc
1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
DN6 7NA

www.dfscorporate.co.uk
www.dfs.co.uk
www.sofology.co.uk
www.dwell.co.uk