

Responsibility & sustainability report continued



Supply chain, sustainable sourcing and our products

Alignment to UN SDGs



FY21 highlights:

- Hosted our inaugural ESG Supplier Conference
- Audits underway to assess our manufacturing suppliers' compliance with our supplier code of conduct and alignment with our ESG strategy

Focus for FY22:

- Continue to work with our suppliers and bring them on our sustainability journey
- Identify and respond to any non-compliance identified from audits

Our targets:

- Independent ethical audits of our manufacturing supply chain by December 2021
- Top 250 of our non-manufacturing suppliers by £ spend risk assessed by December 2022

Supply chain & sourcing

BACKGROUND

Some 95% of Group sales currently relate to upholstery products. We currently work with a total of 29 upholstery finished goods suppliers across the UK, Europe and China. Our top five suppliers, with whom we have deep and long-standing relationships, supply 82% of our upholstered finished goods.

Upholstery supply chain transparency and traceability is centred upon the key natural materials: timber and leather.

Potential risks associated with our supply chain and sourcing:

- Depletion of natural materials (due to unsustainable practices or from the impact of climate change) may increase input costs.
- A growing appetite for sustainable products may shift demand to those best able to meet customer requirements.
- Sourcing from suppliers with poor human rights practices could result in reputational damage.

We see the opportunity to address these risks more comprehensively and/or sooner than our competitors as consistent with our purpose and values, as a means to create a competitive advantage through a relative cost benefit and by winning market share as well as decreasing the risk of potential reputational damage.

ENGAGEMENT WITH SUPPLIERS

We maintain long-standing, trusted relationships with our suppliers and we intend to bring our suppliers with us on our sustainability journey. In March 2021 we hosted our inaugural ESG Supplier Conference, which was attended by 96% of our finished goods supplier base, to set out our vision, mission and initial requirements with our suppliers. This was a great opportunity to engage our suppliers in why sustainability is so important to our business and our stakeholders, and to share with them our commitments and strategy going forward. We covered a broad range of topics from sustainable sourcing of materials to modern slavery with many of our suppliers indicating that we are their first customer to bring certification and other sustainable standards to the fore. We look forward to working collaboratively with them to help us achieve our ambitions.

Quotes from attendees of our supplier conference:

'I am sure it will inspire the supply chain to build on success and continue to innovate as we tackle the future issues together.'

'An excellent example of stakeholder engagement. I particularly liked the message of collaboration and partnership working while the objectives and rationale from DFS were clearly articulated'

'Really great to see such a great brand driving forward with ESG and setting a clear direction for the industry. Really enjoyed the conference and have come away invigorated and motivated to try and contribute.'



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HUMAN RIGHTS AND MODERN SLAVERY

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

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

Last year we commissioned Ardea International, a specialist sustainability, business and human rights consultancy with expertise in modern slavery, to evaluate our response to the requirement to address modern slavery risk, to identify any potential gaps in policies and procedures, and to ensure that the company is fulfilling the reporting requirements of the UK Modern Slavery Act.

As part of managing the risk of modern slavery, we have a supply chain compliance programme in place. Our training initiatives include:

- An e-learning module on modern slavery which has been deployed to senior and middle managers across the DFS Group. The training provides guidance on spotting the signs of different types of modern slavery and how to report concerns.
- Additionally, several key employees undertook an in-depth accredited six week 'End Slavery' course that was provided by Ardea International. This equipped participants to identify modern slavery and to manage the risk within the supply chain.

Our Commitment:

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

To help achieve this we will:

- Continue working with our tier 1 suppliers and manufacturers to ensure compliance with our policies in relation to human rights.
- Organise a supplier ESG summit, that will include discussions around modern slavery and raise the focus and awareness of this risk, facilitated by Ardea International.
- Continue to assess our training requirements to ensure that they are fit for purpose and deliver training based on this assessment.
- Address any gaps highlighted in the Ardea gap analysis report to strengthen our policies and procedures.
- Strengthen our due diligence processes by undertaking risk mapping and identifying modern slavery risk through procurement.
- Ensure that any new supplier commits to the Group Code of Practice/SLA including SMETA (SEDEX Members Ethical Audits) certification.

SUPPLY CHAIN ASSURANCE

Track Record Global ("TRG") has been retained as our audit partner to assist with transparency and traceability within our manufacturing supply chain.

The scope of their work includes timber and leather due diligence and new audit protocols for modern slavery, in partnership with Ardea International.

The TRG audit approach is based on assessing and mitigating risk through the use of evidentiary material such as invoices and shipping notes for materials and employee records and business policies for modern slavery. This process enables us to not only trace materials from source, but engenders conversations to drive sustainable sourcing at every level of the supply chain. We are able to communicate and educate our suppliers for instance through our ESG Supplier Conference and we see it as our responsibility as a market leader to support our suppliers by providing training and advice where required.

So far we have completed timber audits across 90% of our upholstery partners and 70% of our home category partners. The modern slavery audits will be completed for all manufacturing partners by December 2021. These audits enable us to address areas of risk and request changes within the manufacturing supply chains.

Where evidentiary material has been impossible to source for leather supply chains, a secondary audit has been conducted through Eurofins BLC using geo-location mapping.

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

www.dfscorporate.co.uk/media/53792/Group-Code-of-Conduct-November-2020.pdf

www.dfscorporate.co.uk/media/46645/21-DFS-Code-of-Practice-Version-1-October-2019.pdf



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MATERIAL CERTIFICATION

We recognise that audit fatigue is an ongoing issue where suppliers work with a variety of customers. While necessary, many audits fail to add any value for the supplier but can drain resources and thus increase operating costs. By establishing third-party certification requirements for our core materials, we seek to add value into our suppliers' value chain and provide clear, universal standards as well as potentially providing our suppliers with a commercial advantage as more customers set out their sustainability agenda.

We have chosen material specific certifications that are the most widely recognised not only within their industry but also to customers, in order to provide assurance of our sustainable sourcing practices.



Timber



Our targets:

- 100% FSC Certified Wood used in all products by Dec 2025

Our Commitment

To source all our timber from supply chains which meet our Timber Minimum Performance Requirements (see Group Timber Policy on our website for more details) and to continuously improve and report our sourcing performance year-on-year. We have extended our commitment to sourcing FSC certified wood to all our products in our Phase 2 targets, our Phase 1 target announced last year only applied to sofa products.

We have made significant progress during the year and are on track to meet this target, 23% (FY20: 16%) of all suppliers and 48% (FY20: 18%) of upholstery suppliers currently hold the FSC certification.

Leather



Our targets:

- Leather sourcing does not cause deforestation in Amazon regions or elsewhere by December 2021
- All leather will be sourced from suppliers with LWG certification by December 2024

Our Commitment

Ensure that our products only contain leather hides where we understand and can evidence the "chain of custody" (i.e. from the farm or slaughterhouse to the manufacturer to us, the retailer). We, and our customers, can then be confident that the leather used is obtained from sources that do not contribute to deforestation.

All our leather suppliers have been audited by TRG or mapped against deforestation locations by Eurofins BLC (leading experts in the leather industry). We have made changes in high risk supply chains during the year to ensure we can deliver on our commitment.

LWG certification is awarded to tanneries that demonstrate environmental best practices and performance in all areas of leather production, from chemical and water management to energy use, waste management and hide traceability.

Textiles



Our targets:

- OEKO-TEX STeP certification for Cotton, Viscose and Polyester by July 2022, 2023 and 2024 respectively

Our Commitment

Ensure all textiles used in upholstery are sourced from textile mills with strong environmental and social standards.

Textiles are widely used in our products and are chosen for their quality and durability. We recognise that progress needs to be made around the production of both natural and synthetic fabrics and we are continually working to improve and mitigate the environmental impact of both our textiles and fillings. For this reason, our suppliers are required to disclose the origin and composition of all fabrics used in our products.

OEKO-TEX STeP certification is a global holistic audit protocol that can be applied to all textile types and ensures environmentally friendly production processes, social working conditions and optimum health and safety. There are many different textile certifications in the market that focus on specific challenges within an area of textile production. OEKO-TEX Standard 100 is already a well-established chemical assurance audit while the STeP certification also incorporates quality, social and environmental standards, creating a robust but common framework which can be applied to all textile compositions. We are targeting all our suppliers to obtain the OEKO-TEX STeP certification.

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Product

Our Commitment

We want to bring great design and comfort into every living room and we want to do it in an affordable, responsible and sustainable manner.

We are committed to finding solutions and developing our product range in order to use our resources in more efficient ways, use more sustainable materials and reduce waste both during production and at the end of the product life cycle.

Our long-standing relationships with our suppliers allow us to ensure the high quality and rigorous safety standards of all the materials and components that we use.

GRAND DESIGNS RANGE

DFS is proud to have partnered with Grand Designs to launch an exclusive new collection with a grand ambition: sofas that are stylish, comfortable and beautifully made using innovative and sustainable materials.

Each aspect of the range has been considered for its ability to reduce the impact on our environment and is either made of recycled materials, comes from sustainable sources, or is more easily recycled at the end of its life.



LOOP

Sofology is in the process of trialling 'Loop' a flexible, sustainable upholstery rental service. Offering the choice of well designed pieces, at an affordable price, for as long as customers need them, Sofology's Loop initiative is an innovative new approach to truly sustainable furniture rental.

Launching with the new Virtue upholstery collection, each rentable sofa, armchair or footstool is manufactured in the UK from sustainably sourced materials. The fabric is made from an ocean plastic alternative, fibres are from recycled content and the wood is FSC certified. Once pieces are returned, to ensure nothing goes to landfill, each element, from springs to feet, will be removed and recycled. The metal frame, which has a 25-year life span, will then be rebuilt and reupholstered to create brand new pieces available to rent.



QUALITY OF PRODUCT

The Group has set up measures to help ensure we sell safe and reliable products. These include:

- DFS products carry the British Standards Kitemark for furniture, which is an external quality standard and all product ranges are reviewed on a quarterly basis through our Quality Control procedures.
- A minimum 15-year frame guarantee.
- All electrical components carry CE compliance certification.
- Extensive fire tests: All products are tested by independent organisations such as FIRA (Furniture Industry Research Association) and TRG in many areas including fire safety.
- All certifications for nanomaterials are collected and collated bi-annually by Track Record Global to ensure all suppliers have the appropriate risk assessments and versions are maintained and recorded.
- REACH declarations obtained for applicable products (protection of human health and the environment from the risks that can be posed by chemicals).
- Physical testing is carried out including rub tests, stretch tests, frame stability.
- Confirmation from suppliers that there are no VOC's (Volatile organic compounds) emitted from the products.
- Over 200 technicians on the road dedicated to services and repairs.