DFS Furniture plc
Annual Report & Accounts 2022

Bringing great design and comfort into every home

Introduction

In an operationally challenging year, the Group has continued to progress its strategy and grow market share.

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Highlights

We continue to be focused on executing our new 'Pillars and Platforms' strategy, which we set out in our Capital Markets Day in March, further investing in our Group platforms to continue to grow our market share.

Financial highlights

Definitions and reconciliations of Alternative Performance Measures ('APMs') can be found on pages 34 to 37. Throughout this report, references to income statement measures including revenue, EBITDA[1], profit before tax, underlying profit before tax and brand amortisation[1] are in respect of continuing operations only unless otherwise stated.

Group revenue

£1,149.8m

FY22	£1,149.8m
FY21[3]	£1,060.2m
FY20	£724.5m

Post purchase NPS[2]

86.3%

FY22	86.3%
FY21	86.4%
FY20	85.7%

Profit/(loss) before tax

£58.5m

FY22	£58.5m
FY21[3]	£102.6m
FY20	£(81.2)m

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

£60.3m

FY22	£60.3m
FY21[3]	£109.2m
FY20	£(63.1)m

Established customer NPS[2]

11.7%

FY22	11.7%
FY21	30.7%
FY20	42.9%

Earnings per share

12.3p

FY22	12.3p
FY21	34.5p
FY20	(31.4)p

Underlying earnings per share[1]

16.9p

FY22	16.9p
FY21	36.0p
FY20	(24.3)p

Operational and strategic highlights

Focus on executing our new strategy, as set out in our Capital Markets Day in March, leading to further market share gains.

Overcoming unprecedented Covid-related supply chain challenges which particularly impacted operational and financial performance as well as customer satisfaction across the first half of the year.

Navigated double-digit industry-wide inflationary cost pressures which are being carefully absorbed into our product range pricing.

Opened seven new Sofology showrooms in FY22, driving additional upholstery market share gain through a proven approach.

Decision made to close the DFS Netherlands and Spain businesses, and associated presentation as discontinued operations.

Continued investment in DFS store transformation programme now rolled out across 47 stores, with the refitted stores showing enhanced sales growth and an average payback period of under 24 months.

Continued expansion into the Home market with exclusive brand partnerships and significant opportunities to gain market share in the £3bn+ bed market by leveraging our existing group platforms.

Significant progress made during the year in understanding our carbon footprint, leading to product and service innovation.

1. Refer to pages 34 to 37 for APM definitions.
2. Net Promotor Scores for the DFS brand.
3. Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Our purpose-driven approach

OUR PURPOSE

Our Purpose is to bring great design and comfort into every home, in an affordable, responsible and sustainable manner. Our customers and our people are at the heart of everything we do, and our culture is rooted in our core values.

CULTURE AND VALUES

Our values run through everything we do. They guide our actions to create a sustainable and responsible business.

Think customer

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

Be real

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

Aim high

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

RESPONSIBILITY AND SUSTAINABILITY

As our Group purpose states, we want to bring great design and comfort into every living room.

But we want to do it in an affordable, responsible and sustainable manner. This means making sure our business is built on the right ethical foundations to ensure that, with our sofas, people feel more comfortable – in every way.

See page 54 for more information on responsibility and sustainability at DFS

OUR STRATEGY FOR GROWTH

Our vision is to lead furniture retailing in the digital age.

Our strategy is made up of the three pillars of our business: Our DFS brand, our Sofology brand, and our expansion into the Home market. The growth of our three pillars will be enabled by our Group enabling platforms: Technology and Data, Logistics, Sourcing and Manufacturing, and People and Culture.

Group Strategy

Pillars

dfs | sofology | HOME

Platforms

- Sourcing & Manufacturing
- Technology & Data
- Logistics
- People & Culture

ESG

See page 19 for more information on our strategy

OUR STAKEHOLDERS

Committed to building a sustainable business model for:

- Colleagues
- Customers
- Suppliers
- Communities
- Environment
- Investors
- Regulators

See page 51 for more information on how we consider and engage with our stakeholders

Strategic report

Our Purpose is to bring great design and comfort into every Home, in an affordable, responsible and sustainable manner. Our customers and our people are at the heart of everything we do, and our culture is rooted in our core values.

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At a glance

dfs

Read more about DFS on **page 5**

sofology

Read more about Sofology on **page 6**

THE SOFA DELIVERY CO

Read more about The Sofa Delivery Co on **page 6**

At a glance continued

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

dfs

DFS is the leading retailer of sofas in the UK with over 50 years' heritage.

Headquartered in Doncaster, it operates 118 showrooms in the UK and Republic of Ireland, 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 2.0m unique visitors each month in the 12 months to June 2022.

Sofa orders are fulfilled on a made-to-order basis.

FY22 number of showrooms

118

dwell

FRENCH CONNECTION sofas exclusively at dfs

COUNTRY LIVING sofas exclusively at dfs

HouseBeautiful sofas exclusively at dfs

HALOLUXE EXCLUSIVELY AT DFS

Joules sofas exclusively at dfs

ICONICA sofas exclusively at dfs

dfs storeaway

dfs VEGAN

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

Brand revenue (including Dwell)

£906.3m

FY22	£906.3m
FY21[1]	£840.4m
FY20	£566.6m

1. Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

At a glance continued

sofology®

Sofology is the third largest retailer of sofas in the UK.

Headquartered near Warrington, it trades through its growing national footprint of 55 showrooms and its website.

We see an opportunity to expand the showroom portfolio with a medium-term target of 65-70 showrooms.

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.

Its products are made to order.

FY22 number of showrooms

55

FY21 number of showrooms

50

Brand revenue

£242.9m

FY22	£242.9m
FY21	£214.6m
FY20	£181.7m

THE SOFA DELIVERY Cº

Our Group-wide logistics platform is one of several key infrastructure components supporting our retail brands.

The Sofa Delivery Company also plays an important role in achieving the Group's environmental targets in relation to emissions, waste and recycling.

Our unique branding and vehicle livery is currently being rolled out across our 41 Customer Delivery Centres.

Offering extended hours delivery to our customers seven days a week, virtually all year round.

UK Customer Delivery Centres

41

Our fundamentals

Delivering sustainable growth

Our Group benefits from four fundamental advantages that provide our business model with resilience and position us well for the future.

1. Clear market leader

With 36% of the sofa retailing market, the DFS group is over three times the size of our nearest competitor. This market leadership enables significant economies of scale and industry-leading profit margins.

2. Integrated retail business

We believe our winning combination of digital and physical assets is the right long-term approach for the sofa market. With our integrated platform, we're increasingly 'channel agnostic' and flexible to support customers however they want to shop. This is supported by our own dedicated manufacturing and supply chain operations.

3. Sustainable business model

We are committed to building a sustainable business model, both in terms of our impact on the environment and our long-term success and resilience as a Group. Our scale and profitability has allowed us to invest for the long term throughout the economic cycle, leaving us with well-invested platforms relative to our competition.

4. Home market opportunity

The UK beds and mattresses segment represents a sizeable opportunity for the group. We believe that our existing customer base, our interest free credit offer and our group assets including sourcing, manufacturing capability, web and logistics platforms, marketing expertise and differentiated brand partnerships leave us well positioned to grow market share in this segment.

Sustainable growth

We believe the fundamental strengths of our business model described above leave the Group well positioned for medium-term growth in shareholder returns. High levels of free cash flow generation are a long-term feature of our business model.

Read more about our strategy on **page 19**.

Chair's statement

Values-led leadership

The year to June 2022 was operationally challenging with market-wide disruption caused by the pandemic impacting the Group's manufacturing and logistics operations and by significant fluctuations in customer demand patterns.

Some customers have regrettably experienced delays to their deliveries but our colleagues have responded with great resilience and tenacity. The Board is grateful for their untiring efforts through a difficult year.

Despite these difficulties the Group increased its market share, which tends to occur during challenging economic times, strengthening its base for the future.

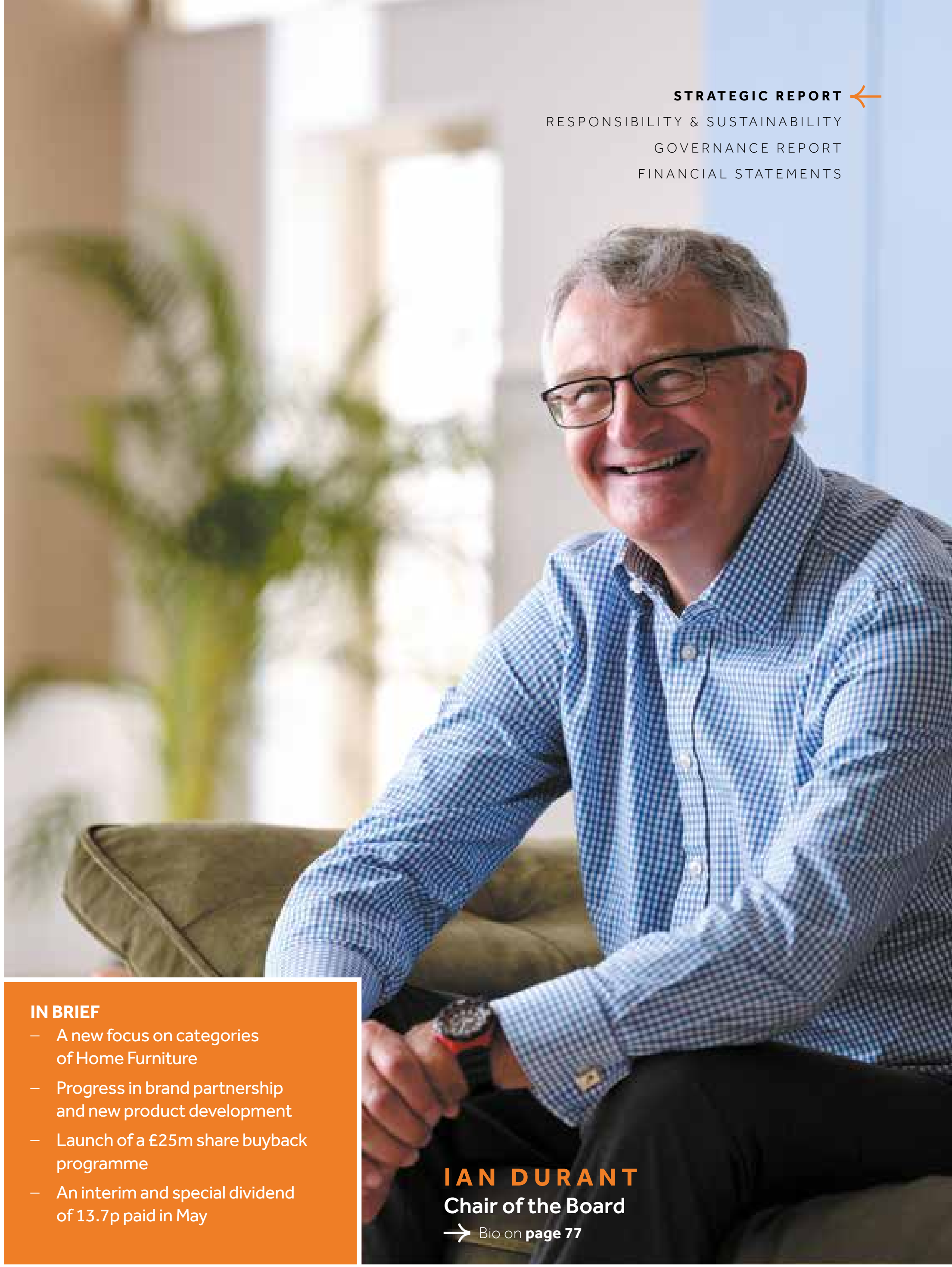
Strategy

The Group has made good progress in establishing the organisation, resourcing, systems and integration required to pursue its 'Pillars and Platforms' strategy. DFS and Sofology are supported by Group enabling platforms: Sourcing and Manufacturing, Technology and Data, People and Culture, and the Sofa Delivery Company logistics platform.

This will support the new focus on categories of home furniture adjacent to our core market leadership in upholstered sofas. Progress has also been made in brand partnerships and new product development.

During the year the Group announced its review of its international operations. Following that review the Board concluded that having persevered with these for a number of years the path to creating value was less compelling than a focus on the wider UK and ROI home market. Consequently the decision was made to close the Group's operations in the Netherlands and Spain, which are presented as discontinued operations in the financial statements.

Good progress has been achieved in developing the Group's ESG strategy. To give these complex areas sufficient focus, the Board established the Responsible and Sustainable Business Committee (RSC). Working closely with our CEO and Director of Sustainability, the Committee has reviewed the ESG strategy and



IN BRIEF

- A new focus on categories of Home Furniture
- Progress in brand partnership and new product development
- Launch of a £25m share buyback programme
- An interim and special dividend of 13.7p paid in May

IAN DURANT
Chair of the Board
Bio on **page 77**

Chair's statement continued

targets, has more clearly defined our areas of focus in Planet, People, Customer and Communities, and oversees the work being carried out across the Group.

The Environmental strategy is built around relationships with key suppliers and the team continues to work to leverage the Group's influence and scale as market leader to offer sustainable and ethical products and to drive a more circular product lifecycle. Our ESG commitments and progress are discussed in detail on pages 55 to 75.

Financial results

Although earnings fell short of our own expectations, the Group delivered revenue growth of 20.1% (excluding discontinued operations and Sofa Workshop) and underlying profit before tax and brand amortisation[1] of £60.3m, 14.6% higher than our FY19 pre-pandemic comparator*. Reported profit before tax from continuing operations was £58.5m (2021: £102.6m). Reported loss from discontinued operations was £12.8m, which included non-underlying costs of £11.3m.

Excluding the working capital movement corresponding to the normalisation of the order bank, the Group generated free cash flow from continuing operations after tax of £37.2m[2] (2021: £57.7m). This is a continuation of the performance since the Group's IPO that has seen total cash generation before net shareholder distributions of £139m since the end of FY15. The underlying ROCE from continuing operations[1] in the financial year was 18.7%, which is below our long-term targets, but significantly above our assessed cost of capital and implying the potential for strong future shareholder returns from the continued significant capital investment in the business.

The Group's long-term value generation ambition remains unchanged. Through this growth, as set out in our Capital Markets Day in March, we believe there is the potential for significant value creation through share price appreciation and capital returns.

1. Refer to pages 34 to 37 for definitions of APMs.
2. Refer to page 32 for reconciliation.
* pro-forma (unaudited) 52 week period ended 30 June 2019 prepared on an IAS 17 basis.

Our purpose, our values and our people

The DFS Group has a distinctive culture: our people are proud, loyal and committed to the Group and to supporting each other. The Group retains that sense of being a family, even as the business continues to grow. Recognising that market disruptions have placed stress on our people this year, the leadership team has implemented a number of initiatives to ensure that all our people feel included and supported so they can give their best.

We remain committed to the values which make DFS distinctive, putting our customers and our people at the heart of everything we do. Our vision was refreshed this year to align with a wider market ambition and reflects our desire to bring great design and comfort into every home in an affordable, responsible and sustainable manner.

The Board

As previously announced, Mike Schmidt will step down as a Director of the Company on 14 October 2022. Mike has led the finance team through a challenging period and was instrumental in the successful debt and equity raise at the start of the pandemic. He has overseen significant returns to investors with the special dividend paid in May and the ongoing £25m share buyback. I thank Mike for all his hard work since he joined the Group in 2014 and more recently as the Chief Financial Officer since 2019 and wish him well for the future. The Board recognises the importance of the Chief Financial Officer's role and is active in seeking Mike's successor with the help of an external recruitment advisor.

The Group has made significant progress over the last few years operating through challenging conditions. In order to ensure a smooth cycle of Board succession, I can confirm that I will be retiring as the Chair and from the Board at the conclusion of the Annual General Meeting on 4 November 2022. An independent sub-committee of the Nominations Committee was appointed earlier in the year who, working with Spencer Stuart, undertook the search for my successor and as we announced on 12 September Steve Johnson will be appointed Chair with effect from the close of the AGM on 4 November 2022. Steve joined the Board in December 2018 and is currently the Chair of the Remuneration Committee. He has considerable retail experience having previously held several senior roles with major UK retailers, starting his career with Asda and most recently Matalan. I know Steve will be an excellent Chair and provide valuable support for the executive team and strong leadership for the Board.

I am proud and privileged to have been part of this organisation and look forward to seeing the further growth and success of the Group.

Governance

Good governance of the Group remains a priority. The Board values dialogue with our stakeholders and is cognisant of our responsibility to all our stakeholders. The Company's section 172 statement is set out on page 49 and details of stakeholder engagement are to be found on pages 51 to 54. Further details of the Board's work are included in the governance and committee sections of the annual report. The Nomination Committee report is to be found on pages 92 to 93 which details the Committee's role in succession planning and considerations around diversity for the Board and senior management.

Capital structure and returns

The Board's approach to capital structure as set out in our published Capital and Distribution policy is to operate with a resilient but efficient capital structure, mindful of the principal opportunities and risks faced by the business. The Board will always prioritise the long-term health of the Group and commit to investments, including share buybacks, where we anticipate returns in excess of our cost of capital. Where we believe we have excess capital, as has been the case over the last 12 months, we will return it efficiently to shareholders. We also recognise dividends as an important element of our investment case for many of our shareholders.

In March 2022 the Board announced a £25m share buyback, and I can confirm that up to 12 September the Company has bought back 14.7m shares. Recognising the implied strong returns from this buyback programme that are outlined in the Financial Review, the Board has decided to step outside our usual capital distribution approach. The Board intends to extend the current share buy back, by diverting approximately half of the otherwise intended final dividend payment, and utilise this to purchase a further tranche of £10m of shares. This repurchase will take place over the next 3-6 months, subject to remaining within repurchase authorisations granted by our shareholders. Alongside this £10m capital return by buyback, the Board is also recommending a final dividend of 3.7p pence per share (2021: 7.5p), giving a total ordinary dividend for the year of 7.4p (2021: 7.5p).

Upon completion of this further tranche of purchases the Company intends to cancel all the shares held following the buy back programmes.

This 3.7p final ordinary dividend taken together with the 3.7p interim ordinary dividend and 10.0p special dividend paid in May and also the £35m of share buybacks will mean the Group will have returned over £75m of capital to shareholders during calendar year 2022.

While the Board remains mindful of the volatile and challenging macroeconomic environment, the Group's financial position is robust and creates a solid base for long-term cash generation and attractive returns to shareholders.

Looking Forward

These are uncertain times, with the rising UK cost of living placing new pressures on our customers and colleagues. We continue to closely monitor the situation in Ukraine, though the direct risk to our operations and sourcing is low, and our thoughts remain with all those affected. The Group Leadership Team is focused on controlling the things which can be controlled whilst remaining alert and agile to deal with the unexpected. Notwithstanding the market-wide challenges faced by the Group, the Board is confident that as the market leader in upholstered furniture our people, products and platforms position the Group well to succeed in delivering its strategy and emerge stronger than ever.

IAN DURANT
Chair of the Board
15 September 2022

Chief Executive's report

Committed to our long-term strategy

We set out our new "Pillars and Platforms" strategy at our Capital Markets day in March 2022. This strategy is designed to lead furniture retailing in the digital age and includes the continued investment in our DFS and Sofology retail pillars as well as our expansion into our new "Home" retail pillar, focused on the beds and mattresses market. We will continue to invest in our platform capabilities including sourcing and manufacturing, technology and data, logistics and of course our people.

We have clear evidence that our strategy is working in terms of gaining market share, based on the proprietary third party data we observe from Barclaycard and CACI. Despite the many and varied short term headwinds, we know historically that our Group performs well relative to the sector during challenging times and with a clear strategy and focus on execution we remain committed to our long term strategic and financial goals.

Our financial results for the year reflect the significant operational and supply-chain challenges, which particularly impacted the financial performance in the first half of the year. The results also reflect wide fluctuations in order intake by quarter with relatively strong trading in quarters one and three, followed by weaker trading in quarters two and four. There was clearly a market-wide reduction in demand in quarter four as a result of the well documented cost of living challenges in the UK.

IN BRIEF

- Focus on executing our new strategy, as set out in our Capital Markets Day in March, leading to further market share gains.
- Overcoming unprecedented Covid-related supply chain challenges which particularly impacted operational and financial performance as well as customer satisfaction across the first half of the year.
- Navigating industry-wide inflationary cost pressures which are being carefully absorbed into our product range pricing.
- Significant progress made during the year in understanding our carbon footprint, leading to product and service innovation.
- Despite the current challenging consumer environment, as we enter the new financial year, we remain focused on building on our market leadership position in upholstery retailing, and remain committed to our long-term financial ambitions.
- Significant Board changes in the Autumn as the Chair retires and Chief Financial Officer leaves the business.

TIM STACEY
Chief Executive Officer
Bio on **page 77**

Chief Executive's report continued

We also saw significant inflationary cost pressures during the year, including increases to the cost of raw materials, freight, people costs and logistics. However, through careful management of our product range pricing we have broadly mitigated the impact on our cash margin.

Over the course of the year, we have navigated through a very challenging operating environment with industry-wide Covid disruption affecting our end-to-end supply chain, from extended manufacturing lead times, Far East shipping disruption and reduced HGV trunking reliability.

This in turn did unfortunately impact our customers, and was reflected in our Post-Delivery Net-Promoter Score decreasing 16.7%pts compared to the prior year, as our customers felt the impact of these delays. We responded by significantly increasing resources in our customer service teams, securing additional warehouse space in the south of the UK and utilising external 7.5 tonne drivers to cope with both additional volumes and disruption.

This action and investment has led to improvements in the second half of the year, with delivery volumes increasing by +7% compared with H1, together with increases in our Post-Delivery Net Promoter Score, which increased by 6.9%pts in H2. However, Covid-linked supply-chain disruption still remained a challenge in the second half.

At our interim results we shared our intention to consult with colleagues in the Netherlands on a potential closure of that business. A similar process was subsequently undertaken in Spain and this resulted in the difficult decision to wind down both of these operations. I would like to thank our colleagues and partners in both the Netherlands and Spain for their valued contributions.

I would like to thank all of our customers for their patience and loyalty as we navigated through these operational challenges. We remain committed to providing the best possible experience for our customers and the external disruption has reduced throughout 2022. I would also like to thank our dedicated colleagues for all of their resilience, resourcefulness and commitment that they have shown in the face of the most difficult operating environment that we have experienced for decades.

With market demand reducing across quarter four, we recognise the macroeconomic uncertainty we face in the new financial year. However, our business is resilient: I believe that we have the strongest customer proposition in the sector from the strength of our brand recognition, the exclusive brand partners that we work with and our unparalleled access to some of the largest furniture manufacturers in the world. Supported by our scale, we also operate with the highest operating margins in the sector and we have clear levers in our control to mitigate the wider economic challenges and proceed with our long-term strategy. Our balance sheet remains strong and we were pleased to continue to reward our shareholders for their support during the peak of the pandemic in 2020 through our share buyback programme and dividend payments.

Finally, I would like to pay a special tribute to two people who have provided tremendous support, encouragement and wisdom throughout my tenure as CEO. After more than five years on the Board our Chairman, Ian Durant, has confirmed he will retire following our 2022 Annual General Meeting on 4 November 2022. Ian has provided great counsel and leadership throughout some challenging times and I would like to take this opportunity to register a personal thank you.

Mike Schmidt, our Chief Financial Officer, leaves on 14 October 2022 to take on a new opportunity as CFO of B&M Home Bargains. Mike has been with our business for eight years and has played an integral role in our modernisation, growth and development and I wish him continued success in his next chapter. I am truly grateful to both Ian and Mike for everything they have done for our Group over their tenures.

I am greatly looking forward to working with our Chair-designate Steve Johnson, one of our current Non-Executive directors. Steve's detailed knowledge of our Group and wider retail experience will continue to be invaluable to us as we move forward with our strategy.

Financial Results

Revenue increased by 9.0% versus the prior year on a comparable basis (excluding both Sofa Workshop, which was sold in September 2020 and our discontinued operations in the Netherlands and Spain), however our FY21 revenues and profits benefited from the unprecedented surge in customer demand as we exited the first government lockdown, as well as being impacted by further showroom closures of up to 21 weeks. A more representative, pre-pandemic comparator period is therefore the pro-forma 52 week period ended 30 June 2019 (Pro-forma FY19)[1]. Against this period, FY22 revenue increased by 20.1% (excluding Sofa Workshop and discontinued operations). This performance is reflective of market share gains, our increased average order values to mitigate inflationary cost trends, as well as ongoing Covid-linked supply chain disruption.

Underlying profit before tax and brand amortisation[1] from continuing operations reduced to £60.3m compared to a profit of £109.2m in FY21, but increased versus an IAS 17 profit of £52.6m in the pre-pandemic pro-forma FY19[1] period. Reported profit before tax from continuing operations was £58.5m compared to a profit of £102.6m in FY21 and £46.0m in the pro-forma FY19[1] period.

The exited International DFS businesses in the Netherlands and Spain are presented as discontinued operations, with a total net loss of £12.8m recognised below Group profit after tax. This includes £11.3m of non-underlying termination costs comprising impairment of goodwill and leased property assets, write downs of related inventory and redundancy costs.

Net bank debt[1] in FY22 increased by £71.0m to £90.0m which reflects the capital returns made to shareholders in the year, which consisted of £28.4m of ordinary dividends, £25.4m of special dividends and £4.4m of our £25m share buyback programme completed by the year end. In addition we saw the anticipated reversal of the working capital benefit from FY20 and FY21 as the order book normalised (and related customer deposits held reduced) and landlord payments agreed to be deferred from FY20 were repaid. However, due to our robust underlying cash generation, our year end leverage[1] was 1.1x, close to our target of 1.0x. Reflecting this, we recommend a final dividend of 3.7p per share and an extension of our share buyback programme by £10m.

Operational Update

The environment that we have navigated throughout FY22 has undoubtedly been one of the most challenging that we have faced in our history, with Covid-related supplier capacity reductions, port and inbound delays, colleague absences and skills shortages and unprecedented raw material cost inflation.

Starting the year with an extremely strong order bank, the first half of the year saw significant disruption to our inbound flow of finished goods, particularly from our Far East suppliers, with production and inbound deliveries impacted by port closures and shipping challenges.

This disruption of our regular inbound flow of goods to our distribution centres resulted in additional stock holding requirements and we sourced two additional modern and large warehouses to cope with the increased capacity requirements we have seen. The new warehouses are key in our integration of the DFS and Sofology delivery networks, and will serve as significant hubs in our future operational approach.

Additionally, our final-mile delivery network and our own manufacturing resource was impacted by high Covid-related absence levels as well as the much reported nationwide lorry driver shortages, resulting in a greater reliance on using third party delivery partners.

We saw improvements in the second half of the year with reduced levels of Covid-related absences and an increase in the reliability of inbound from our Far East suppliers. Although we incurred one-off operational costs, including additional temporary warehouse space, an increase in customer service and warehouse resource and utilisation of third-party delivery partners, this operational response helped us to significantly increase deliveries, with second half gross sales[1] outperforming first half by 7%. We also saw an improvement in our Post-Delivery Net Promoter Score by 21% in the second half of the year.

1. Refer to pages 34 to 37 for definitions of APMs.

Chief Executive's report continued

Challenges remain, with continuing raw material inflation and further Covid-related supply chain impacts. Driver shortages also continue to be a problem in the UK, however, we have recently implemented our driver training school to increase our internal resource of delivery drivers. This involves training 3.5 tonne vehicle drivers to be able to drive 7.5 tonne vehicles, as well as running our 'Warehouse to Wheels' scheme, training our warehouse colleagues to become qualified drivers. Furthermore, our scale and our size does give us an advantage over our competitors, with our ability to forward buy both Far East freight capacity and foreign currency, providing mitigation against the current challenging consumer environment.

Looking forward, although operating challenges remain, our geographical spread of suppliers, our dedicated final mile delivery network and warehousing facilities, and our size, scale and operational agility leaves us well placed to mitigate any further operational risk.

Review of Strategic Progress

Over the past three years, our vision has been to lead sofa retailing in the digital age and our strategy has been to establish our new scale, following the continued significant gains in market share achieved. The strategy was centred upon three interrelated themes (Drive DFS Core, Build the Platforms, Unlock New Growth) delivering incremental annual profits of £40m. We now believe that we have established this higher scale.

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

The strategy of the business is made up of three pillars: Our DFS brand, our Sofology brand and our expansion into the home market. The growth of our three pillars will be enabled by our four group platforms: Sourcing and Manufacturing, Technology and Data, People & Culture and the Sofa Delivery Company logistics platforms.

Our ambition in delivering this strategy is to increase Group revenues to £1.4bn by FY26 or if the weak economic environment persists FY27, and through the scale efficiencies of our platforms we aim to deliver a growth in PBT(A) profit margin[1] in the medium term to over 8%.

Our Pillars – DFS

The DFS brand is the largest and most profitable brand in the Group, and the key priority of our strategy is to make the most of our strengths and drive the growth of the brand across all channels. Key initiatives have been to unlock new growth from our ongoing showroom transformation programme, investing in new ranges and exclusive brands and via our leading retail execution, our people and our marketing.

We believe that our integrated retail approach delivers the UK & ROI's best sector showroom experience for upholstery, encompassing our new showroom formats with our diverse and talented retail teams, together with the best sector online presence as measured by brand strength, range, enhanced technology and platform scale. Online penetration remained strong in the year at 25% and DFS remains the clear market leader for the online retail of sofas, demonstrating the importance of our investment in our leading integrated retail capabilities.

We have continued to extend our appeal to a wide range of customers, to enhance our position as the UK leader in living room furniture across all segments. Attractive, exclusive and strategic brands and ranges have been developed using our constantly improving data platforms, which allows us to maximise the appeal across our product portfolio, without diminishing our appeal to customers traditionally focused on value. Using all of our customer and marketing segmentation data, we have created the product style wheel which ensures we have a product range to cover all of our customer segments, as well as speedily identifying any underperformers and increasingly embedding sustainability into our ranges. Our exclusive brands are a key way of differentiating us from the rest of the market, which include partnerships with Joules, French Connection, Country Living, Grand Designs and Cath Kidston amongst others. We have been increasing our supplier base to ensure we have more models and to support our market share growth.

Key highlights of new products launched during the year include our DFS Storeaway collection. Mixing style and comfort with ingenuity and technology, it contains hidden features from USB charging devices, additional storage drawers, lights, cup holders and even hidden sofa beds. We also launched the dfs vegan range of sofas which are 100% animal-product free. These sofas also received the approval of PETA, a charity dedicated to establishing and protecting the rights of animals.

We have invested in our store transformation programme which has to date been rolled out across 47 DFS stores. The key differences this brings are improved lighting, better space optimisation, creating clear sight lines and improved accessorising. With better zoning of product styles, this helps to strengthen the look and feel of the showroom and gives consistency across the channels. The refit programme has led to an increase of 5% sales across the like-for-like refitted estate, with a typical refit costing around £300k leading to a payback period of under 24 months.

Our people and our retail execution are key to our continued success, with our people being at the heart of everything we do. We are focused on improving our gender balance, with 46% of our store colleagues now being female, aided by the increase of our part-time mix to 47% (FY21: 29%). Whilst we feel that this is the right thing to do culturally for the business, it also ensures that our sales teams are as effective as possible, with the increased part-time mix improving the flexibility of our teams and helping to ensure we have more sales colleague resource during our peak trading times.

This year, our Intelligent Lending Platform (ILP) went live, with the aim of transforming interest free credit. Interest free credit is a key part of our customer offer, but it is a time consuming process for both customers and colleagues, and at peak periods it prevents us from serving as many customers as possible.

The introduction of ILP has addressed both of these issues, with the process now taking 15 minutes less than it did previously, shaving off a third of the time of order build. It also allows complete-at-home functionality, soft credit searches and simpler second line referrals that increase our customers' likelihood of obtaining the credit that is right for them.

We have continued to see market share growth over the past two years, and going forward we see a clear opportunity to continue extending the market leadership of the DFS brand.

Our Pillars – Sofology

We have made progress this year in increasing the number of geographical locations of Sofology stores and developing the brand into a nationwide business. Sofology delivered sales and brand contribution growth of 18% and 16% compared with the pro-forma FY19[1] pre-pandemic comparators.

Seven new stores were opened during the year in Orpington, Glasgow, Poole, Ipswich, New Malden, Birmingham and Bristol to give a total of 55 stores at the year end, with an additional store opened in September 2022 and one further store planned for FY23.

Sofology has a reputation for being trend and design focused. The ethos of the brand is 'feeling at home on a sofa you love', which conveys the emotion and importance of purchasing the sofa for a home. A critical feature in the Sofology model is its 'no sales' approach, which is unique in the market and helps differentiate Sofology as the boutique brand on the retail park. Our distinctive advertising builds on this differentiation, using well known actors who are equally celebrated for their own individual sense of style. This year Helena Bonham-Carter has played a key role in Sofology advertisements and her unique style and creativity has proved a strong fit for the Sofology brand.

In terms of product, Sofology is strategic in its range development whilst continually pushing innovation. During the year, Sofology launched its 'Sustainable Edit' collection. This includes the 'Spring-bond' product designed exclusively for Sofology as a

1. Refer to pages 34 to 37 for APM definitions.

Chief Executive's report continued

replacement for foam interiors. This British made product is chemical free and is made from 80% recycled materials and is 100% recyclable and is a cleaner, greener foam alternative.

New product launches in the year include the Brantwood and Midland Hill ranges in collaboration with George Clarke. George is an aspirational designer and architect and very accessible to our customer base. Both products are FSC accredited and there are further products in development, with George being a natural fit with our 'lively lifestyles' customer who want style, comfort and design that offers practical living solutions.

We continue to see the opportunity to grow the Sofology brand to 65-70 outlets in the medium-term, targeting revenue of c.£300m at a pre-tax profit margin of 5-7%.

Our Pillars – Home
As a Group we view the beds and mattresses segment as a key opportunity. With an addressable market size of £3bn per annum, our ambition is to grow market share in this segment to 4%. We are able to utilise many of the Group's assets, including; sourcing and manufacturing capability for upholstered furniture, web and logistics platforms, marketing expertise and differentiated brand partnerships. We already have 800,000 customers each year with many utilising our leading interest free credit offer and we have a really strong opportunity from our existing customer base.

A key element to achieving this strategy is product awareness, we have therefore been investing in 'above the line' marketing and in turn have released our first non-sofa TV advert earlier this year, focusing on our bed range.

Our Platforms
The growth of our three pillars – DFS, Sofology and Home are enabled by our four group enabling platforms: Sourcing and Manufacturing, Technology and Data, People and Culture and our Sofa Delivery Company logistics platforms.

Technology & Data Platforms
Over the past few years, the Group has invested heavily in its collection and use of technology and data, with the ambition of our data platforms being to unlock new growth for our brands and to drive operational efficiencies in our cost base.

We are currently investing in our 'Integrated Retail Intelligence System' (IRIS), which integrates 35+ data sources to provide a 360-degree view of the Group. This cloud-based solution incorporates AI and machine learning decisioning and process automation to gain insights across every element of the customer purchase cycle, thereby driving additional performance and growth in the business, at a sustainable increased efficiency. Ultimately, the use of data gives our colleagues the power to make faster and better data-led decisions.

One example of this is our growth engine, which combines multiple datasets to identify how to best market in specific localities. This helps to drive better, more efficient marketing spend.

Another application we have developed is Workforce Optimisation, which combines both footfall predictions and workforce data. By predicting footfall ten weeks in advance, we are able to improve peak-time conversion in our showrooms by ensuring we have sufficient resources in stores at the right time, and we have seen sizeable improvements in conversion at our peak times as a result of this tool.

We have also made great strides in improving our logistics platforms. Apollo is our vehicle planning and optimisation tool, which allows us to plan delivery routes within capacity to maximise the fleet, reduce the volume of vehicles on the road and reduce our use of third party delivery partners. It uses advanced algorithms to automatically optimise delivery schedules every time a new delivery is booked. It has led to an increased efficiency for our colleagues, with the time to schedule our last mile fleet on a daily basis reduced to three minutes, unplanned overtime reducing by 19% and fuel consumption reducing by 18%, providing cost savings as well as reducing our environmental impact.

These, as well as the aforementioned Intelligent Lending Platform, are just a few examples of the advances in data we have made and the benefits we gain from them.

Sourcing and Manufacturing Platforms
It is key to acknowledge that as a Group, we already have a significant competitive advantage from our sourcing and manufacturing. We have been producing made-to-order sofas for over 50 years, and for over 20 years we have developed partnerships around the world with the biggest furniture manufacturers. Our capacity, design style and business model are hard to replicate, and our scale gives cost price advantages.

We look to continually improve the efficiency and performance of our manufacturing sites. During the year we commenced the refurbishment of our Doncaster manufacturing facility. This involved reconfiguring the site, reducing the level of manual handling on site, creating a better flow of the production process and increasing available working space to enable increased storage, reducing the risk of stoppages from materials not being on site. Work on this is set to be complete in the first half of the 2023 financial year.

Over the next few years, we will be further investing in our manufacturing to create the UK's most responsible, resilient, flexible and efficient manufacturing operation and aim to increase capacity for DFS and Sofology. We will ensure ESG remains a key priority, therefore our focus will be on ensuring we are as efficient as possible; reducing supply chain delivery miles and reducing product build complexity, whilst continuing to lead on recycled components.

The Sofa Delivery Company
Our group logistics platform, the Sofa Delivery Company was launched in June 2021, with the objective of providing the best delivery service in the market for our customers and our colleagues. This involved merging our DFS and Sofology delivery networks into a single combined network, improving both the service for our customers as well as cost efficiency savings.

The Sofa Delivery Company operates on a '4 days on, 4 days off' work schedule which provides an attractive work-life balance for our drivers. This enables us to offer extended delivery hours to our customers seven days a week.

Significant progress has been made during the year integrating both brands onto our delivery planning system, Apollo, as well as the roll out of one stock-management system across the Group. The next key rollout will be the postcode integration mapping which will mean that any of our vans will be able to deliver mixed loads of customer orders from either brand, unlocking even more efficiencies.

We have also made progress in creating a distribution network that is the 'right size' for the Group's scale, with two new warehouse sites opened across FY22.

ESG
As a Group, we continue to be guided by our purpose which is to bring great design and comfort into every home in an affordable, responsible and sustainable manner.

We launched our ESG strategy in September 2020, with a strong focus on the Environment based on our "Sofa Cycle" approach and have continued to make significant progress on a range of fronts for our key stakeholders over the past two years, as detailed below.

Environment
The Group's 'Sofa cycle' is based on the circular economy concept meaning that sustainability is increasingly embedded across the Group. Critical to the long-term success of our sustainability goals is the creation of a credible roadmap. The first step on this journey is to fully understand our carbon footprint and we have made significant progress during the year, and are now able to report our total carbon footprint including Scope 3 emissions for the last four years. Although there are clearly specific challenges to the Group to overcome in order to become Net Zero by 2040, we now have the data and foundations on which to build a credible plan.

Across the Group we are developing innovative products to support our sustainable strategy. During the year, DFS launched its Grand Designs beds collection using only the most innovative and sustainable materials. Sofology introduced the

Chief Executive's report continued

'Sustainability Edit' collection which includes a full recycled foam alternative, recycled fabrics and wooden frames from sustainable sources.

We continue to invest in testing new materials and developing new innovative ranges with our key suppliers. This includes a partnership with Imperial College and the Royal Institute called the 'Centre for Climate Change Innovation', to address specific material challenges.

During the year we incorporated sustainability KPIs into our revolving credit facility with a group of our relationship banks, ensuring coverage across both environmental and social areas. Our first measurement period was December 2021 and I'm pleased to report that all of our externally assured sustainability targets were achieved.

Social

We launched our diversity and inclusion strategy last year and have continued to drive the conversation around other forms of inclusion and diversity with internal education and engagement activity, alongside the creation of longer-term plans across our brands, operating teams and central offices to make a measurable difference to the makeup of our workforce.

We saw heightened engagement with calendar events including Black History Month, International Men's Day, World Religion Day and International Day of Persons with Disabilities and the official inception of our LGBTQ+ & Allies Network came to life during Pride Month.

Across the DFS Group, we want to create a culture where everyone feels welcome. We believe a big part of making this happen is supporting our colleagues to lead happy, healthy lives at every stage. One of the positives to come from the pandemic has been a greater care and appreciation of our mental, physical and financial wellbeing.

The Group has responded by introducing a number of benefits and support to our employees focused across Mind, Body and Life. We are confident that our wellbeing offering overall is industry leading and we are working with best-in-class partners to deliver the best for our people – our greatest asset.

Governance

The Group continues to maintain 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.

Furthermore, the Group has established a clear governance structure in place for ESG related matters. During the year the Board introduced the Responsible and Sustainable Business Committee which is chaired by our Senior Independent Director Alison Hutchinson and comprises myself as CEO, and our non-executive directors, Loraine Martins and Jane Bednall.

Management Change

On 5 July 2022 it was announced that Mike Schmidt, Chief Financial Officer (CFO), has given the Board notice that after eight years with the Company, the last three years as CFO, he has decided to step down in order to assume the role of CFO at B&M European Value Retail S.A.

Mike has been instrumental in the growth of our Company and supporting the Board through the external challenges we have faced over the last few years. We all wish him every success for the future.

We have commenced a process to replace Mike and have a strong internal finance team who will support us through the transition.

Trading outlook and scenarios

In the fourth quarter of FY22 and first quarter of FY23, order volumes for the Group softened markedly relative to pre-pandemic levels, reflecting a trend seen widely across the furniture industry.

The macroeconomic environment remains challenging, given the potential effects of the current high-inflationary environment on consumer behaviour. We therefore present three alternative scenarios for performance in the financial year below.

Scenario:	Low	Medium	High
Like-for-like market-wide order intake volume vs FY19	(15%)	(10%)	(5%)
DFS Revenue Growth vs FY19 (continuing operations)	c. +10%	c. +16%	c. +23%
DFS Revenue	£1,060m	£1,120m	£1,175m
PBT	£20m	£36m	£54m

The outturn in our medium scenario is based upon a market-wide like-for-like order intake volume decline of 10% relative to pre-pandemic levels. It is hard to extrapolate short-term trends into the future, and there are some transient factors likely to have particularly impacted demand over the summer, including consumer uncertainty on domestic energy prices, reopening of holiday travel and the hot weather. However, the -5% and -10% scenarios we present would require a continuation of September's recovery from the weaker average trading patterns observed in July and August FY23. In all scenarios we reflect the revenue benefit of the c.3% points of market share that we have captured since FY19, the £30m higher order bank in revenue terms entering the year and also the significant growth in average order values seen.

Our retail margin percentages are assumed to be similar in each scenario. We are targeting cost opportunities on property, supply chain and administrative activities, created by the scale benefits of ongoing DFS and Sofology brand alignments and volume growth relative to pre-pandemic levels. However, operating costs further reduce in the lower scenarios, from direct volume-related costs flexing but also incremental cost action of £3m in the medium scenario, and a further £6m of direct cost reduction in the low scenario.

Each scenario is dependent on there being no prolonged disruption to manufacturing production or deliveries in the period, for example due to Covid related impacts to our supply chain.

Conclusion

This has been the most operationally challenging year that we can remember with industry-wide Covid-related supply chain issues, double-digit cost inflation on raw materials and ongoing colleague absence and skill shortages. None of this is new news now and we are not alone in having to navigate these issues. In the end what matters is the strength of our business that allowed us to respond to these events and to that end I am so proud and grateful to every single one of our colleagues who have shown such resilience, resourcefulness and commitment throughout the year. Thank you.

I would also like to apologise to those customers who have experienced delays and disruption to their deliveries. We have invested more in all aspects of our operation and the external supply chain challenges have abated somewhat. As such we feel confident that we have the resources, plans and focus to improve customer satisfaction back to pre-pandemic levels.

Looking forward, the UK furniture market continues to be challenging and the outlook for the sector remains uncertain given the macroeconomic environment. From the fourth quarter of the year, we saw a reduction in the volume of orders, which we believe is consistent with the overall furniture retail market, although our elevated order bank will provide some resilience as we enter our 2023 financial year.

In previous challenging environments, DFS has performed resiliently and strengthened its market position by leveraging its fundamental strengths in brand equity, manufacturer access, store sales densities, scale of operations and flexible cost base. In the face of the current slowdown in the market, I am confident that we will emerge stronger.

We will continue to pursue our strategy outlined in our Capital Markets day on 15 March 2022, and stand behind our ambition to grow turnover to £1.4bn and increase our PBT(A)[1] profit margin to over 8%.

TIM STACEY
Chief Executive Officer
15 September 2022

1. Refer to pages 34 to 37 for APM definitions.

Market overview

We are the leading sofa retailer in the digital age

Despite reductions in in demand in the UK furniture market in the fourth quarter, our integrated retail business model enabled us to maintain our market share gains, with overall market share increasing year-on year.

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 £3.5 billion (incl. VAT) in the calendar year 2021. As a Group, we view the beds and mattresses segment as a key opportunity increasing our Total Addressable Market ('TAM') by approximately £3bn.

CLEAR LEADER IN THE SEGMENT

The Group, through its DFS and Sofology and brands, is the clear leader in the upholstered furniture market, with 36%[1] market share by value in the calendar year 2021. This market remains highly fragmented and we see further opportunities to grow our market share. We see four broad categories of companies actively competing in the upholstered furniture retail market: specialist chains such as DFS, Sofology, ScS and Furniture Village; independents that are typically single store operations; predominantly online furniture retailers such as Made.com and Wayfair; and larger general merchandise or homeware retailers such as Amazon, Argos, Dunelm, Ikea, John Lewis, and Next.

We believe the integration of digital and physical is the right long-term approach to serve our customers. Our well-invested 'integrated retail' business model allows us to adapt to fast-changing consumer shopping habits, and positions us well for the future.

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

The sofa market generally follows a trend of long-term growth. 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, discussed below. In addition to these market drivers we do see from time to time some volatility in market demand levels caused by particularly hot or cold weather and significant public events.

1. GlobalData calendar 2021 estimate.

Market overview continued

Market conditions are currently challenging with the UK furniture market seeing a reduction in volumes. Historically, the Group has been able to grow market share during economically challenging times.

Key Market Drivers

Consumer confidence

Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. UK consumer confidence, as measured by GfK, has weakened since 2016 amid uncertainty following the referendum vote to leave the European Union. In 2020, consumer confidence fell due to economic and financial uncertainty around the pandemic, but subsequently recovered to pre-pandemic levels. In 2022, consumer confidence has steadily declined each month and reached record lows in both June 2022 and August 2022, with rising food and energy prices plus the risk of recession being the main drivers.

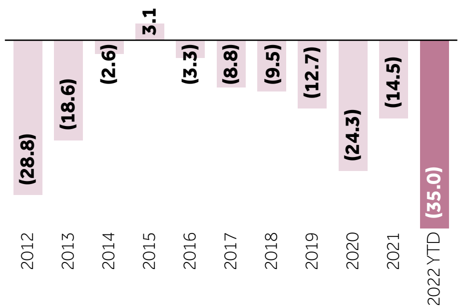
Housing Market

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. As the pandemic spread in spring 2020, government social distancing measures led to a sharp contraction in housing market activity, which subsequently bounced back in 2021 as a result of temporary government measures to reduce stamp duty payable on residential property purchases. As at July 2022 year-to-date UK housing transactions have stabilised, but remain elevated compared to pre-pandemic levels.

Consumer credit

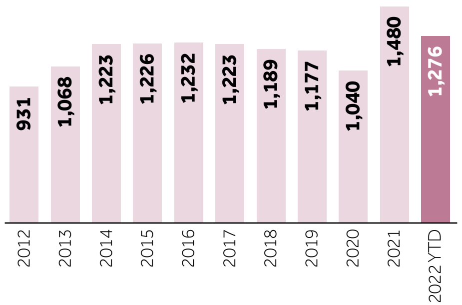
Upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling. Consumer credit growth slowed since the EU referendum, reflecting increased economic and political uncertainty. Since the beginning of the pandemic, UK consumers reduced debt, as government restrictions reduced options for discretionary spending e.g. foreign travel and leisure. This is now starting to reverse as restrictions are lifted. So far in 2022, credit lending growth has returned to a positive number for the first time since 2019.

Consumer confidence[1]



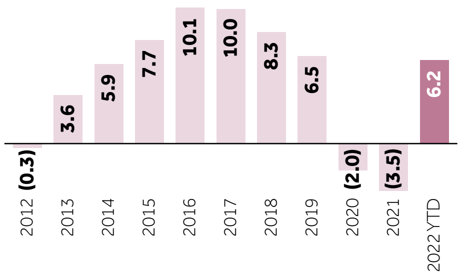
1. GfK UK Consumer Confidence average of individual scores for each year.

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.

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.

Our customer journey

The customer is at the heart of our Group journey

1 DESIGN & INSPIRE

Through our innovative in-house design teams and with our buying expertise we remain at the forefront of home furnishing trends with each of our brands offering a distinct curated range. We inspire consumers to consider a purchase through memorable advertising, inspirational web content and the use of augmented reality technology. Sustainability is a growing feature of our products. Our new Grand Designs ranges feature all elements made from recycled or recyclable materials.

2 INTEGRATED RETAIL MODEL

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

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 20% of all the furniture we sell.

4 CUTTING EDGE TECHNOLOGY

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

5 SERVICE

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

6 INNOVATIVE DELIVERY OPTIONS

The Sofa Delivery Company is our leading Group-wide supply chain platform. Through our own network of customer delivery centres and our own delivery fleet we carefully deliver our products to customers' homes and provide a comprehensive installation service.

7 SOFA COLLECTION & RECYCLING

Getting rid of an old sofa responsibly and conveniently is a real issue for customers. Unless old sofas are passed on to family, friends or charity, many go into landfill. Our experienced specialist partner Clearabee will collect customers old sofas and take them to the nearest recycling centre where it will be broken down to its component parts to reuse, recycle or create new energy.

Our business model

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 scales
We have a UK Group market share of c.36%[1], over three times that of our nearest competitor.

Complementary brands
Our complementary brands appeal to different customer segments.

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

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

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

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

1. GlobalData calendar 2021 estimate.

WHAT WE DO

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

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

Manufacture
We manufacture around 18% of the Group's sofa orders in our own British factories, resulting in shorter lead times, superior quality control and greater oversight on sustainability.

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

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

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
86.3%
DFS post purchase NPS

EMPLOYEES
32%
employees > five years' service

SUPPLIERS
36%
customer orders from British factories[2]

SHAREHOLDERS
£189m
cash distributed since flotation

COMMUNITY
£6.2m
raised since 2013 for BBC Children in Need through customer donations and fundraising initiatives

2. Includes third party manufacturing and internal manufacturing.

Our strategy

INTRODUCING OUR NEW STRATEGY

A new 'Pillars and platforms' strategy to lead furniture retailing in the digital age

Our strategy continued

Our strategy for growth

Our vision is to lead furniture retailing in the digital age.

Previous Strategy

01 DRIVE DFS CORE	02 BUILD THE PLATFORMS	03 UNLOCK NEW GROWTH
Omnichannel *Develop seamless customer journey across channels.*	**Cost efficiency & property cost reduction** *Reduce our relative cost base.*	**Sofology** *Develop a nationwide business.*
Product innovation *Enhance our unique and differentiated product offer.*	**Supply chain** *Best-in-market two person sofa delivery and installation.*	**Dwell** *Strengthen the brand through digital and right space.*
Customer proposition and service innovation *New services to engage customers.*	**Marketing investment** *Data and insight driven efficiency and effectiveness across the Group.*	**International: Netherlands** *Break-even and beyond on current model.*

We now believe that we have substantially achieved those previously established strategic goals, and at our Capital Markets Day back in March we announced our new vision, to lead furniture retailing in the digital age, which will be delivered by our new 'Pillars and Platforms' strategy.

Our ambition in delivering this strategy is to increase Group revenues to £1.4bn by FY26, and through the scale efficiencies of our platforms we aim to deliver a growth in PBT(A) profit margin[1] in the medium term to over 8%.

Over the past three years, our vision has been to lead sofa retailing in the digital age and our strategy has been to establish our new scale, following the continued gains in market share achieved over recent years. The strategy was centred upon three interrelated themes (Drive DFS Core, Build the Platforms, Unlock New Growth) to ultimately increase the scale of the business.

1. Refer to pages 34 to 37 for APM definitions.

New 'Pillars and Platforms' Strategy

GROUP STRATEGY

Pillars

dfs | sofology | HOME

Platforms

Sourcing & Manufacturing

Technology & Data

Logistics

People & Culture

ESG

Our strategy continued

Our new strategy is made up of the three pillars of our business: Our DFS brand, our Sofology brand, and our expansion into the Home market. The growth of our three pillars will be enabled by our group enabling platforms: Technology and data, Logistics, Sourcing and Manufacturing and People and Culture. The strategy reflects the Group's expertise, scale, assets and supporting infrastructure and the ability to use our enabling platforms to both improve the operational efficiency and the growth across our brand portfolio.

We are committed to building a sustainable business model, both in terms of our impact on the environment and preserving our long-term success as a Group.

See **pages 22 to 25** for more detail.

Pillars

DFS & Home

dfs HOME

Customer proposition and service innovation
New services to engage customers

Focus for 22/23
- Continued investment in new format stores
- Partnership with Wincanton for delivery of beds & mattresses

Product innovation
Enhance our range and unique product offer

Focus for 22/23
- Continued investment in new format stores
- Partnership with Wincanton for delivery of beds & mattresses

Integrated retail approach
Continued development of seamless multi channel customer journey

Focus for 22/23
- Continued investment in integrated customer journey
- Further website enhancement including rollout of Intelligent Lending Platform online

Sofology

sofology

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

Focus for 22/23
- Continue opening selected new showrooms in key locations on way to long-term 65-70 target

Product innovation
Strategic range development and innovation

Focus for 22/23
- Further development of strategic partnerships and range expansions (George Clarke)
- Continued expansion of Sustainable Edit collection

Integrated retail offer
Start and finish your relationship with us from home or in-store

Focus for 22/23
- Continued website development

Platforms

Group Enabling Platforms

Technology & data
Using data and technology to unlock growth in our brands

Focus for 22/23
- Development & enhancement of customer data platform to enhance cross-channel selling
- Rollout of data platforms across Sofology

Logistics
Best in market two person delivery and installation

Focus for 22/23
- Postcode integration to enable our vans to do multi-brand deliveries
- Rollout of driver training school

Sourcing and manufacturing
Investing in UK manufacturing

Focus for 22/23
- Refurbishment of our Doncaster manufacturing facility

People & culture
Delivering fundamental cultural change

Focus for 22/23
- Develop our Employee Value Proposition (EVP) ensuring our external perception is appealing and matches our internal reality

Our strategy continued

Retail

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

85%

of DFS customers visit a store before buying

Best New Formats
Post store refit,

58%

of consumers said store was better than the competition (pre-refit c.46%)

Best Retail Estate
More stores in more locations. Plus, if people visit our stores,

57%

more likely to purchase

Best Sales Teams
Nearly

9/10

people would recommend DFS having purchased within a DFS store

Sustainability

dfs

sofology

HOME

Read more about our Home Opportunity on **page 25**

Sourcing & Manufacturing platform

Technology & Data platform

Logistics platform

People & Culture platform

Sustainability

Digital

Best Online Brand Strength
'DFS' is searched for

2.3x

more than the term 'Sofas'

87%

of store customers research online before coming instore

Best Range
UK's largest sofa range, more bays & choice than any retailer,

3,600+

online SKUs. (Next biggest with 752)

Best enhanced technology
World's largest collection of AR-enhanced products within furniture category

Best Ecommerce Platform
Europe's first implementation of HCL Commerce v9

Growth Ambitions

Revenue Ambition
1.4bn

Sustainable profit margin
8%+

4 year cash generation
£280m

Strategy in action

01: LOGISTICS – THE SOFA DELIVERY COMPANY

Delivering 'moments that matter' for our customers

In June 2020 we launched The Sofa Delivery Company, which integrated our two delivery networks across DFS and Sofology. We focus here on our progress and our future plans as we continue to build our leading Group-wide supply chain and logistics platform.

Our aim is to offer our customers best in class customer service and a flexible working environment for our colleagues. Aided by technology we will drive operational and cost efficiencies through improved productivity and the enhanced optimisation of the network.

The Sofa Delivery Company operates from 30 Customer Delivery Centres (CDCs), and delivers for both DFS and Sofology. During the year, we increased our warehousing space by opening two new sites at Farnborough and Bristol to match our operational capability with the increased scale of the business during FY22. Our property strategy will continue to flex in line with forecasted volumes as we move to fewer but larger CDCs during the next 4 years.

The Group's size results in very high customer postcode densities around our CDCs giving the lowest variable delivery cost per mile in the UK furniture sector. We will further optimise these delivery routes in the first half of the 2023 financial year as we fully integrate our network. This will mean that all CDCs will be delivering mixed-loads on all vans for both Sofology and DFS customer orders.

At the heart of our delivery brand is the desire to do the best for our colleagues and customers. We operate a '4 days on, 4 days off' scheduling model, which provides our colleagues with an appealing work-life balance and is one of the many reasons why we are an attractive employer in the highly competitive logistics industry. This arrangement also enables the group to perform deliveries seven days a week all year round, allowing our customers greater choice, and increases our asset utilisation and capital efficiency by avoiding having vans idle on some days of the week.

In FY22, there was a UK industry-wide shortage of drivers and high inflationary pressure on driver wages leading to a very difficult recruiting and retention environment of skilled vehicle operators, particularly for our 7.5 tonne delivery vans. We reacted by raising pay and rewards to ensure that the Sofa Delivery Company maintained its upper quartile position in order to recruit and retain drivers for a challenging product category. We also developed The Sofa Delivery Company Driver School to train our own 7.5 tonne delivery drivers. This involves recruiting 3.5 tonne vehicle drivers and internal warehouse colleagues and taking through all the licence acquisition and customer service training to become one of our 7.5 tonne driver Installation Experts.

Our use of technology in the Sofa Delivery Company is helping us meet our environmental targets as well as improving operational efficiency. Our delivery planning and optimisation tool allows us to plan delivery routes within capacity to maximise the fleet, reduce the volume of vehicles on the road and reduce our use of third parties which has helped to reduce fuel consumption by more than 10%. As we visit customers' homes, our delivery service is also at the forefront of our waste and recycling efforts in relation to unwanted sofas and packaging materials.

Although we have faced significant operational challenges across the 2022 financial year, our delivery network has stayed resilient. We remain committed to our strategy to offer our retail brands, DFS and Sofology, an efficient delivery solution for the scale of our Group, whilst providing the best in class customer service, a safe and happy working environment for our colleagues and reducing our carbon footprint at the same time.

Strategy in action continued

02: TECHNOLOGY AND DATA

Using data to unlock new growth

In recent years, the group has invested heavily in its collection and use of data.

We believe that the more data we collect leads to better insights, better products & services and ultimately leads to greater market share. The ambition of our data platforms are to unlock new growth for our brands and to drive operational efficiencies in our cost base.

We have integrated 35+ data sources to provide a 360 degree view of the Group which we call our 'Integrated Retail Intelligence System' (IRIS). The benefits of IRIS are that it delivers a single, unified and trusted view of the organisation. Data is simplified and visualised across the purchase cycle in order to empower colleagues in the business to make faster and smarter decisions, ultimately to transform and grow the business. We have built applications which will drive business growth, and we focus here on some of these recently developed applications.

A key part of our customer offer is Interest Free credit (IFC). Previously, different lenders provided IFC and some customers would be declined credit on their first application, passing through up to three applications before credit was accepted. These were hard credit searches on the customer. This has now been completely changed via our Intelligent Lending Platform (ILP) application which went live this year. We are soft-searching customers in real time against a panel of lenders, maximising acceptance rates, and in the trial stores we saw an improvement in customer conversion of 0.6%pts as a result. We see a great opportunity to roll this out online where acceptance rates are lower than in our stores. ILP has also improved the customer experience by reducing the transaction time by 15 minutes, with an added benefit being that this also enables our store colleagues to serve more customers, which again helps to drive conversion during peak trading periods. Another benefit of ILP is that we no longer print and post finance documents, helping to reduce our carbon footprint.

Another key data application is our growth engine, which combines catchment area information, competitor datasets and a wide array of internal/external information to identify the opportunity in each location and how to best market in that locality. This helps to drive better, more efficient marketing spend. Between 2018 and 2021, sales increased by 31%, with marketing spend reducing by 25%. We have also shifted from 18% of our marketing spend being in digital channels to 39% and overall we have seen our return on investment from search marketing improve by 48% as we become more sophisticated in the use of our targeting data.

We also use significant amounts of customer data, similar to our growth engine, to produce our Insight-led product offer. Data insights are used to drive range selection and provide the optimum range assortment in store to maximise the profitability of our space. Connecting product growth spaces with priority customer segments help to drive the product strategy and grow market share, and as a consequence of this insight, two thirds of stores saw improved space productivity compared to 2 years ago.

Finally, our Customer Data Platform (CDP) brings together all of our data points across the customer cycle, including encatchment data, attitudinal behaviour datasets, products and purchase location data. The CDP is designed to target customers as efficiently as possible to drive sales across categories, maximising every customer opportunity that we can. We have already seen a benefit from personalised email and digital communications to new and existing customers, driving email revenue up 44% and we have seen an improvement in building sales across categories with a fourfold increase in Home product conversion following a sofa purchase.

Other applications which have been developed include Workforce Optimisation, which is used to predict footfall in stores and therefore improve peak-time customer conversion by ensuring we have sufficient teams in stores during peak trading times. Our group vehicle planning and optimisation tool, Apollo, has helped to reduce unplanned overtime and fuel consumption, reducing both operating costs and our environmental impact

Thanks to the relentless effort of our DFS Technology colleagues, these applications have helped to place the group ahead of the curve in its use of data particularly in our sector. We see further opportunities to further develop applications to support further growth and enhance the profitability of our business, particularly across operational planning and manufacturing capability.

Strategy in action continued

03: HOME

Expanding our home offering to drive growth

The vision of the group has changed from 'leading sofa retailing in the digital age' to 'leading furniture retailing in the digital age' and we see our expansion into the Home market as key to our strategy going forward.

Upholstered beds and mattresses in particular provide a sizable opportunity for the Group, with a core market size of £3bn per annum, and the Group's ambition to grow share of this attractive market to 4% in the medium term.

We see beds and mattresses as having significant market adjacency and attractiveness to the Group. We know that existing customers are twice as likely to consider us than those who haven't shopped with us before, therefore we see a big opportunity to cross-sell to customers to existing customers already purchasing from us, as well as the customers we have purchased from us in previous years.

We also have the ability to leverage our existing group platforms such as our exclusive brand partnerships which include Joules, Silentnight, French Connection and Eve. Furthermore, there are exciting new product developments including the new Grand designs beds range which has recently been launched. We already sell sofa ranges with these exclusive brands giving us a strong foothold into the beds market.

We can also utilise our existing customer delivery network and assets to consolidate beds & mattress deliveries from our large warehousing facilities in Milton Keynes. This will, amongst other things ensure a positive customer experience with mattresses and beds being delivered to the customer at the same time A third party, Wincanton who currently deliver Dwell products, will be used for all beds and mattress deliveries, with the Sofa Delivery Company continuing to specialise in upholstery deliveries.

Other Group platforms at our disposal include our existing sourcing and manufacturing capabilities, our web and logistics platforms, our marketing expertise as well as our Intelligent Lending Platform.

DFS is known nationwide as the leading sofa retailer, so key to our success in the beds & mattresses market will be to increase customer awareness. We have therefore been investing in 'above the line' marketing and in turn have released our first non-sofa TV advert earlier in the year.

We believe that our market adjacency, our opportunities with existing customers, our group enabling platforms, our marketing expertise, our exclusive brand partnerships and our unique customer proposition leave us well positioned to achieve our ambitions in this exciting and sizeable market.

Key performance indicators – financial

Gross Sales[1]

£1,474.6m

FY22	£1,474.6m
FY21[2]	£1,359.4m
FY20	£935.0m
FY19*	£1,287.2m
FY19**	£1,165.0m
FY18	£1,125.6m

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

Performance
Increase in sales underpinned by a strong order book entering into the year which was largely normalised by the end of the year, as well as double digit order intake growth across both brands. IN DFS this was driven by market share growth across the like-for-like estate whilst Sofology's growth has primarily been driven by new showroom openings.

Key

* 52 weeks pro-forma.
** 48 weeks.
‡ IFRS16.
† IAS17.

1. Refer to pages 34 to 37 for APM definitions.
2. Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

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

£60.3m

FY22	£60.3m
FY21[2]	£109.2m
FY20	£(63.1)m
FY19*	£50.2m
FY19**	£28.2m
FY18	£38.3m

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

Performance
Decrease driven by the £29m retail business rates relief received in the prior year as well as significant inflationary pressure across our final mile logistics. Following the strong gross sales growth of the Group over recent years, our supply chain network has been scaled up with increased fleet size, operating hours and warehouse footprints. In addition, industry-wide Covid disruption led to increased one-off operating costs, both within our final mile delivery network and also within our call-centre and in-home service teams to meet the demands of servicing a large order bank.

Underlying return on capital employed[1]

18.7%

FY22	18.7%
FY21[2]	38.7%
FY20	(12.7)%

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

Performance
Decrease driven by the lower underlying profit in the period and a lower level of capital employed.

Leverage[1]

1.1x

FY22	1.1x
FY21	0.2x
FY20	(17.0x)

Description
Underlying free cash flow to equity holders is the change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.

Performance
Reduction driven by our increased net debt position due to the normalisation of last year's transitory working capital benefits normalising as well as commencement of our special capital returns programme inclusive of a special dividend and our share buyback programme.

Underlying free cash flow to equity holders[1]

(£9.4m)

FY22	(£9.4m)
FY21	£141.7m
FY20	(£40.7m)

Description
Underlying free cash flow to equity holders is the change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.

Performance
Reduction driven by both the last year's transitory working capital benefits normalising as well as the lower relative profits in the period. Excluding the working capital movement, free cashflow was £35.9m (FY21:£51.6m).

FY18 and FY19 historical KPIs (pre implementation of IFRS16)

The Group implemented IFRS16 in FY20 and now discloses all financial data solely on an IFRS16 basis. Consequently cash flow, return on capital employed and gearing KPI metrics have been redefined with the two years of data presented below. Whilst not directly comparable the metrics as disclosed in the FY18 and FY19 annual reports are shown in a separate table below.

Free cash flow

FY19*	£92.6m
FY18	£60.4m

Gearing

FY19*	2.0x
FY18	2.1x

Lease adjusted ROCE

FY19*	16.6%
FY18	15.6%

In FY19 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 alternative performance measures for FY19 and FY18 were presented in the FY19 Annual Report.

* 52 weeks pro-forma.
** 48 weeks.
‡ IFRS16.
† IAS17.

Key performance indicators – non-financial

Net Promoter Score (%) – Post purchase customer satisfaction

86.3%

FY22	86.3%
FY21	86.4%
FY20	85.7%
FY19	84.2%

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

Performance
Small year on year decrease but very strong overall level.

Strategic Links

Net Promoter Score (%) – Established customer satisfaction

11.7%

FY22	11.7%
FY21	30.7%
FY20	42.9%
FY19	33.0%

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

Performance
Impact of delivery delays caused by disruption to shipping, reduced HGV reliability and extended manufacturing lead times as a result of Covid-19 and raw material supply.

Strategic Links

Suppliers – Average days to pay

35.8 days

FY22	35.8
FY21	30.6
FY20	27.7

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

Performance
Impact of overall improved payment terms.

Strategic Links

Suppliers – % paid on time

72.0%

FY22	72.0%
FY21	71.8%
FY20	59.0%

Description
Percentage of supplier invoices paid within agreed terms.

Performance
Improvement from FY20 driven by operational efficiency in transactional teams.

Strategic Links

Sofology UK stores

54

FY22	54
FY21	50
FY20	45
FY19	42

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

Performance
Net 5 additional stores opened in FY22 (Opened; Bristol, Orpington, Glasgow, Poole, Ipswich, New Malden and Birmingham. Closed; Crewe and Lincoln).

Strategic Links

Key to Strategic Links

- Sourcing & Manufacturing
- Technology & Data
- Logistics
- People & Culture

Financial review

The Group has a long track-record of sustained performance in varying market environments, and historically has strengthened its market position in challenging environments. While near-term performance will inevitably be impacted by the current macroeconomic context, as the economy stabilises, any market share gains achieved should drive incremental shareholder value.

Overview

The operating environment during FY22 was exceptionally challenging, with a significant number of anomalous and hard to predict factors including (i) volatile consumer demand trends, (ii) significant levels of Covid-linked operating disruption and (iii) the impact of significant inflation.

In considering the consumer demand volatility over the financial year, it is important to first recognise that the Group saw overall positive order intake volume growth relative to pre-pandemic levels despite significant price inflation during the year. There were however also four distinct quarters of fluctuating demand. We entered the financial year with a large order book that was augmented by a strong first quarter of double-digit percentage order intake volume growth relative to pre-pandemic comparator years. This period was then followed by a weak second quarter of order intake, which was likely driven by the forced extension of lead times. Our third quarter once again saw double-digit percentage volume growth, despite double-digit percentage price increases. The final quarter however was again weak across the market as consumer fears around cost of living increases took hold. Therefore, while the overall impact of higher demand leading to higher delivered revenues is positive, the challenges of demand forecasting in this volatile environment increased the difficulty of efficient operational resource planning, supplier management and financial forecasting across the period.

IN BRIEF

- Trading environment was highly challenging with demand fluctuations, operating disruption and significant cost inflation
- Reported profit before tax from continuing operations of £58.5m (FY21: £102.6m)
- Underlying profit before tax and brand amortisation[1] from continuing operations was however up 14.6% versus pre-pandemic comparator* to £60.3m, benefiting from positive order intake trends overall and a significant opening order book
- Continued focus on long-term development and execution of strategic plan, with £47.4m of capital investment and £5.0m of in-year IT development opex spend
- Robust financial position, allowing over £75m return of capital to be delivered in the 2022 calendar year, with FY22 closing leverage[1] of 1.1x
- While the macroeconomic outlook is uncertain, the Group is well positioned to perform resiliently and gain market share that will underpin long-term value creation

MIKE SCHMIDT
Chief Financial Officer

→ Bio on **page 77**

Financial review continued

Operating disruption was also a constant challenge throughout the year. In the first half we experienced unprecedented logistics challenges. There was significant disruption to our inbound flow of goods as a result of port closures and shipping challenges, as well as our manufacturers and logistics being impacted by high levels of Covid-related absences and skills shortages. In the second half we saw continued elevated absence and also the impact on raw materials availability and finished goods flow as a result of Russia's invasion of Ukraine. In dealing with these challenges we sought to stay committed to our first value of "Think Customer" – accepting that this approach may carry significant additional short-term cost, but that in the long-term it should reward us in reputational protection and market share gain. We implemented a number of measures in response including taking on additional warehousing space and increased resourcing in our delivery and warehousing network, but also taking on additional customer service team members to seek to manage unprecedented levels of inbound customer contacts. The impact of these mitigating actions is visible in the growth of our operating cost base described below, and has limited the profit benefit from the additional revenues delivered in this financial year.

As with almost all retailers, inflationary effects in both finished goods and operating costs were a constant pressure throughout the year under review. Our normal operating practice would be to seek to drive operating efficiency to limit changes in pricing of our range architecture. Given the size of the inflationary pressures and Covid disruption linked inefficiency that we faced, we have had to raise selling prices to mitigate impacts on our profit per customer transaction. We have however consciously sought to protect market share as we have moved prices, recognising also there will be a future opportunity to normalise our cost base as the environment stabilises.

Overall, in FY22 the Group has faced into one of the most challenging operating environments in its history whilst growing revenues, profits and market share over its pre-pandemic comparator*. Our underlying profit before tax and brand amortisation[1] for the full year was £60.3m which was below our internal targets for the year but still represents a significant 14.6% growth on pre-pandemic periods from continuing operations (excluding Sofa Workshop). I would like to take this opportunity to thank all of our colleagues for their hard work, dedication and perseverance in helping us to achieve this outturn.

Basis of Preparation

Having reviewed the performance of our International operations in the Netherlands and Spain and assessed the relative financial returns and execution risks of overturning their loss-making position, the Board concluded that the Group's capital and resources were better focused on the UK and ROI markets. With due consideration for all stakeholders, including consultation with impacted colleagues, the decision was taken to close these operations. The Group's expansion into mainland Europe had represented a specific major component of the Group's growth strategy and had demanded distinct products, supply chain, retail and operational management structures to those of the existing UK and ROI operations. While the revenues ultimately achieved in these territories were modest compared with growth in the rest of the Group, the withdrawal from the entirety of the Group's operations in mainland Europe is nonetheless a substantial change in strategic focus and structure of the DFS brand business.

Having considered these factors, we have concluded that the International operations represent a major geographical area and it is appropriate to present them as discontinued operations. This means that their revenues and costs are not presented as separate line items in the consolidated income statement, instead being replaced by a single post-tax line item. The financial statements for the FY21 comparative period have been re-stated to be on a consistent basis as required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Following the implementation of our Group-wide supply chain platform, The Sofa Delivery Company, from the start of FY22 the revenue and costs of our supply chain network and manufacturing operations are no longer included within reported retail brand segments. This changed basis of preparation limits comparisons of segment performance across the financial period other than for external revenues and gross sales[1].

Our FY21 comparator period was significantly impacted by Covid restrictions. We experienced elevated levels of pent-up customer demand during the year following an increase in consumer spending in home categories reflecting both the growth in remote working and also reduced leisure and travel spend. In addition to this, our showrooms were closed for up to 21 weeks during that year as a result of government lockdowns. We have therefore also included unaudited pro-forma results for the 52 weeks ended 30 June 2019 (pro-forma FY19)* below to provide additional comparison with a non Covid-disrupted trading period. The year-on-year commentary covering gross sales[1], revenue, gross margin and brand contribution[1] that follows focuses on comparing the results for this financial year to the pro-forma FY19 period*.

1. Refer to pages 34 to 37 for further details on alternative performance measures.
* pro-forma (unaudited) 52 week period ended 30 June 2019 prepared on an IAS17 basis.
** As previously published, in 2019 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. Refer to pages 33 to 37 for further details on alternative performance measures, and to the FY19 financial statements for the reconciliation from the reported 48 week results to the pro-forma 52 weeks.

Financial review continued

Revenue and gross sales[1]

	Gross sales[1] (£m)			Growth vs. FY19* (%)	
	FY22	FY21	FY19*	**FY22**	FY21
DFS (inc Dwell)	**1,169.1**	1,083.9	979.1	**19.5%**	10.7%
Sofology	**304.9**	269.2	260.7	**17.0%**	3.3%
Other	**0.6**	–	–	**–**	–
Sub-total	**1,474.6**	1,353.1	1,239.8	**18.9%**	9.1%
Sofa Workshop	**–**	6.3	34.4	**–**	–
Total	**1,474.6**	1,359.4	1,274.2	**15.7%**	6.7%

* FY19 is unaudited 52 week pro-forma period ended 30 June 2019, adjusted to exclude £13.0m of gross sales relating to discontinued operations in Netherlands and Spain

Gross sales[1] from continuing operations (excluding Sofa Workshop) increased by 18.9% to £1,474.6m compared to the pro-forma FY19[1] period. The increase in revenues reflected a combination of growth in delivery volumes (13.9%) and average transaction value (5.0%).

This growth in delivered revenues for both DFS and Sofology was underpinned by a strong opening order book entering the year, which was largely normalised across the year, however it was also supported by underlying double-digit order intake growth in both brands. In DFS this was driven by market share gain driving a strong like-for-like estate performance while Sofology's growth has primarily been driven by new showroom openings.

Our delivered gross sales[1] and revenues were impacted particularly in the first half of the year by significant industry-wide operational and supply chain challenges including port closures, shipping challenges, Covid-related absences and skills shortages across the logistics sector. The Group responded to these challenges, as described above, and as a result the value of gross sales[1] increased by 7% in H2 relative to H1 as a consequence of increased delivery volumes.

Revenue from continuing operations, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products, increased year-on-year by 20.1% (excluding Sofa Workshop), a slightly higher rate than gross sales, driven by a higher proportion of cash purchases resulting in lower interest free credit costs.

Gross profit

	£m	Percentage of Revenues (%)
FY21 Gross profit[2]	**597.1**	**56.3**
Excluding Sofa Workshop	(3.8)	(0.1)
Sub-total	**593.3**	**56.2**
Volumes/Manufacturing	14.3	(0.4)
Inflationary costs & mix	7.9	(2.3)
Foreign exchange	4.1	0.4
Disruption and customer costs	(13.7)	(1.2)
FY22 Gross profit	**605.9**	**52.7**

2. Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5

Gross profit increased by 2.1% to £605.9m compared to FY21 (excluding Sofa Workshop), however decreased as a percentage of revenue from 56.2% in FY21 (excluding Sofa Workshop) to 52.7%.

According to the ONS, the UK Furniture sector has seen inflationary cost impacts from finished goods and raw materials price increases of over 18% relative to FY19 levels. Seeking to mitigate the impact of this inflation on our customers, we have typically sought to pass the actual cost rises that we have experienced through on a pound-for-pound basis, which has resulted in our cash margin growing by 1.3%, but our percentage margin being diluted by 2.3%pts.

We continue to manage the risk from adverse US dollar exchange rate movements by hedging our forward US dollar purchases. Our rate for FY22 was three cents higher (favourable) than the rates secured for FY21 and FY23 is broadly similar to FY22. Each one cent movement in the dollar to sterling exchange rate impacts profits by approximately £1.0m, before mitigation.

In addition to this, our gross profit has been impacted by the end-to-end costs of operating in the current post-Covid environment. Particularly in the first half of the year we saw one-off logistics disruption costs, including significant increases in our inbound shipping and haulage costs caused by high demand in logistics markets. In order to create additional working space within our warehouse network, we accelerated the clearance of ex-display and customer returned finished goods stock, thereby realising a lower margin than we would otherwise typically expect. Finally, in managing the impact of longer, less predictable delivery lead times we saw increased costs from customer allowances and customer returns provisioning.

As we look forward, we believe that the incremental costs of the post-Covid environment are moderating, and while there may be some lingering effects in some cost categories, we expect to see year-on-year reductions of the level of disruption in FY23 and beyond. As an example of this for every $1,000 reduction in the cost of shipping a forty-foot container from the Far East in calendar year 2023 relative to 2022, we would expect our inbound logistics costs to decline by circa £9m in both FY23 and FY24.

1. Refer to pages 34 to 37 for definitions of APMs.

Financial review continued

Other operating costs

	Operating costs (£m)			FY22 Cost growth	
	FY22	FY21	FY19[1]	**FY21**	FY19
Selling & distribution	**338.4**	295.5	298.6	**14.5%**	13.3%
Administrative expenses	**62.0**	74.8	59.7	**(17.1%)**	3.9%
Underlying costs[2]	**400.4**	370.3	358.3	**8.0%**	11.7%
Property costs	**29.6**	2.0	103.6	**(1,480.0%)**	(71.4%)
Sofa Workshop	**–**	0.8	14.9	**–**	–
Other non-underlying	**0.4**	2.1	5.1	**–**	–
Total (as reported)	**430.4**	375.2	481.9	**14.7%**	(10.7%)

1. FY19 unaudited 52 week pro-forma period ending 30 June 2019, excluding £7.6m of costs from Discontinued operations.
2. Underlying operating costs have been stated before Sofa Workshop which was sold in the previous financial year, and property costs due to the retail business rates relief in FY21 and the impact of IFRS 16 from FY20 onwards.

Underlying[1] operating costs have increased by 8.0% to £400.4m compared to FY21, and by 11.7% compared to the pro-forma FY19 period1. Total operating costs of £430.4m were £55.2m (14.7%) higher than FY21.

In particular, the Group saw inflationary pressure across final mile logistics resulting in cost increases of £2.0m compared to FY21. Following the significant gross sales[1] growth of the Group over recent years from showroom openings and market share gains, we have also scaled our supply chain network with increased operating hours, warehouse footprints and fleet size to increase ongoing delivery capacity, leading to a further increase in costs of £5.5m. Finally, the industry-wide Covid disruption seen across the period has resulted in approximately £14.9m of inefficiency and increased one-off operating costs, with increased colleague absence levels, and reduced trunking predictability, in addition to a need to temporarily increase substantially the size of our call centre and in-home service teams to meet the demands of serving a much larger order bank. We believe that there is a significant FY23 opportunity and normalisation in these costs that will be realised through our routine operational execution.

1. Refer to pages 34 to 37 for definitions of APM.

Wages costs across the Group were also impacted by inflationary pressures, with £7.6m of wage inflation across the year. Our blended increase from our scheduled annual salary review conducted in April 2022 was 3.3%, with the majority of the £4.2m full-year costs of that increase to be realised in FY23. While the significant majority of our colleagues are paid significantly above minimum wage levels, we continue to monitor the impact of wage inflation on our business and given the diversity of roles within our workforce, we expect that our average pay increases will be in line with UK-wide trends. To mitigate these effects, we are taking opportunities to leverage our Group platforms, and improve our process efficiency, and we believe that we can access savings of over £10m by FY26.

Under IFRS 16, property costs in the income statement include only business rates and a very small amount of rental charges relating to leases outside the scope of IFRS 16. Property costs increased by £27.6m year-on-year primarily due to the UK retail business rates relief in the prior year of around £29m which applied to the majority of our showroom estate.

There were further cost reductions across administrative expenses of circa £2.0m, with the prior year comparator including an above-target bonus payment. Administrative expenses increased by £2.3m in comparison to FY19, largely reflecting the increased size and scale of our business offset by group operating efficiencies being realised. In particular we have continued our focus on digital development, spending a combined £17.2m of operating expenditure and capital expenditure across the financial year – levels that most specialist sector competitors are not able to match.

Non-underlying[1] costs for continuing operations of £0.4m were recognised in FY22 comprising £0.9m in relation to the reorganisation of our operating structures to execute the strategic plan offset by £0.5m of provision releases relating to previous non-underlying charges. Non-underlying costs in FY21 totalled £5.2m in relation to the loss on disposal of Sofa Workshop and costs associated with the refinancing of the Group's Revolving Credit Facility (RCF).

Depreciation, amortisation and interest

Depreciation and amortisation charges increased by £4.6m year-on-year to £88.2m. This modest increase versus the prior year was in line with the related asset base, with Sofology opening seven new showrooms in the year.

Underlying interest charges of £28.8m were £3.8m lower year-on-year due to lower IFRS 16 interest charges. Total interest was £6.9m lower year-on-year with £3.1m of non-underlying refinancing costs incurred in FY21.

Profit before tax (PBT)

Underlying PBT from continuing operations excluding brand amortisation[1] of £60.3m compares to £109.2m in the prior year and £52.6m in the pro-forma FY19 period[1].

Reported PBT from continuing operations of £58.5m was £44.1m lower than FY21, and £12.5m higher than the pro-forma FY19 period[1].

Tax

The reported effective tax rate for FY22 is 29.9%. This is higher than the applicable UK Corporation Tax rate of 19.0% and is primarily due to disallowable depreciation on non-qualifying assets, the effect of overseas branch exemptions and the differential in tax rates between current taxes (19%) and deferred taxes (25%). An estimated claim for the benefit of the increased capital allowances super deduction has also been included for relevant expenditure incurred and contracted on or after 1 April 2021; excluding this benefit the effective rate would have been 1% higher.

The Group operates a tax strategy that seeks to protect our low risk tax profile in the UK by complying with all applicable tax rules and regulations. We will not take positions on tax matters that may create reputational risk or jeopardise our good standing with taxing authorities, however we are prepared to defend our position where we disagree with a ruling or decision of a tax authority, in order to protect our ongoing business. During the course of the year we successfully appealed an HMRC assessment at First Tier Tribunal relating to our VAT partial exemption calculation. This has the effect of preserving our previous treatment of digital advertising costs on an ongoing basis.

Discontinued operations

Results for discontinued operations, being the DFS businesses in the Netherlands and Spain, comprise a £1.5m trading loss on revenue of £9.0m and non-underlying charges of £11.3m. The non-underlying charges relate to employee compensation and other closure costs (£5.3m); impairment charges of right-of-use assets (£3.1m); write down of other assets (£1.4m) and intangible assets (£1.5m). Further details of the results of discontinued operations are presented in Note 28 to the financial statements.

Earnings per share

Basic earnings per share from continuing operations for the Group was 17.3 pence based on a weighted average number of shares in issue for the year of 254.7m (FY21: 35.8 pence per share; 257.1m shares).

Financial review continued

Capital Expenditure, Cashflow and Balance Sheet

Cash Generation (£m)	FY22	FY21
Operating profit from continuing operations	**87.3**	138.3
Operating loss from discontinued operations	**(13.4)**	(3.1)
Depreciation, amortisation, impairment and disposal gains	**94.7**	83.4
Working capital (outflow)/inflow	**(28.8)**	87.1
Share-based (settlements)/payments	**(0.1)**	1.5
Tax paid	**(6.8)**	(8.2)
Net cash generated from operating activities	**132.9**	299.0
Capex: Net cash used in investing activities	**(45.6)**	(47.4)
Net interest paid	**(3.8)**	(6.1)
Interest on lease liabilities	**(25.0)**	(26.7)
Repayment of lease liabilities	**(63.5)**	(77.1)
Post-tax free cash flow	**(5.0)**	141.7
Free cashflow excluding operating loss from discontinued operations and working capital (outflow)/inflow above	*37.2*	*57.7*

The Group is financially strong with a historical record of strong cash generation underpinned by our negative working capital model. During the financial year, our lead time and weekly delivery value linked to customer deposits and trade payables have largely normalised from pandemic-related effects and this has led to a reported £28.8m working capital cash outflow in the period. We view this normalisation as directly-linked to the post-pandemic trading period and hence exclude it from our internal assessment of underlying cashflow from the business. We still anticipate a limited further outflow of £15.0m from trade payables and payments on account as lead times normalise. The operating loss from discontinued operations in the period comprises £0.7m of cash charges and also £12.7m of non-cash charges that are balanced by increased reported depreciation and working capital.

Excluding the working capital flows and the impact of discontinued operations, free cashflow after tax[1] was £37.2m (FY21: £51.6m) reflecting the lower relative profits in the period, but once again generating excess cash flow above our ordinary dividend payments.

We consistently re-invest in our operations to maintain an appropriate operating standard and avoid an investment debt forming that may damage financial performance in later years. The most significant elements of this are in our vehicle fleet supporting customer deliveries and service, and our real estate. We also make continued significant digital re-investment to keep our online functionality current for latest generation technology and enhance the Group's data/systems security.

Capital Expenditure Breakdown (£m)	FY22	FY21
Retail estate	**25.2**	29.8
Logistics and manufacturing tangible assets	**9.6**	3.9
Digital investment	**12.2**	11.1
Other (including proceeds from sale of property, plant and equipment)	**(1.4)**	2.6
Total Investment	**45.6**	47.4
Percentage split of investments (including fleet leases) between:		
Maintenance	**45.8%**	43.9%
Growth	**54.2%**	56.1%

1. Refer to pages 34 to 37 for definitions of APM.

We consider each of the growth investments that we make in the Group using a value-creation framework that considers the lease adjusted return on capital employed and payback period of each growth investment. Our significant growth investments are commonly either in our retail estate, or in our digital capabilities and where possible we will seek to pilot investment initiatives to measure and test returns performance before committing significant capital. During the financial year, we opened seven Sofology showrooms and one DFS brand showroom, made good progress on finishing the transformation of our final mile logistics network and continued our investment in our data and digital capabilities. Overall net spend in FY22 was £45.6m, similar to FY21 spend of £47.4m, as we continue to invest strongly in the growth of our operations. We expect FY23 spending to be at similar levels, reflecting the intention to refurbish at least 16 DFS showrooms, including a mezzanine trial, which we expect to drive incremental like-for-like order intake growth and also at least two new Sofology showrooms. Should the trading environment deteriorate further, we may choose to slow some of this investment to protect our cash generation.

The Group's return on capital employed (ROCE[1]) for the period was 18.7%, which grew by 2.1%pts relative to pro-forma FY19[1] performance (calculated on a lease adjusted basis from IAS 17 prepared financials). This reflects the higher profitability of the business partly offset by a larger asset base employed to support our currently larger scale of business. We expect that this return should grow over time as we extract efficiencies in capital employed in our logistics estate and drive profitability in a more normal macroeconomic environment.

Our net bank debt[1] position in FY22 increased by £71.0m to £90.0m. This was due to a number of factors including in particular last year's transitory working capital benefits normalising, and the commencement of our special capital return programme inclusive of a special dividend and our share buyback programme. Our Group leverage[1] ratio is 1.1x, which is slightly above the upper end of our 0.5x-1.0x target leverage range set out in our published Capital Allocation and Distribution policy. While we would generally target operating at the mid-point of this range, the profit impact of the fourth quarter of trading has reduced our earnings and increased our leverage ratios.

In December 2021, the Group extended its RCF with its existing syndicate of seven banks all continuing their involvement at existing levels. In September 2021. We were also pleased to incorporate into the RCF documentation an interest rate linked to the achievement of sustainability-related targets covering sustainable sourcing practices for wood and leather, greenhouse gas emissions and diversity in our workforce, which aligns our financing with our ESG ambitions. In FY22, we have met all of the in scope targets, with third party assurance provided by DNV, a sustainability assurance specialist. Our £215.0m banking facility covenants remain consistent with our facility pre Covid-19 at 3.0x maximum net debt/EBITDA and minimum 1.5x fixed charge cover, both measured on an IAS 17 basis.

Capital allocation, share buy back and dividends

In March 2022 we announced an interim dividend of 3.7p totalling £9.4m, a special dividend of 10.0p totalling £25.4m and a share buyback programme of £25m. In May 2022 both the interim and special dividend payments totalling £34.8m were paid, and as of 12 September 2022, we are 85.5% of the way through our £25m share buyback. Through to 12 September 2022, the Group has invested £21.4m in share buybacks at an average price paid per share of £1.44, purchasing 15.1m shares. This reduces the number of shares in issue by 5.8%, leading to earnings per share accretion of a similar percentage. Returns from the buyback are expected to be ahead of our internal hurdle rates. Based upon our full-year underlying profit after tax from continuing operations of £44.6m, the post-tax return on investment on these buybacks to date is 11.9%, and based upon reasonable medium-term projections, we estimate an internal rate of return for this programme of over 30%.

Financial review continued

As set out in our published Capital Allocation and Distribution Policy, the Board and senior management adopts a rigorous approach to the Group's capital allocation decisions. While maintaining our resilient, but efficient capital structure, we will invest in our business where we expect to generate a return in excess of our internal cost of capital.

Within our approach, we consider share buybacks alongside other forms of capital investment, and shareholder returns. Reflecting upon the strong returns from share buybacks, and a trailing 8.4% ordinary or 15.9% total dividend yield based upon last 12 months of dividend payments to June 2022 and a 9 September 2022 closing share price of £1.33, the Board believes that it is appropriate to reconsider the allocation approach for capital distribution to shareholders. Instead of following our usual approach to either hold or grow our ordinary dividend payment year-on-year (always subject to the position of and prospects for the business), we instead intend to reallocate £10m that would otherwise have been distributed through a flat ordinary dividend and reallocate that to a further tranche of buyback, to be carried out over the the next three to six months subject to shareholder authorisations. The Board therefore proposes to pay a final dividend for FY22 of 3.7 pence per share (FY21: 7.5 pence per share), alongside extending the currently ongoing £25m share buyback by a further £10m. This will still position our trailing dividend yield at 5.6%, while taking advantage of the significant returns implied by a share buyback.

In making this decision, the Board remains aware of the value that shareholders place upon dividends and a consistent and predictable policy. As stated in our published Capital and Distribution policy, subject always to outlook and the investment needs for the Group, we would intend to make ordinary dividend payments at a payout ratio between 40% and 50% of annual underlying cash generation and remaining within a 0.5x-1.0x leverage range, moving away from this approach only in exceptional circumstances and where we have an expectation to return to this range within the two subsequent financial years.

Recognising the more uncertain environment that we are entering, it is also worth emphasising that the Board intends that future dividend payments will only be made from our underlying cash generation over the prior 12 months.

Once the final dividend is paid and the share buyback is completed we therefore anticipate that we will have returned over £75m of excess capital to shareholders in calendar year 2022, reflecting the strong deleveraging and underlying cash generation since the pandemic period.

Looking Forward

As indicated in our June pre-close statement, the UK furniture market saw a reduction in demand in the fourth quarter of FY22, and the Group saw a similar step-change reduction in order volumes, but offset by our sustained gains in market share. Subsequently, in FY23 we have seen like-for-like market gains retained but we have evidence that whole-market demand remains well-beneath FY19 pre-pandemic comparators.

It remains difficult for us to predict consumer behaviour over the next twelve months, particularly in the current highly inflationary environment for essential expenditures. As outlined in the CEO's report we are therefore planning for a range of financial and operating scenarios, while preserving essential investment in our customer proposition and digital development. We are targeting cost opportunities on property, supply chain and administrative activities, created by the scale benefits of ongoing DFS and Sofology brand alignments and volume growth relative to pre-pandemic levels. Furthermore we have been reassured to date by consumers' relative tolerance of any necessary price increases to offset inflation. These factors, together with the over £30m elevated order bank entering the financial year, will provide some insulation to our short-term profits expectations.

The Group has a long track record of sustained performance in varying market environments, and historically has strengthened its upholstery segment share in challenging environments. While near-term performance will inevitably be impacted by the current macroeconomic context, as the economy stabilises, any market share gains achieved should drive incremental shareholder value.

Looking beyond FY23, we therefore maintain long-term ambitions in line with those previously shared in our trading results statements and at our Capital Markets Day. We will seek to drive above market rate revenue growth from market share gains, new store openings and growth in the 'Home' category – targeting £1.4bn of revenues by FY26. We expect our underlying profit before tax margin to grow over time to 8% and beyond, underpinned by our Platforms strategy. Achieving those two aims, combined with continuing our disciplined approach to capital investment should drive a ROCE at high-teens levels and lead to strong cash generation that can be deployed to enhance value for shareholders.

MIKE SCHMIDT
Chief Financial Officer
15 September 2022

Alternative performance measures

In reporting the Group's financial performance, the Directors make use of a number of alternative performance measures ('APMs') in addition to those defined or specified under UK-adopted International Financial Reporting Standards ('IFRS'). APMs are not IFRS measures, nor are they intended to be a substitute for IFRS measures.

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

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. Reconciliations relating to the unaudited pro-forma FY19 period (52 weeks ended 30 June 2019) were set out in the FY20 and FY19 annual reports.

Definitions of APMs may vary from business to business and accordingly the Group's APMs may not be directly comparable to similar APMs reported by other entities.

APM	Definition	Rationale
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. See note 2 for further details.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA	Earnings before interest, taxation, depreciation and amortisation.	A commonly used profit measure.
Non-underlying items	Items that are material in size, unusual or non-recurring in nature which the Directors believe are not indicative of the Group's underlying performance. See note 1.5 and note 3 for further details.	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA	Earnings before interest, taxation, depreciation and amortisation from continuing operations, as adjusted for non-underlying items.	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation PBT(A)	Profit before tax from continuing operations adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology and Dwell.	Profit measure widely used by investors and analysts.
Underlying earnings per share	Post-tax earnings per share from continuing operations as adjusted for non-underlying items. See note 7 for further details.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
Net bank debt	Balance drawn down on interest bearing loans, with unamortised issue costs added back, less cash and cash equivalents (including bank overdrafts).	Measure of the Group's cash indebtedness which supports assessment of available liquidity and cash flow generation in the reporting period.
Cash EBITDA	Net cash from operating activities before tax less movements on working capital and provisions balances and payments made under lease obligations.	Measure of the operating cash generation of the business, normalised to reflect timing differences in working capital movements.
Leverage (or gearing)	The ratio of period end net bank debt to cash EBITDA for the previous twelve months.	Key measure which indicates the relative level of borrowing to operating cash generation, widely used by investors and analysts.
Underlying return on capital employed (underlying ROCE)	Underlying post tax operating profit from continuing activities, expressed as a percentage of the sum of: property, plant & equipment, computer software, right of use assets and working capital.	Represents the post-tax return the Group achieves on the investment it has made in its business.
Underlying free cash flow to equity holders	The change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.	Measure of the underlying cash return generated for shareholders in the period and a key financial target for Executive Director remuneration.

Alternative performance measures continued

Key performance indicators

Reconciliations to IFRS measures

EBITDA	Note	FY22 £m	FY21 £m
Operating profit from continuing operations	2	**87.3**	138.3
Depreciation	3	**77.7**	75.7
Amortisation	3	**10.5**	7.9
EBITDA from continuing operations		**175.5**	221.9

Underlying EBITDA	Note	FY22 £m	FY21 £m
EBITDA from continuing operations		**175.5**	221.9
Non-underlying operating items	3	**0.4**	2.1
Underlying EBITDA from continuing operations		**175.9**	224.0

Underlying profit before tax and brand amortisation – PBT(A)	Note	FY22 £m	FY21 £m
Profit/(loss) before tax from continuing operations	2	**58.5**	102.6
Non-underlying items	3,5	**0.4**	5.2
Amortisation of brand names	10	**1.4**	1.4
Underlying (loss)/profit before tax and brand amortisation		**60.3**	109.2

Net bank debt	Note	FY22 £m	FY21 £m
Interest bearing loans and borrowings		**93.5**	23.1
Unamortised issue costs	18	**1.5**	1.9
Cash and cash equivalents (Including bank overdraft)		**(5.0)**	(6.0)
Net bank debt		**90.0**	19.0

Movement in net bank debt	FY22 £m	FY21 £m
Closing net bank debt	**(90.0)**	(19.0)
Less: Opening net bank debt	**19.0**	157.7
Movement in net bank debt	**(71.0)**	138.7

Leverage	FY22 £m	FY21 £m
Net bank debt (A)	**90.0**	19.0
Net cash from operating activities before tax	**139.7**	307.2
less		
Movement in trade and other receivables	**7.2**	(4.6)
Movement in inventories	**3.3**	2.2
Movement in trade and other payables	**16.6**	(81.4)
Movement in provisions	**1.7**	(3.3)
Payment of interest on lease liabilities	**(25.0)**	(26.7)
Payment of lease liabilities	**(63.5)**	(77.1)
Cash EBITDA (B)	**80.0**	116.3
Leverage (A/B)	**1.1x**	0.2x

Alternative performance measures continued

Underlying return on capital employed from continuing operations	Note	FY22 £m	FY21 £m
Operating profit from continuing operations		**87.3**	138.3
Non-underlying operating items		**0.4**	5.2
Pre-tax return		**87.7**	143.5
Effective tax rate		**24.3%**	11%
Tax adjusted return (A)		**66.4**	127.7
Property, plant and equipment	8	**105.9**	91.6
ROU assets	9	**338.0**	345.1
Computer software	10	**17.7**	16.4
		461.6	453.1
Inventories	14	**64.4**	61.1
Trade receivables	15	**12.6**	9.3
Prepayments	15	**11.4**	7.2
Accrued income	15	**0.3**	0.4
Other receivables	15	**–**	0.2
Payments received on account	16	**(72.2)**	(117.7)
Trade payables	16	**(122.5)**	(83.9)
Working capital		**(106.0)**	(123.4)
Total capital employed (B)		**355.6**	329.7
Underlying ROCE (A/B)		**18.7%**	38.7%

Underlying free cash flow to equity holders	Note	FY22 £m	FY21 £m
Movement in net bank debt		**(71.0)**	138.7
Dividends	21	**53.8**	–
Proceeds on issue of shares	22	**–**	(0.3)
Purchase of own shares		**8.1**	0.3
Proceeds from sale of own shares		**(0.4)**	(1.1)
Purchase of treasury shares		**4.4**	–
Non-underlying cash items disclosed in cash flow statement		**–**	4.1
Underlying free cash flow to equity holders		**(5.1)**	141.7

Alternative performance measures continued

Unaudited pro-forma 52 weeks ended 30 June 2019 – IAS 17	DFS £m	Sofology £m	Sofa Workshop £m	Total £m	Discontinued operations £m	Total from continuing operations £m
Gross sales	**992.1**	**260.7**	**34.4**	**1,287.2**	**(13.0)**	**1,274.2**
Revenue	**762.6**	**205.9**	**27.7**	**996.2**	**(11.1)**	**985.1**
Cost of Sales	(306.6)	(101.5)	(13.5)	(421.6)	5.0	(416.6)
Gross Profit	**456.0**	**104.4**	**14.2**	**574.6**	**(6.1)**	**568.5**
Selling & Distribution costs	(248.3)	(56.7)	(9.4)	(314.4)	6.4	(308.0)
Brand Contribution	**207.7**	**47.7**	**4.8**	**260.2**	**0.3**	**260.5**
Property costs				(107.5)	1.1	(106.4)
Administrative expenses				(62.5)	0.1	(62.4)
Underlying EBITDA				**90.2**	**1.5**	**91.7**
Depreciation, amortisation and impairments excluding brand amortisation				(29.3)	0.9	(28.4)
Underlying operating profit				**60.9**	**2.4**	**63.3**
Interest				(10.7)	–	(10.7)
Underlying PBT pre brand amortisation				**50.2**	**2.4**	**52.6**
Brand Amortisation				(1.5)	–	(1.5)
Underlying PBT				**48.7**	**2.4**	**51.1**
Underlying items				(5.1)	–	(5.1)
PBT				**43.6**	**2.4**	**46.0**
Basic underlying EPS				**18.4p**	**0.9p**	**19.3p**

Risks and uncertainties

The Group faces a number of risks and uncertainties in both its day-to-day business operations and strategic development. In this section we provide an overview of the Group's approach to risk management alongside an assessment of the Group's principal risks, highlighting any changes during the period.

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, hosted on a specialised cloud-based system, which is coordinated and analysed by the Group Risk Team to facilitate triannual reviews of principal risks by the Directors, including identification of emerging risks arising and also horizon risks to be monitored. 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 graphic below details how responsibility for risk management is allocated across the Group.

1.Principal risks
These risks have been identified by the Group Leadership Team ('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.

Each principal risk is owned by a member of the Group Leadership Team ('GLT'). The Directors maintain overall responsibility for risk management throughout the Group and oversee the implementation of processes to manage these risks by the GLT 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 supply chain resilience (including the impact of the ongoing conflict between Russia and Ukraine), climate change, Environment, Social and Governance (ESG), Covid-19, cyber security and significant change initiatives.

The ongoing process of management and mitigation of risk by the GLT 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 GLT using this approach. The Governance & Risk Committee ('GRC'), comprising senior management, meets monthly to review changes in the regulatory/legal landscape and the Group's key risks and concerns. In addition to the GRC, a formal quarterly risk review is conducted by the GLT.

The Group's commitment to continuously develop risk management within the business and embed a consistent day to day approach to the management of risk by key stakeholders has been underlined by the integration and roll out of the new CAMMS Risk Management system. The new platform allows an enterprise-wide approach to risk management, permitting a more holistic view of risk exposure throughout all Group functions and offers greater reporting abilities to support risk owners in managing the control environments and making key business decisions. The Group Risk Team regularly communicates the benefits of effective risk management to colleagues across all functions, and utilising the reporting capabilities of the new risk management system, the approach to the schedule and frequency of risk reviews is prioritised on risk criticality.

Additional focus has been given this year to the requirements of the Task Force for Climate-related Disclosures (TCFD), with collaboration between the relevant internal stakeholders and external subject matter advisors, ensuring the identification and management of climate related risks is in alignment with the risk management strategy of the Group.

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.

Risks and uncertainties continued

Mitigate

The Group's principal risks are discussed below, together with the Group's related mitigating activities. Other risks which are currently either not known to the Group, or are not considered material, could also impact the Group's reported performance or assets. Additional controls that could be implemented to reduce or better manage particular risks 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.

Changes to principal risks in the year

As part of our risk management process we continue to frequently review our Group Principal risks with the GLT and the Audit Committee. This year we have made the following changes/ amendments:

- 'Business continuity and resilience' has been merged into the other principal risks where relevant, as this subject area has multiple touch points;
- Two new principal risks added:
  - Retention of skilled workers due to labour shortages
  - Macroeconomic uncertainty

Risk heat map

The impacts of identified risks are measured against pre-defined criteria in a number of areas – Financial, Operational, Health & Safety, Legal & Regulatory, Technology – to establish a robust and objective assessment 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:

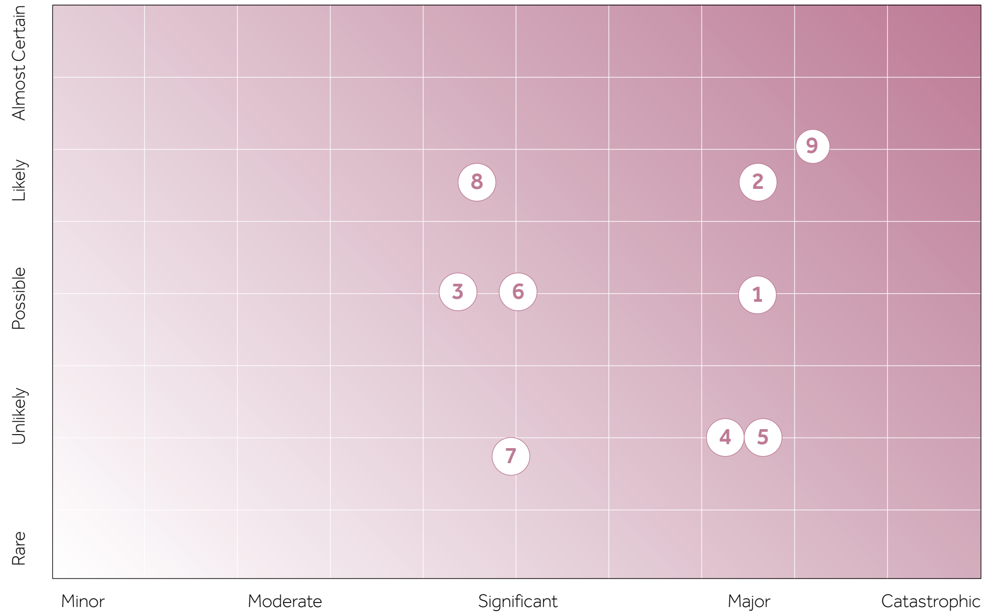
Ukraine update

The Group remains acutely aware of the ongoing conflict between Russia and Ukraine and the related impacts on the macroeconomic environment, particularly in respect of supply chain issues, wider operational activities and the increased cost of living faced by our customers. These continuing concerns have been assessed across all of our Principal risks, and mitigating measures have been applied to minimise the impacts where controls were not already in place. With large numbers of people leaving affected areas, we continue to work closely with our manufacturing and logistics teams and supplier partners to remain vigilant to any increased risks around ethical trading and modern slavery.

Management of climate change and other significant ESG risks

We are committed to building a sustainable business model, both in terms of our impact on the environment and preserving our long-term success as a Group. ESG remains a principal risk in our FY22 Annual report and is embedded within the Group's risk management process with specific oversight by the Responsible and Sustainable Business Committee ('RSC'). All identified climate-related risks are subject to the same process and managed in accordance with other risks. The Group Risk Team continually supports key stakeholders across all functions to identify, evaluate and implement mitigating controls and are present at regular brand ESG committee meetings (which form part of the governance structure under the RSC) to discuss current and future initiatives.

As part of our risk management strategy we consider all ESG impacts associated directly or indirectly to our existing, new and emerging risks and have developed and implemented an ESG specific risk register for greater visibility and control over these threats.



Principal risks

1. Supply chain and manufacturing resilience
2. Cyber
3. Consumer proposition and industry competition
4. Financial risk and liquidity
5. Regulatory environment
6. ESG
7. Transformation
8. Retention of skilled workers due to labour shortages (new)
9. Macroeconomic uncertainty (new)

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing, Technology & Data, Logistics, People & Culture

Movement

Increase, Unchanged, Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	Movement
SUPPLY CHAIN AND MANUFACTURING RESILIENCE Elevated or volatile order volumes together with any further operational disruption from Covid-19 could place pressure on the Group's own manufacturing capability and those of our external raw material and finished product suppliers. Infrastructure investment and the requirement to recruit and train less experienced colleagues could temporarily impact manufacturing efficiency. The Group maintains partnerships with a number of key finished product supplier partners in the Far East and Europe which account for around 65% of customer orders. Supplier service levels could be affected by transport delays, regional disputes or pricing and availability of labour and raw materials. Our own manufacturing operations and those of our finished product suppliers could also be affected by a range of factors such as Covid-19 related impacts, unexpected price fluctuations and/or shortages of key raw materials products and labour. Failure to meet customer or company expectations in relation to delivery dates or product proposition could lead to increased customer dissatisfaction and related costs and limit the Group's ability to maximise commercial opportunities, leading to loss of revenue and profits as well as impacting the reputation of the Group and its retail brands.	Sourcing & Manufacturing; Logistics	The Group has established a Sales & Operations Planning function to proactively manage the end-to-end supply chain across the Group. In order to manage uncertainty of prices and volumes in the container shipping industry, particularly in relation to deliveries from the Far East, the Group maintains annual shipping contracts that set out fixed pricing and capacity availability. The Group continues to invest in the efficiency of its own domestic manufacturing operations and seeks to mitigate potential short-term raw material supply disruptions by holding larger reserves of key raw materials products.	– Establishment of dedicated GLT meetings to drive progress. – Created new inbound strategy with freight forwarders and shipping lines to minimise disruption and spread supply chain risk.	Unchanged

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing Technology & Data Logistics People & Culture

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	Movement
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 attacks on retailers are common. The Group's IT infrastructure and websites are a key component of its omnichannel proposition and its strategic objective to lead sofa retailing in the digital age. A failure to review and innovate in this competitive area could impact achievement of the Group's growth plans. Effective operating 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. Reflecting the Group's increased reliance on IT infrastructure since the start of the pandemic, including the continued success of the Group's online retail proposition and the increased level of remote-working, Cyber risk remains one of the Group's more significant principal risks.		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 external review of the Group's cyber security was conducted in June 2021, including critical risk assessments in each business area, and identified improvement opportunities were actioned in the FY22 plan. Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated, including audit by third-party experts, 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 and experienced team in this field is 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 by the Board.	– Cyber Incident plan fully tested with positive outcomes and feedback. – New password policy specifying enhanced requirements, with defined processes deployed for non-compliance. – Dedicated third-party monitoring and Security Operation Centre now operational to identify and neutralise cyber attacks. – Mandatory cyber security awareness training for relevant colleagues.	

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing, Technology & Data, Logistics, People & Culture

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	Movement
CONSUMER 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. Central to this is retaining our well-designed, high-quality product range that is priced attractively. 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 and profits. The increasing propensity of customers to interact online, accelerated by the Covid-19 pandemic, favours larger omnichannel or online furniture specialists and general merchandise retailers. While the Group believes the combination of digital and physical is the right long-term approach to service customers in the sofa retail market, a failure to predict changes in customer tastes or to respond to the impact of changes in the competitive environment could reduce the Group's revenues, and profitability.	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 and sustainability 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. The Group continues to develop and invest in its integrated retail channel capability to provide customers with the ability to seamlessly interact and transact with the Group in whichever way they prefer. 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 Net Promoter Score ('NPS') framework that allows product level analysis of potential issues. Our made-to-order model allows identified improvements to be rapidly effected. As noted in the ESG principal risk section and elsewhere in our Sustainability Report, the Group has developed a detailed ESG strategy, and aims to lead on the environmental risks and opportunities that exist in our industry and convert these into a source of competitive advantage. The Group's focus on customer care, quality and service is underpinned by our established use of NPS at all touch points of the consumer journey. Colleagues across the business are directly incentivised on NPS scores to reinforce customer-focused behaviours. Marketing teams conduct frequent competitor analysis and mystery shopping of competitor shopping.	– Continued introduction of new ranges (including The Sustainability Edit) & partnerships to widen appeal. – Introduction of Intelligent Lending Platform to support physical and digital channel integration, and enhance the likelihood of customers being able to access interest free credit should it be appropriate for them.	Unchanged

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing, Technology & Data, Logistics, People & Culture

Movement

Increase, Unchanged, Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	Movement
FINANCIAL RISK AND LIQUIDITY A significant downturn in the macroeconomic environment, further disruption to our international supply chain, or additional uncertainty arising from, for example, the Covid-19 pandemic or conflict in Ukraine, may impact the Group's ability to obtain debt or equity financing. Any temporary suspension of customer deliveries or manufacturing delays, as experienced in March to May 2020 as part of measures to contain Covid-19 or other diseases, 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.		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 has completed the extension of its Revolving Credit Facility from December 2023 through to December 2024, with a further one-year extension option remaining. Foreign exchange and interest rate risks are managed through the use of appropriate hedging arrangements in accordance with the Board approved treasury policy, with details reviewed by the Board on a regular basis. Further details on foreign exchange hedging are provided in the financial review and in the financial statements. No financial instruments are entered into for speculative purposes.	– Continued trading performance has sustained net debt levels within target range of 0.5-1.0x and supported enhanced shareholder returns. – Ongoing work on ESG standards and reporting will support access to the broadest range of funding sources. – One year extension of ESG-linked Revolving Credit Facility through to December 2024.	Unchanged

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing, Technology & Data, Logistics, People & Culture

Movement

Increase, Unchanged, Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	Movement
REGULATORY 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 revenue from the sale of product aftercare insurance, a form of general insurance add-on product. Changes to the regulatory environment surrounding product aftercare insurance could impact the sales of these products, which currently account for a high single digit percentage share of Group gross profits, and the Group's reputation could be negatively impacted if the sales process for these products does not ensure that customers have adequate information to make appropriate buying choices. Changes in other legislation which may have significant retrospective or future economic effects could also impact operating results. Since the onset of the pandemic in the United Kingdom, the Group has been required to adhere to detailed Government operational guidelines and restrictions to contain the spread of Covid-19. Failure to meet our regulatory obligations, or provide a safe environment for our colleagues and customers, could result in significant financial impacts and/or reputational damage.	1 2 3 Technology & Data	Sales principles and compliance frameworks across all brands are robust and aligned across the Group. Comprehensive training and monitoring programmes (including individual colleague 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. The Group's Governance and Risk Committee ('GRC') is supported by a number of sub-committees, including one which focuses primarily on regulatory areas and conduct risks, and another on Health and Safety. The GRC 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 GRC 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 review the pricing and cover levels of the insurance products it offers to maintain and enhance the customer value proposition. 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.	– Revised Group Compliance Team and related committee structures to enhance consistency. – Simplification and enhancements of product aftercare insurance policies. – Health & Safety capabilities strengthened with appointment of Group Health & Safety Director.	Decrease

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing, Technology & Data, Logistics, People & Culture

Movement

Increase, Unchanged, Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	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. As a UK premium listed company, the Group is required to make Task Force on Climate-related Financial Disclosures ('TCFD') disclosures in its annual report.	1 2 3	In addition to GLT members being assigned responsibilities for specific ESG areas, the Group has established a Responsible and Sustainable Business Committee as a dedicated Board committee responsible for the governance and oversight of the Group's ESG strategy. To validate the focus of this strategy in a developing landscape, a materiality assessment was conducted, supported by a third party specialist. The topics considered have been ranked based on the relevance to the business and importance to stakeholders. The Group has developed detailed metrics and targets across a broad range of ESG matters, which are monitored by the Committee, from gender diversity to sustainable and ethical sourcing of raw materials and reductions in carbon emissions. Sustainability key performance indicators have also been incorporated into the Group's Revolving Credit Facility from the December 2021 period end. The achievement of these targets is supported through engagement with external specialists where relevant, including audit and certification of suppliers and external assurance on reported carbon emissions. The Group seeks to promote strong stakeholder engagement on ESG through clear and transparent communication. Reporting under the TCFD framework has been presented for the first time in FY22.	– Sustainability key performance indicators incorporated into the Group's Revolving Credit Facility. – Phase two targets in place and new, short term carbon reduction targets to be introduced. – Introduction of reporting under TCFD regulations.	Increase

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing, Technology & Data, Logistics, People & Culture

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	Movement
TRANSFORMATION The Group undertakes a number of significant investment or transformation projects as part of its strategy. Failure to execute transformation projects successfully could reduce the Group's operational efficiency, erode the Group's market leadership position and have a negative impact on financial performance. A lack of sufficient management resources or excessive complexity in the various work streams could limit the Group's ability to deliver anticipated benefits within the original time horizon.	Sourcing & Manufacturing; Technology & Data; Logistics	The Group has an executive directly responsible for transformation (the COO) who oversees a programme structure and a team of project managers dedicated to its execution. Risk assessments are completed for all critical workstreams and have been challenged through Board and Audit Committee discussions. 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 transformation programme is regularly reviewed to ensure its priorities and areas of focus are optimised to support the delivery of the Group's strategy.	– Governance over transformation continues to remain strong, with monthly GLT reviews and regular Group Board updates – Moved to programme structure rather than a project structure to provide best outcomes	Unchanged
RETENTION OF SKILLED WORKERS DUE TO LABOUR SHORTAGES There has been increased pressure within the UK labour market in general with low levels of unemployment, high levels of vacancies and shortages of skilled workers across all sectors. Failure to attract and retain high quality colleagues could negatively impact operational performance and customer service levels. Excessive wage inflation could increase the Group's cost base, reducing profitability.	Sourcing & Manufacturing; Technology & Data; Logistics; People & Culture	The Group seeks to ensure colleague remuneration is competitive, conducting regular function-specific benchmarking and business-wide annual salary reviews. In recognition that other factors are critical to attracting and retaining colleagues, the Group also continues to invest significant resource and focus into building an inclusive and engaging culture with a particular emphasis on colleague well-being as part of its wider ESG strategy. Where severe skills shortages in a particular area result in a lack of candidates or escalating wage costs, the Group takes proactive steps to mitigate this with internal training and development programmes.	– Launch of Group Wellbeing Strategy with a framework of three pillars: Mind, Body, Life. – Development of The Sofa Delivery Company internal driver training school.	**NEW**

Risks and uncertainties continued

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing, Technology & Data, Logistics, People & Culture

Movement

Increase, Unchanged, Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	FY22 progress	Movement
MACROECONOMIC UNCERTAINTY The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the economic environment in which the Group operates including (but not limited to): consumer confidence, employment levels, real income, the availability of credit and the level of housing market activity. Any deferral of purchases by customers caused by these factors would affect our revenues and profits. Significant cost inflation in raw materials, fuel and freight costs, exacerbated by the consequences of the war in Ukraine and other geo-political events, could reduce the Group's profitability or necessitate increases in product selling prices, discouraging customer purchases. This risk becomes more significant in an environment of inflation across a number of sectors and therefore falling real incomes. Increases in interest rates and associated higher costs of borrowing may further reduce levels of discretionary spend and also result in lower housing market activity.		The Group keeps its product ranges under continuous review to ensure that they provide an attractive customer proposition at a variety of price points. Range selection is supported by detailed data analysis and customer choice is enhanced through exclusive and strategic brand partnerships. The Group's interest-free credit offer is centred on responsible lending and allows customers to spread the cost into affordable monthly payments. The cost to the Group of interest-free credit can be controlled in part by the term and availability of credit offered to customers. Many of the Group's operating costs are variable or discretionary, allowing some cost base management in periods of lower income.	– Continued programme of forward purchase of freight and foreign currency to manage costs in an inflationary environment. – Management of product range pricing to mitigate inflationary impacts on cash margin.	NEW

Risks and uncertainties continued

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 26 June 2022 as in the opinion of the Directors this reflects the longest period over which the impact of key risks can be reasonably assessed within a big-ticket retail business given the potential volatility of the trading environment.

Approach

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

The Directors then made a robust consideration of the key risks and uncertainties that could impact the future performance of the Group and the achievement of its strategic objectives, as discussed on pages 38 to 47 of this Annual Report. Particular regard was paid to the potential for further cost inflation and increases in interest rates and the impacts from the ongoing conflict in Ukraine.

The primary impacts of those risks which could significantly affect the future viability of the Group are a decrease in customer orders, reducing revenue, and an increase in the Group's costs, reducing profitability. The effect of lost revenue on profit before tax and cash was applied to the base case model using an expected 'drop through' rate, based on expected gross margins and variability of costs. Cost increases were modelled on general and specific assumptions for inflation. The analysis considered a range of severe but plausible scenarios impacting revenue and margin, a significant reduction in customer spending, and impacts on profitability from inflationary cost pressures and interest rate rises.

For each scenario, sensitivity and stress-testing analysis was performed to model the impact on the Group's profitability and cash flows. The assessment considered how risks could affect the business now, and how they may develop in future.

Key Assumptions

The base case forecast assumes an underlying contraction in the Group's market of 5% in FY23 tempering in FY24, reflecting continuing pressures on customer spending . Thereafter low single digit growth is assumed from a combination of market volume and strategic initiatives. Revenue is expected to exceed order intake performance over the first year of the forecast period as the current high order bank normalises.

Gross margin for FY23 is expected to be constrained by rises in cost of goods and freight, with some recovery in subsequent years. Other costs reflect anticipated inflationary increases, again particularly in FY23, and benefits from operational efficiencies. Capital expenditure is assumed to remain in line with planned investments and strategic initiatives.

In sensitising the base case for lower revenue scenarios, the rate of drop through to profit is assumed to be consistent throughout the assessment period.

In developing the viability assessment it has been assumed that the Group's £215.0m revolving credit facility will be replaced on or before its maturity in December 2024 with a comparable facility with the same covenants.

Results

The range of severe but plausible scenarios included a substantial and sustained market decline of up to 15% across FY23 and FY24, interest rate rises of 3%, increased inflation and supply delays and increased costs of key raw materials arising from the conflict in Ukraine.

These impacts were modelled individually and in certain combinations, in conjunction with a range of mitigating actions that could be taken to preserve the Group's cash flow. Mitigating actions included modifications to the Group's customer credit offering, reductions in discretionary costs and capital expenditure and a reduction or pause in dividend payments. Reverse stress-testing was also performed on the most severe scenarios.

The Group maintained both covenant compliance and sufficient liquidity in all these scenarios. Based upon this assessment the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and remain commercially viable over the three year period of assessment.

Section 172 statement

Section 172(1) (a)-(f) of the Companies Act 2006 ('Section 172(1)') requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

The Directors have had regard to the matters set out in Section 172(1) when performing their duties. They consider they have acted in good faith, in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with, and are affected by, our business.

Our colleagues

See page 51

The strength of our business is built on the hard work, loyalty, and dedication of all of our colleagues. We are committed to providing everyone a positive and fulfilling working environment where "Everyone is welcome" and they can each reach their full potential.

Our customers

See page 51

Our purpose is to bring great design and comfort to our customers, in an affordable, responsible, and sustainable manner. We are dedicated to providing innovative, attractive, design-led, high-quality products to new and existing customers at great value.

Our suppliers

See page 52

Our trusted suppliers work with us to design and make our products to the highest standard, provide the showrooms through which we store, sell, and display our products and provide the other essential services we need to operate our business. Our suppliers rely on us to generate revenue and employment for them.

Our communities

See page 52

The communities and the wider public expect us to act in a responsible and sustainable manner, to be a good neighbour, and have a positive impact on the local areas in which we operate.

Our environment

See page 54

Through our Sustainability 2020-ESG strategy we work to minimise any adverse impact we might have on the environment.

Our investors

See page 53

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 responsibly to generate value for them over the long term.

Our regulators

See page 53

We seek to enjoy a constructive and cooperative relationship with the bodies that authorise and regulate our business activities. We require all our colleagues to apply the high standards of business ethics in their business dealings.

The chart below demonstrates the Board process in considering Section 172(1) in its decision-making.

Board papers highlight information considering Section 172(1) matters

↓

Board Information

↑

Our Board continually engages with stakeholders

Read more on **page 51**

→

The Group's culture helps ensure that there is proper consideration of the potential impacts of decisions

↓

Board Strategic Discussion

↑

Section 172(1) matters are considered in the Board's discussions on strategy, how decisions impact a stakeholder groups and underpin long-term value creation, and the implications for business resilience

→

Actions taken as a result of Board engagement

↓

Board Decision

↑

Outcomes of decisions assessed and further engagement and dialogue with stakeholders

Section 172 statement continued

CASE STUDY

Establishment of our Responsible & Sustainable Business Committee.

September 2021

As part of our commitment to our ESG Strategy, the newly established Responsible & Sustainable Business Committee had its first meeting.

The Committee advises the Board across the four key pillars of the Group overall ESG strategy, Planet, People, Customers & Community to ensure the Group uses its experience, scale, and influence to bring about positive change for our stakeholders and the wider society.

The Committee, on behalf of the Board, monitors and reviews the effectiveness of the Company's ESG strategy and provides the right governance to ensure the Group's successful transition to Net Zero and the delivery of our other Social and Governance targets.

In conjunction with the Audit Committee the Committee will ensure compliance with the TCFD reporting requirements.

CASE STUDY

Our strategy for Safety.

November 2021

As an integrated retailer it is crucial that our safety culture and systems keep pace with the growth of the Group and that we make a culture of safety a high priority for all areas of the Group.

In order to better support to our culture of Health and Safety and to ensure the health and wellbeing of our people in November the Group appointed a new Health, Safety & Environment Director whose remit is to develop the Group's health safety and environment strategy.

During the year we have developed the new health safety and the environment strategy and the behavioural safety programme with the co-creation of the life saving rules.

This further investment in Health & Safety strategy will strengthen our existing approach to ensure all our employees and customers stay safe.

CASE STUDY

Closure of Operations in Spain and the Netherlands.

January 2022

Following a detailed strategic review, the Board took a decision to close the Group's operations in the Netherlands and Spain.

Management reviewed operations and performance levels to assess whether all locations aligned with the Group strategy and demonstrated an ability to deliver profitable revenue growth.

In considering the closure of Spanish and Dutch operations the Board considered key stakeholder groups including our people, our customers and our shareholders and were conscious of the need for effective engagement to relay their decision.

The decision, although difficult and not without consequences for our people in Spain and the Netherlands, aligns with the Group's strategy to deliver profitable revenue growth, cost reduction and generate increased free cash flow.

CASE STUDY

The Sofa Delivery Company Driver School.

May 2022

During the year, to tackle the impact on our business of the nationwide shortage of HGV drivers, we set up our own Driver Training School working in partnership with FleetMaster. The shortage of drivers was impacting our ability to deliver to our customers, causing issues within our distribution network increasing costs and impacting our profitability.

The Driver School was launched in late spring 2022. To date three trainees have qualified and we currently have 35 colleagues training to be 7.5T HGV drivers, who are at various stages of their licence acquisition.

The Driver School provides career progression for our people. By having our own in-house school, we remove the barriers preventing people from becoming professional drivers.

The investment in our people through the Driver School has been positively received and will help address the impact on our supply chain .

Key to stakeholder Links

- Likely consequences of decisions in the long-term
- The interests of the Company's wider workforce
- The need for strong relationships with suppliers, customers and others
- Impact of operations on the community and environment
- High standards of business conduct
- The need to act fairly between members of the Company

Section 172 statement continued

Engaging with our stakeholders

As a Board we look to balance the needs and views of all of our stakeholders, grouped into seven key categories, to ensure all our decisions have a clear and consistent rationale. Throughout the year we have engaged with all our stakeholder groups to understand the impact of the decisions we make. Our stakeholders' interests are considered through direct engagement by Board members; receiving reports and updates from members of the leadership team who engage with such groups; and coverage in our Board papers of relevant stakeholder interests with regard to proposed courses of action. The Board considers that taken together, the arrangements detailed below deliver an effective means of ensuring the Board stays alert to the views of all our stakeholders.

Listening and responding to our stakeholders

Our People (employees and partners)

Why we engage

Our people are the heart and soul of our business and the key to its success. It is important to properly incorporate our people's views in Board decision-making. We understand that it is vital that we recruit, retain and develop our people. In 2022, we saw a significant change in workforce availability, a shortage of skills (e.g. lorry driving) and difficulty recruiting experienced colleagues in our manufacturing sites. We aim to create a great place to work, where people feel valued, want to stay with us and new employees want to join.

How we engage

- Virtual & in-person Town Halls are hosted by the Group Chief Executive Officer and members of the Group Leadership Team
- The Designated Non-Executive Director, and other Directors regularly meet with our people through our Workplace Voice Forum
- Board members regularly visit our showrooms, factories, offices, and distribution centres to meet with our colleagues
- Our use of technology allows our people to work remotely, supporting flexibility and promoting a better work/life balance.
- Regular briefings to the Board by the Chief People Officer on employee-related matters, including: engagement activities, the results of opinion surveys, retention rates, learning and development activity, pay and reward initiatives.
- Our annual DFS retail conference took place face to face for the first time post the pandemic in December 2021, and all of the Directors attended.

Impact on Board decisions

Our focus has been to create a diverse and inclusive workplace where everyone is welcome and one where our colleagues feel supported and encouraged to reach their full potential. The focus this year has been to introduce tools to help employees with their physical and mental health.

Our Customers

Why we engage

Our customers are central to our success. Our purpose is to bring great design and comfort to them, in an affordable, responsible, and sustainable manner. We are dedicated to providing a high quality experience for all our customers, whether they visit our showrooms or purchase online, and continuing to offer innovative, attractive, design-led, high-quality furniture.

How we engage

- We seek feedback from our customers through Net Promoter Score ('NPS') customer satisfactions surveys.
- We conduct regular focus groups for customers to review our new products.
- Ensuring we have the market leading financial services products (IFC and our product insurance) available for our customers.
- Continual development of our products, our showrooms and our on-line services.
- Monitoring our own manufacturing operations and our third party suppliers to ensure quality and safety standards are met.

Impact on Board decisions

We review new product and service developments as part of our regular Board meetings, and visit sites to better understand the customer perspective.

Section 172 statement continued

Our Suppliers

Why we engage

Our suppliers work with us to design and make our products to the highest standard, create the warehouses and showrooms through which we store, sell, and display our products and provide the other essential services we need to operate our business. By working collaboratively with suppliers who share our passion and our values, we can produce high-quality products while having a positive impact on people and the planet.

How we engage

- Through a fair and consistent evaluation process
- Use of competitive Request for Proposal ('RFP') processes where appropriate
- Regular review meetings with key suppliers
- Ongoing feedback to maintain openness and to improve value from supplier relationships
- The Board is regularly briefed on key contracts and receives updates on new and existing suppliers
- We support our suppliers by ensuring they are paid fairly and on time

Impact on Board decisions

The Board acknowledged that many suppliers were having to face similar business challenges as those faced by the Company, including Covid-related absence, supply chain disruption, skills shortages, import and logistical challenges, and materials shortages. By hearing from the Chief Executive and members of the Group Leadership team, the Directors were able to factor these issues into their assessments of business performance.

Our Communities

Why we engage

We believe that we can help to build thriving communities in which we live and work, and create a skilled and inclusive workforce both for today and for the future. Our customers and all the communities we operate in expect us to be a good neighbour and have a positive impact on the locality.

How we engage

- Introduction of our Communities and Charitable Giving Policy
- Volunteering in local communities
- Charitable giving by the Group to our chosen charities
- Publishing our Board-approved Human Rights Policy.
- Our recruitment strategy of "Everyone Welcome" is designed to ensure our workforce is representative of the communities we live and work in.

Impact on Board decisions

The Board ensured sufficient focus on the Group's ESG strategy by establishing the Responsible and Sustainable Business Committee. During the year the Board through the Committee has overseen the development and introduction of several new policies and procedures to support our ESG Strategy. The new Communities and Charitable Giving Policy has seen hundreds of colleagues undertaking a paid volunteering day to help local charities. Over the next year we are targeting 15% of our non-operational colleagues to support community-based organisations through paid volunteering by June 2023.

Section 172 statement continued

Our Investors

Why we engage

Our shareholders are the owners of our Company. We rely on our shareholders and providers of debt funding as essential sources of capital to further our business objectives and to support us in times of economic uncertainty.

Our shareholders also play an important role in monitoring and safeguarding the governance of our Group.

They rely on us to protect and manage their investments responsibly to generate value for them over the long term.

How we engage

- We publish regular financial reporting and trading updates via RNS
- A series of events is held throughout the financial year, including our AGM, and presentations of our half-year and full-year results
- The Board attends relevant conferences and meets with investors and potential investors throughout the year.
- Management have regular discussions with our banks about our strategic priorities

Impact on Board decisions

Following a suspension of dividend payments in 2020 during the pandemic, we returned to paying a full year dividend in December 2021. In March 2022 the Board, having considered the need to make a substantial return to our shareholders, announced as part of our half-year results 15 March 2022 that a special dividend of 10.0p per share would be paid alongside the interim dividend of 3.7p per share. The Directors also confirmed the Company would commence a £25m share buyback.

A final dividend in respect of 2022 of 3.7 p per share has been proposed, subject to shareholder approval.

Our Regulators

Why we engage

Our subsidiary companies are regulated by the Financial Conduct Authority in respect of the provision of credit broking. As a responsible authorised group of companies, we always seek 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.

How we engage

- We seek to develop a constructive and cooperative relationship with the bodies that authorise and regulate our business activities.
- We require all our colleagues to apply the highest standards of business ethics in their business dealings through transparency and good governance
- Ensuring our people receive mandatory training to ensure compliance with UK legislation
- We manage our tax affairs responsibly and proactively to comply with tax legislation. During the year the Board approved our 2022 Tax Strategy to comply with schedule 19 paragraph 16(2) of the UK Finance Act 2016 published at www.dfscorporate.co.uk/governance/policies-statements
- In preparing its annual report and accounts, the Group seeks to comply with all published FCA guidance to support the quality of its reporting.

Impact on Board decisions

Compliance obligations for regulated financial products are overseen by the Chief Financial Officer. Our Board and Audit Committee, through our Governance and Risk Committee, review and ensure compliance with our regulatory obligations. The Board considers the Group's regulatory responsibilities when making decisions concerning the financial products we make available to our customers.

Section 172 statement continued

Our Environment

Why we engage

Through our Sustainability strategy we work to minimise our environmental impact and to help to repair and sustain our planet through the development of high-quality sustainable products.

How we engage

– The appointment of the Responsible and Sustainable Business Committee to oversee our journey to Net Zero
– Sustainable sourcing policies in place, including Leather and Timber
– Development of more sustainable products
– Our Sofa recycling schemes
– Investing in our business and reducing our usage of power and water wherever possible in our showrooms, warehouses and offices
– Move to an all hybrid fleet of company cars
– Our suppliers sign up to our Code of Conduct and Ethical Sourcing Questionnaire

Impact on Board decisions

The Board ensures sufficient focus on the Group's ESG strategy through the terms of reference of the Responsible and Sustainable Business Committee.

S172 Statement of non-financial information

The table below sets out where the 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	Section 172 Statement – Having regard to the interests of the Company's employees – page 51 Responsibility and Sustainability report – page 60 to 64 Directors Remuneration report – page 94 to 114	– Diversity & Inclusivity Policy – Equal Opportunities Policy – Whistleblowing Policy – Group Health and Safety Policy
Anti-corruption and anti-bribery matters	Responsibility and Sustainability report – page 71	– Group Employee Code of Conduct – Anti- Bribery Policy – Supplier Code of Practice – Whistleblowing Policy
Respect for human rights Modern Slavery	Responsibility and Sustainability report – page 73	– Anti-Slavery and Human Trafficking Policy – Modern Slavery Statement – Data Protection Policy – Privacy Policy – Group Human Rights Policy
Social matters	Responsibility and Sustainability report – page 55 to 75	– Tax Strategy – Group Employee Code of Conduct – Group Communities and Charitable Giving Policy
Environmental matters	Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 52 and 54 Responsibility and Sustainability report – pages 65 to 69	– Environment Policy – Group Timber Policy – Group Leather Policy

Copies of all our policies are available at https://www.dfscorporate.co.uk/governance/policies-statements

Responsibility & sustainability report

This section of the report focuses on our strategy to sustain our market leading position for the long-term in a responsible manner considering the environment we operate in and the interactions we have with our stakeholders.

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Responsibility and sustainability report

It's only been two years since we launched our Sustainability programme in the DFS Group and in that short time we've come a long way, not only in our environmental objectives but on our equally important Inclusion and Diversity agenda.

ESG is a fast moving space requiring strong oversight, so this year we established a new governance structure at board level – The Responsible and Sustainable Business Committee (RSC). Supporting me in the role of Chair is our Diversity & Inclusion expert Non-Executive Director Loraine Martins OBE and our employee representative Non-Executive Director, Jane Bednall.

The RSC is focused on four pillars – Our People, Our Planet, Our Customers and Our Community.

Our People pillar saw the launch of Everyone's Welcome, a framework to illustrate that everyone should always feel at home at DFS Group. We're committed to building a workforce which reflects the diverse society we live in while creating a culture of inclusivity. Wellbeing has also been a priority with the launch of mental health training and a menopause support programme available to all employees across the Group.

Whilst it's important to ensure we have the right structures in place, true change only occurs when the whole business is behind it. I'm delighted to see the efforts of our Inclusion and Sustainability Champions, volunteers from all levels and departments galvanise so much energy for an ethical and sustainable business and way of life for our teams.

However, we're not just looking at what we're doing as a business. The Committee sought external expertise to help guide our Planet agenda. We invited climate change expert James Cameron to the RSC, to provide insight and clarity following COP 26 and the IPCC reports, which illustrated the urgency of the climate crisis.

A lot of time and energy was dedicated this year to understanding our carbon footprint. Like most retailers, our Scope 3 emissions constitute over 90% of our carbon footprint. Using four years of data to build a dynamic carbon model, including primary data from our supply chains, we have identified the specific challenges for our business and sector. To help address these challenges, we have joined the Centre for Climate Change Innovation (CCCI), part of the Royal Institute and Imperial College. We've also pledged to the Science Based Target Initiative (SBTi) to share our roadmap within the next 24 months. This is later than originally planned, but will provide us time to develop a credible roadmap to address those specific challenges, ensuring that we deliver on our emission reduction ambitions.

And lastly, the Customer and Community pillars have delivered fantastic results in the last twelve months, raising almost £1m for charities and saving over 110,000 items from landfill.

The year ahead is going to be busy as the teams work to bolster and embed these ESG pillars within their strategic plans, particularly in a challenging economic climate. We're committed to offering an industry-leading package for our employees and ensuring that all employees feel supported at DFS Group. This is particularly important against the backdrop of the cost of living crisis our employees are experiencing as well as the after-effects of the pandemic.

We'll continue driving our sustainability ambitions through our Sofa Cycle framework, developing our roadmap to Net-Zero and ensuring our supply chain is sourcing ethically and sustainably. However, most importantly, the teams will continue to build upon the fantastic product ranges such as Grand Designs, to ensure we provide customers not only beautiful comfortable and well-priced products but sustainable choices.

As leaders within our sector, we're committed to ensuring this business acts responsibly and sustainably, ensuring a better future for Our People, Our Planet, Our Community and most importantly Our Customers.

Committee members:

- Alison Hutchinson (Chair)
- Tim Stacey
- Jane Bednall
- Loraine Martins
- Liz McDonald (Group Company Secretary)

ALISON HUTCHINSON
Chair of the Responsible and Sustainable Business Committee
Bio on **page 77**

Responsibility and sustainability report continued

PEOPLE

Our commitment

Attracting, developing and retaining colleagues with the appropriate skill sets, behaviours, attitudes, motivation and from a variety of backgrounds is crucial to the success of the business.

Key highlights

- Launch of the new health, safety and environment strategy.
- Developed a package of offers tailored to support and educate our employees' wellbeing.

Looking forward

Encourage our employees to disclose protected characteristics to allow the business to set representative inclusion and diversity targets, see page 60.

PLANET

Our commitment

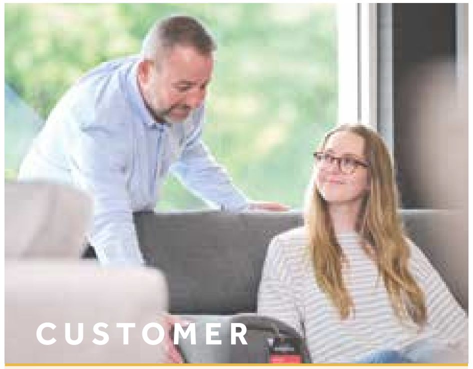
We are committed to reducing our environmental impact and our carbon footprint in order to reach Net Zero by 2040.

Key highlights

- Complete detailed carbon model for four years (2019-2022) using primary data, where available, enabling us to fully understand our footprint and work towards a Net Zero roadmap.
- Joined the Centre for Climate Change Innovation, part of Imperial College and the Royal Institute.

Looking forward

Create a credible carbon reduction roadmap to deliver our ambition to reach Net Zero by 2040, see page 65.



CUSTOMER

Our commitment

To ensure we act ethically and transparently while supporting our customer in making sustainable choices.

Key highlights

- Over 110,000 items saved from landfill during the year and 210,000 since we commenced our Sofa Rescue programme.
- Launched a number of sustainable ranges during the year including the Sustainability Edit and expanded our Grand Designs offer to include beds.

Looking forward

Continue to introduce sustainable focused ranges across the Group, see page 70.

COMMUNITIES

Our commitment

We are proud to be part of hundreds of communities across the UK and we are committed to helping each community thrive.

Key highlights

- Over £750,000 raised for BBC Children in Need during the year, our largest total since we began our partnership in 2013.
- Completed ethical audits on all of our manufacturing partners around the globe.

Looking forward

Enable non-operational colleagues to support their communities through paid volunteering, see page 72.

Responsibility and sustainability report continued

Governance

It is our belief that driving sustainable business behaviours is best achieved when they are embedded throughout the business.

Responsible and Sustainable Business Committee (RSC)

During the year, the Board established the Responsible and Sustainable Business Committee (RSC) which met three times. The RSC is chaired by Alison Hutchinson and comprises the CEO, and Non-Executive Directors, Lorraine Martins, the Diversity & Inclusion representative, and Jane Bednall, the designated employee representative. The Committee's terms of reference are published on the Company's corporate website.

The Committee's purpose is to oversee and make recommendations on the overall ESG strategy and climate-related risks and opportunities. The Committee reviews the corporate governance and performance against agreed targets and objectives. The Committee approves all Group policies relating to our four key areas of focus: Our Planet, Our People, Our Customers and Our Community.

Sustainability Steering Committee

The Group CEO, Transformation Director and Sustainability Director along with invited department heads and experts meet quarterly to review progress on strategic objectives and discuss future plans. This meeting is intended to ensure business resilience and agility within the ESG roadmap and the right level of investment is provided where needed.

Brand ESG meetings

These meetings comprise of brand and operational leads who report their progress against targets and provide status updates to the Group Leadership Team. The operational knowledge of these individuals, combined with the guidance of experts in a variety of different fields, facilitates accelerated progress and potential opportunities for strategic innovation.

Inclusion steering meetings

The Group CPO, Loraine Martins and two Inclusion Council members meet monthly to review and drive progress on our inclusion strategy.

Sustainability & Responsibility Champions and our Inclusion Council

We want to empower our colleagues to drive change and improvements in both environmental and social areas. The goal of our Responsibility Champions and our Inclusion Council, composed of all divisions and levels across the business, is to educate and engage the wider population as well as support business initiatives and generate ideas.

Group Leadership meetings

Group Leadership Team members have all been assigned an ESG-related topic for which they are responsible and have been allocated specific targets for the FY22 year, which form part of their bonus structure.

The team discuss ESG matters on a quarterly basis to assess the progress on targets and ensure that ESG is embedded in the day-to-day operations.

Additionally, the team provides the link between the Board, the brand and committees, has sufficient oversight of the progress being made while also ensuring guidance, support and resources are available.

Responsibility and sustainability report continued

Our Group ESG targets

Below is a snapshot of our targets that we set twelve months ago (Phase 1) and our new (Phase 2) targets. With the integration of the Dwell operation into the DFS brand, the creation of Group operating platforms such as the Sofa Delivery Company and in order to simplify our reporting we have transitioned our targets from being brand-specific to Group targets.

Our Planet

Sustainable sourcing	Sustainably sourced timber (certified FSC & PEFC) used in all products	Dec 2025	In progress	Target has been revised in line with our timber policy approved July 2022, see page 67 for more details
Sustainable sourcing	Ensure leather supply chains are not linked to deforestation of the Amazon Biome	Dec 2021	Partially met	All supply chains continually monitored, see full detail on page 67
Sustainable sourcing	All leather used on upholstery sourced from supply chains with LWG certification	Dec 2024	In progress	Currently 84% of our suppliers have at least one tannery LWG certified, see page 67 for more detail and revised targets
Sustainable sourcing	OEKO-TEX STeP certification for upholstery ranges for cotton, viscose and polyester	Dec 2022, July 2023 & July 2024 respectively	In progress	Extended the deadline for cotton certification to Dec 2022, see page 67 for more detail and revised targets
Sustainable sourcing	Zero polystyrene in product packaging	Dec 2024	In progress	Good progress against target however facing challenges within our Home category, see page 66 for more detail
Carbon reduction	Reduce Scope 1 CO_2 emissions by a minimum of 10% (baseline CY19)	Dec 2023	In progress	On track to meet this target, see our emissions breakdown on page 68
Carbon reduction	Science-based targets approved by SBTi	July 2022	Not met	Commitment made to SBTi made – roadmap will follow by June 2024. Additional time required to develop a credible plan which is likely to take industry-wide changes. See page 65 for full detail

Our People

Inclusion and diversity	50% of employees engaged in data collection of protected characteristics in order to set more specific diversity targets	Dec 2023	New	In depth data collection to facilitate better understanding of the composition of our workforce and set relevant inclusion and diversity targets
Inclusion and diversity	A minimum 50% of showroom management will be female	Dec 2024	In progress	Strong progress being made against this target and on track to meet, see page 61 for more detail

Our Community

Modern slavery	Top 250 of non-manufacturing suppliers by £ spend and sector risk assessed	Dec 2022	In progress	On track to be completed by December 2022, see page 73
Charity	15% of our non-operational colleagues will support community-based organisations through paid volunteering	Dec 2021	Not met	The pandemic restricted our ability to meet the original target deadline – New target to Dec 2023, see page 72 for details

Responsibility and sustainability report continued

Our People

Alignment to UN SDGs

FY22 highlights:
- All Group apprenticeship programmes had at least 50% female representation
- All Group Management development programmes had at least 50% female representation
- Continued to advance our Inclusivity & Diversity programme
- Launch of the new health, safety and environment strategy.

FY23 Targets:
Data Collection
50% of employees engaged with data collection on protected characteristics in order to set more specific diversity targets by December 2023

We need a clear understanding of the current demographic profile of our teams so we know where we need to improve.

Gender
A minimum 50% of showroom managers will be female by December 2024

Gender parity in our teams is essential – see Group Gender Diversity.

Attracting, developing and retaining colleagues with the appropriate skill sets, behaviours, attitudes, motivation and from a variety of backgrounds is crucial to the success of the business.

We pride ourselves on cultivating an open environment for our colleagues in which everyone feels welcome and is encouraged to share their thoughts and ideas. We feel this, along with our values of Think Customer, Be Real and Aim High strongly contributes to the business' history of innovation in the sector and our market-leading position.

Our commitment

- To attract, retain and develop our colleagues to their full potential and with fair remuneration
- Listen hard to our colleagues and value their opinions and involvement in how we improve as a business
- Promote an inclusive and diverse workforce across all areas of the business
- Provide equal opportunities and treat all colleagues fairly and with respect
- Provide opportunities for personal development and promote solely on merit
- To not tolerate any forms of bullying, harassment or discrimination
- Provide safe working environments that our colleagues can thrive in

Inclusivity & Diversity

It is our firm view that diverse teams working within inclusive environments are more engaged, innovative and deliver better outcomes for our customers. We also believe that all our colleagues should feel valued and be treated equally and fairly. We expect all colleagues to treat each other and our customers with equal respect, not just because it is morally right, but as an organisation that reflects the communities we serve.

We launched our Diversity & Inclusion strategy last year and have continued to drive the conversation around other forms of inclusion and diversity, through internal education and engagement activities, with longer-term plans to make a measurable difference to the makeup of our workforce.

Responsibility and sustainability report continued

Talent, development and early careers

Developing and retaining talent continues to be 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, supporting career progression and role transitions.

We actively promote the benefits of further learning and development and providing self-led development opportunities to all colleagues whatever stage of their career. Our online learning platform is available for all, offering over 1,000+ e-learning courses and opportunities to book and attend a range of either virtual or classroom courses. We delivered over 200,000 training hours to our colleagues ranging across leadership development, team development, inclusion, induction, sales and service, product, systems and compliance.

We seek to promote internally, are committed to promoting employees solely on merit, and ensure individual achievements are a key consideration when determining remuneration levels. As a Group we are very proud to invest in the development of all our colleagues. We welcome students for early career work experience supporting their transition from school to work and have recruited over 40 young apprentices.

Our apprenticeship scheme supports young participants to achieve formal qualifications in their chosen field but also underpins further professional development for existing colleagues through Advanced and Higher Apprenticeships. Over 80 colleagues are currently progressing through these learning programmes.

Colleague engagement

Creating highly engaged teams is a cornerstone of our success. We listen to our colleagues' feedback and ideas in many ways, including through our various colleague networks and regular employee surveys. A key part of colleague 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 senior leaders from across the Group, who meet regularly to stay informed, collaborate and share practice.
- Workplace by Meta is a leading digital platform that allows colleagues to connect and collaborate 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, enabling 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 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
- Jane Bednall, the designated employee representative Non-Executive Director, attends meetings with our colleagues such as the Employee Voice Forum and engages directly with the workforce
- We have a network of 'Sustainability Champions' led by our Sustainability Director who help to drive sustainability across all areas of the Group, providing insight to the ESG Committees.

Group gender diversity

Directors	Male	Female
22	**4 (50%)**	**4 (50%)**
21	4 (50%)	4 (50%)
Group Leadership Team	Male	Female
22	**3 (60%)**	**2 (40%)**
21	6 (75%)	2 (25%)
Senior managers	Male	Female
22	**14 (54%)**	**12 (46%)**
21	17 (68%)	8 (32%)
All colleagues	Male	Female
22	**3,545 (65%)**	**1,928 (35%)**
21	3,361 (64%)	1,856 (36%)

All Group apprenticeship programmes will have at least 50% female representation from 2020.

FY22 Male: 39% Female: 61%

FY21 Male: 38% Female: 62%

All Group management development programmes will have at least 50% female representation from 2020:

FY22 Male: 47% Female: 53%

FY21 Male: 40% Female: 60%

A minimum 50% of showroom management will be female by December 2024

FY22 Male: 71% Female: 29%

FY21 Male: 76% Female: 24%

Details of our most recent gender pay gap report can be found on page 112 in the Directors' remuneration report.

Responsibility and sustainability report continued

Our approach to building a more inclusive and diversified workforce:

1 Educate

Supporting our colleagues, partners, suppliers and customers to learn why inclusion and diversity matters and allowing them to learn from each other.

Education is key to building awareness and moving our strategy forward. We invested in developing a bespoke, cinematic adventure-learning module for all of our colleagues that will be launched during National Inclusion Week in October 2022. This module includes content around legal requirements and forms a base of understanding for Diversity, Equity & Inclusion (DE&I), whilst focusing on the cultural aspects of what inclusion looks and feels like on a daily basis in our workplace.

Additionally, we have continued to roll out our Inclusive Leader workshop across the Group with over 400+ leaders having now attended.

Our ongoing partnerships with Stonewall and Inclusive Employers mean that our colleagues have access to a series of educational webinars on topics ranging from 'Faith & Religion' to 'Hidden Disabilities'.

During Pride Month, we engaged Stonewall to record a bespoke webinar featuring our LGBTQ+ network chair and two senior leaders.

By continuing to listen to and learn from our Inclusion Council, we have seen ongoing value from this cohort and as a result, have embarked upon a Reverse Mentoring scheme. Council members are matched with our Group Leadership Team on a formal basis, enabling our leaders to benefit from understanding their perspective and lived experience to further their own education.

2 Engage

Recognising and celebrating our differences and getting to know each other better as individuals.

National Inclusion Week in October 2021 was a key turning point for us as a Group, where we streamed a live event via our internal social network; Workplace. Facilitated by an external expert, and featuring panel discussions with colleagues, opening and closing sessions with our Executive Sponsors and a spotlight on our Non-Executive Director Loraine Martins OBE. This event allowed the entire business to connect with the subject of DE&I and following this, we saw heightened engagement with calendar events including Black History Month, International Men's Day, World Religion Day and International Day of Persons with Disabilities.

Groups of Inclusion Champions have developed across the business and the official inception of our LGBTQ+ & Allies Network came to life during Pride Month. The presence of senior leaders in that network has generated extra momentum and we can see a sense of community coming through. The intention is to organically develop networks for other marginalised groups as we progress our diversity and inclusion agenda, including people with disabilities.

Our inclusion conversation across the Group remains strong and self-sustaining, with calendar events creating opportunities to further the discussion and campaigns designed to drive engagement. However, we have just under 4,000 colleagues in our Everyone Welcome Workplace space and generate 1,200+ interactions per month from that group.

3 Action

Empowering and supporting our brands and operating functions to develop inclusion targets and plans, holding them accountable for change by monitoring their progress.

We have taken steps to improve our policies and ways of working behind the scenes, in order to move us forward from a cultural perspective. Ongoing work includes consultative work from Inclusive Employers to develop our recruitment and resourcing to become more inclusive, including diverse interview panels, blind CVs and reasonable adjustments made at interview stage.

We continue to drive the data collection, with our overall capture hovering at around 40% and our target set for 50% by the end of 2023. We are confident our capture rate will increase as we have successfully established the context for the request to share sensitive information and are gaining the trust of our colleagues. Better data collection allows us to understand the composition of our workforce and focus our efforts in the most appropriate areas.

Responsibility and sustainability report continued

Health, safety & wellbeing

The safety of our people, visitors and contractors who are on our sites is our utmost priority. We recognise the importance of providing a safe environment, promoting safe working and preventing work-related injuries or ill health, and seek to minimise the risk of a negative impact resulting from our operations.

Our code of conduct and health and safety policy emphasises the safety of our employees, partners and customers and is fully supported by the Group Leadership Team, who take responsibility for making sure it's communicated, understood and always acted upon across the Group.

Our ISO 45001 occupational health management system has been recertified following the latest round of audits in May.

Monitoring health and safety performance

Historically at DFS Group, we have monitored health, safety and environmental performance using an indicator of the number of injuries.

The business has used an electronic reporting tool over several years which every employee has access to for event reporting. To provide improved accessibility to this tool in the last year we have introduced QR reporting codes across the whole business, which has significantly helped increase the level of reporting. As a result, the increased speed and accuracy of reporting allow us to identify trends, which we address through safety awareness campaigns and improvement activities. Additionally, we have implemented improved communications such as health, safety and environmental bulletins and alerts, which identify actions that the management teams are accountable for closing, where applicable to their business. The output of these events also helps inform the new risk profile and the level of residual risk.

Health and safety improvements

There have been several improvement activities introduced in the past year helping to reduce risk. These include vehicle movement controls in our logistic business and health risk reduction improvements in our manufacturing facilities.

Covid-19

Throughout 2021, we continued to work with our people to maintain a Covid-secure work environment allowing us to continue with our operations with minimum disruption. The health, safety and wellbeing of our workforce was prioritised at all times during the pandemic and we continue to closely monitor Covid-related absenteeism, any adverse trends and consequently identify tactical improvement measures to reduce the impact to our people and business as necessary.

Employee wellbeing

Wellbeing support is increasingly important as we come out of the pandemic and colleagues face economic challenges. With this in mind at the end of January 2022, we launched our Wellbeing Strategy for the Group, with an ambition to;

'Prioritise colleague wellbeing, so everyone feels confident to have the conversation and access tailored support. Enabling every colleague to proactively live happy, healthy lives at every stage.'

Our wellbeing framework is made up of three key pillars; Mind, Body & Life. This provides consistency and an identity to our wellbeing offering, with key annual initiatives and targeted support.

Flexible/Hybrid working

We continued the 'Supporting You: Working Remotely' module to provide practical advice and wellbeing support to our colleagues who work from home and we developed an online course 'Thrive During Change' which enables colleagues working remotely to build their own personal strategies to develop and progress.

We believe that flexible working can increase staff motivation, promote work-life balance, enrich colleagues' wellbeing and improve performance and productivity. Our policy gives eligible colleagues an opportunity to request a change to their working pattern and sets out our approach to flexible working requests.

We will:

- Support flexible working to improve business performance, retention and help our colleagues achieve an appropriate work-life balance
- Always consider flexible working options as part of our duty to make reasonable adjustments for disabled colleagues and job applicants under the Equality Act as required
- Seek to provide flexible working arrangements to all colleagues across the Group. All jobs will be considered for this range of flexibilities unless there is a clear, demonstrable, operational reason why it is not practicable
- Provide flexible options for colleagues returning from leave e.g. maternity or shared parental leave including a focus on providing part-time opportunities to appeal to a wider audience
- Give all requests for flexible working equal consideration
- Empower colleagues and managers to reach agreements locally within their team
- Respect the rights of employees to holiday and leisure time

Responsibility and sustainability report continued

Mind

The Group is a passionate advocate for removing the stigma attached to poor mental health, actively creating a culture of openness and support.

We have trained Mental Health First Aiders (MHFAs) across the Group and have increased our network by around 20% in response to the pandemic.

In March 2022 we launched a new and improved employee assistance programme (EAP) with Health Assured. The free and confidential support network is designed to help colleagues deal with any problems affecting their wellbeing. This includes specialist counselling (which family members can also access), advice and information, legal guidance and a handy digital app providing access to resources and proactive tools.

As part of our commitment to help colleagues lead happy, healthy lives, we partnered with Fika, a mental fitness training provider. Their purpose is to help individuals and teams to become more mentally fit, with emphasis that we need to maintain mental fitness through exercises in the same way we do physical fitness, to help prepare for challenges and prevent future mental health decline.

During the year, Fika delivered mental fitness workshops to our senior leaders across the business, helping them better understand the concept of proactive mental fitness and how this translates into building more resilient and productive teams.

Body

To support our colleagues' physical wellbeing there are a variety of initiatives in place. This year we launched a new integrated benefits platform, which hosts a variety of tools and support, including online workouts, recipe ideas, discount gym memberships and access to the Cycle2Work scheme.

We have partnered with Response Physiotherapy & Sports Massage who provide expert on-site consultations for colleagues at our Customer Distribution Centres, as well as offering instant access appointments for ongoing support and advice.

Life

In 2021 we began our partnership with Peppy Health, a digital healthcare tool that provides free access to leading health experts to support through different stages in life, such as going through the menopause, male-specific health issues, struggling with fertility and having a baby.

In FY22 we launched Peppy's menopause and men's health services and later this year we'll be launching baby and fertility support. It's a transferable benefit meaning Peppy is available to all our colleagues and their partners.

Alongside Peppy, we're also partnering with an organisation called Henpicked who support businesses like ours to become more aware of the symptoms and impacts that the menopause can have and our ambition is to achieve recognition as a Menopause Friendly Employer. Alongside creating menopause guidance for all colleagues, we introduced the 'Menopause Awareness for Managers' eLearning course in July 2021 to better educate our line managers on the effects of the menopause at work.

As the cost of living crisis continues to stretch the finances of millions in the UK, it has never been more important to offer our people financial wellbeing support. Earlier this year we launched a new benefits platform with 'Reward Gateway', providing one place for colleagues to access discounts at over 800 retailers, tools and resources such as financial calculators and information on the existing benefits available to them.

Our priorities for FY23 focus on consolidating and driving engagement in our wellbeing offering, enhancing our offering in some of the key areas whilst better educating leaders and colleagues.

Responsibility and sustainability report continued

Our Planet

Alignment to UN SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION · 13 CLIMATE ACTION · 15 LIFE ON LAND

FY22 highlights:

– Calculated our Scope 3 emissions for FY19 to FY22
– 4% absolute reduction of Scope 1 CO_2 emissions (baseline FY18/19)

FY23 Targets:

Timber

At least 90% of timber used in all products will be sustainably sourced (inc. FSC, PEFC) by Dec 2025

Leather

At least 90% leather used on upholstery will be sourced from supply chains with LWG certification by Dec 2024.

Textiles

At least 90% of textiles in upholstery ranges will be OEKO-TEX STeP certified for cotton, viscose and polyester by Dec 2022, July 2024 & July 2023 respectively.

Our core material targets have been revised this year to reflect the fluid nature of our supply chains. We've also extended the scope of certification on timber and leather. See page 67 for more details.

Carbon reduction

We will reduce our Scope 1 CO_2 emissions by a minimum of 10% by Dec 2023.

An absolute reduction in our direct emissions is an essential first step to model the changes needed from our suppliers. We're on track to deliver a full 10% reduction by 2023.

Carbon roadmap

Science-based targets submitted for approval by SBTi by July 2024.

We have sent our commitment to SBTi but have delayed sharing our reduction roadmap for approval.

Packaging

Zero polystyrene in product packaging by Dec 2024.

Polystyrene has been traditionally used in our home category products due to the fragile nature of some materials. See packaging section on page 66 for detail.

The ambition of Our Planet pillar is to reduce our impact on the environment and create circularity within our business and the wider furniture industry. We've created the "Sofa Cycle" framework to support our teams' and supply chains' understanding of the scale of our ambition.

We've joined 60 or so other retailers as signatories to the BRC Climate Action Roadmap, establishing a commitment to become Net-Zero by 2040.

Therefore, it is critical that we establish a credible roadmap with short-term milestones that will guide us on a pathway to Net-Zero. We are and will continue to work tirelessly with our suppliers and external partners to find solutions to the various challenges we face across the value chain.

BRC Climate Action Roadmap commitment:

– Scope 1 by 2035
– Scope 2 by 2030
– Scope 3 by 2040

Carbon footprint

During the last twelve months, we built the first complete model of our full carbon footprint. The model was created for four years of data, starting with FY18/19 to ensure we had a strong understanding of trends and hot spots despite the disruption of the pandemic. We felt it imperative to have a robust baseline from which to benchmark progress.

We engaged Planetly, part of OneTrust, to support us in building a dynamic model, which will enable us to continually refine the model, with speed and accuracy in years to come. Our methodology strictly adhered to the GHG protocol and used primary activity data where possible for key areas such as energy, logistics and product and supply chains. For other activities, we used activity data (e.g. waste, commuting) or spend-based data (e.g. water).

The full carbon model clearly illustrates that, like many businesses, the majority of our footprint sits within our Scope 3 emissions (~90%), specifically 3.01 Procured Goods and Services (over 70%). Within this, our product emissions constitute over 85%, primarily from three key materials – foam, fabric and fibre. For full detail of our carbon emissions across the last four financial years, see page 69.

This highlights a clear and very specific challenge for our business and industry. While some recycled alternatives are available, we have seen a decrease in the availability of all recycled plastics in the last 12 months.

In last year's Annual Report, we stated our ambition to submit a roadmap to the SBTi by July 2022 but upon review of the model and the scale and nature of the changes needed, felt we could not provide a tenable roadmap to deliver the absolute reductions we are aiming to achieve. Therefore, we made a commitment to the SBTi to submit within the next 24 months and will use that time to develop a credible, robust and practical carbon reduction pathway.

In the interim, we are proud to be working with the Centre for Climate Change innovation who is partnering with us on this specific challenge to develop new materials in our products.

Some of the clearer pathways to carbon reduction have already been implemented. All of our showrooms, central distribution centres and manufacturing sites are now using 100% green energy and we are committed to removing all gas boilers from our showrooms by 2025. The Group has undertaken a project to introduce smart connected infrastructure using machine-learning algorithms linked to our heating, cooling and lighting assets to reduce the carbon footprint of our estate in excess of 25%. This has been rolled out to over 100 sites and a further 35 sites are still to be completed.

Responsibility and sustainability report continued

PlanTree and Our Planting Promise

While we aim to ensure FSC certified wood is used in all our products, we want to go further, and contribute significantly to reforestation.

The DFS Planting Promise and Sofology PlanTree campaigns ensure that for every sofa order delivered we will plant a tree in the UK, as part of accredited reforestation schemes run by the Woodland Trust.

To mitigate the Scope 1 & 2 emissions of the Group from the previous financial year over 88,000 trees have been planted in the UK through the Woodland Trust's Carbon scheme.

Fleet

The establishment of the Sofa Delivery Company, in the previous financial year, increased transparency and accountability for our delivery proposition.

Our aim is to offer improved customer service and a more flexible working environment for colleagues whilst also improving efficiency and reducing the Group's environmental impact. Our company car fleet policy only includes hybrid or electric vehicles.

Packaging and waste management

Packaging is one of the most visible sustainability reference points for a customer due to the volume, presence within their home and apparent single-use application.

As a Group, we ensure 100% of the plastic packaging we use is recyclable and at least 85% of all sofa packaging is currently recycled. We are on track to ensure this is increased to 100% by the end of 2022. The Home category, with fragile materials such as marble and glass, will continue to be a challenge and require bespoke solutions in order to remove polystyrene from our supply chain by the end of 2023.

Supply chain assurance

Our commitment

We believe the long-term success of our sustainability goals relies upon collaboration throughout our supply chain. We maintain long-standing, trusted relationships with our suppliers and are committed to bringing our suppliers with us on our sustainability journey. Significant progress has been made since we held our supplier conference in 2021 and we have noted a considerable change in the appetite of our suppliers to establish the procedures and processes required to meet our challenging sustainability agenda.

Supply chain due diligence is essential and we rely on expert audit partners to assist with transparency and traceability within our supply chain. The 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. Where evidentiary material has been impossible to source for leather supply chains, a secondary audit has been conducted using geo-location mapping. 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.

Our suppliers have needed to adapt to market circumstances and new suppliers may not initially meet our specific requirements. By moving to 90% target, we are reinforcing our commitment to material certification but with a pragmatic approach.

Material certification

By establishing third-party certification requirements for our core materials, we aim 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 the demand from customers for increasingly sustainable products increases. We have chosen material-specific certifications that are the most widely recognised not only within their industry but also by customers, in order to provide assurance of our sustainable sourcing practices.

Responsibility and sustainability report continued

Timber

Our commitment

To source all our timber from supply chains which meet our Timber Minimum Performance Requirements (see Group Timber Policy on our corporate website for more details[1]).

Our upholstery suppliers made significant progress during the year with 63% (CY20: 29%) of upholstery suppliers now certified and we have completed timber audits across 100% of our upholstery partners and home category partners.

The conflict in Ukraine has created an ongoing challenge within the timber market, particularly sourcing FSC-certified timber as all Ukrainian licences have been suspended. The scarcity of FSC-certified material has resulted in several ranges being changed back to uncertified timber. In light of this, we've broadened the scope of certification to include PEFC, widening opportunities to source in more markets including Northern America. We've also updated our timber policy to enable sourcing tropical timbers such as mango, acacia wood, and fast-growing hardwoods to be accepted. Although certification would be our first preference, our robust due diligence process, with full supply chain mapping and traceability audits ensures that we only use sustainably sourced timber.

Leather

Our commitment

Ensure all leather hides used in our products are sourced responsibly – using waste from the meat industry and not linked to deforestation of the Amazon biome region (see Group Leather Policy on our corporate website for more details[2]).

All our leather supply chains have been audited or mapped against deforestation locations by BLC (leading experts in the leather industry) and our suppliers have made changes in high-risk supply chains throughout the year to ensure we are delivering on our commitment. We review the exclusion zones around the Amazon biome based on new data available from Global Forest Watch and adjust our parameters to reflect these changes. Full traceability within the leather industry is particularly challenging and we are working with the Leather Working Group (LWG) to implement a new traceability protocol as part of the certification process.

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, greenhouse gas emissions, waste management and hide traceability. 84% of suppliers have at least one tannery LWG certified.

Textiles

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, which can be applied to all textile types and ensures environmentally friendly production processes, social working conditions and optimum health and safety. Our initial target was focused on cotton, deemed the highest risk material due to labour and water risks. While this constituted less than 5% of the total textile range, it was a useful way to embed the requirements within our supply chain. Suppliers with larger volumes have achieved certification but smaller suppliers have struggled, therefore we have extended the deadline by an additional six months.

1. Group timber policy: https://dfs.a.bigcontent.io/v1/static/31-DFS-Timber-Policy-170222.
2. Group leather policy: https://www.dfscorporate.co.uk/media/57423/Group-Leather-Policy.pdf.

Responsibility and sustainability report continued

Scope 1 & 2 emissions

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.

	FY22 MWh	FY21 MWh	% increase/ (decrease)
Electricity	**28,930**	27,020	7.1
Natural gas	**23,405**	33,208	(29.5)
Diesel	**42,774**	45,297	(3.0)
Petrol	**3,164**	1,709	85.2
Total energy consumption	**98,273**	107,234	(8.9)

	TCO_2e					TCO_2e per £m of gross sales				
	2022	2021	% increase/ (decrease)	2020	2019	**2022**	2021[3]	% increase/ (decrease)	2020	2019[3]
Direct emissions Scope 1	**16,215**[1]	18,058	(10.2)	17,462	16,873	**10.9**	13.0	(19.7)	18.6	14.5
Indirect emissions Scope 2 – market based	**223**[1]	1,697	(86.9)	5,195	6,189	**0.1**	1.2	(91.7)	5.6	5.3
Indirect emissions Scope 2 – location based	**5,828**[1]	5,797	0.5	5,195	6,189	**3.9**	4.2	(7.1)	5.6	5.3
Group total	**16,438**[1]	19,755	(16.8)	22,657	23,062	**11.0**	14.2	(25.7)	24.2	19.8
Gross sales (£m)						**1,487.7**	1,388.7	–	935.0	1,165.0

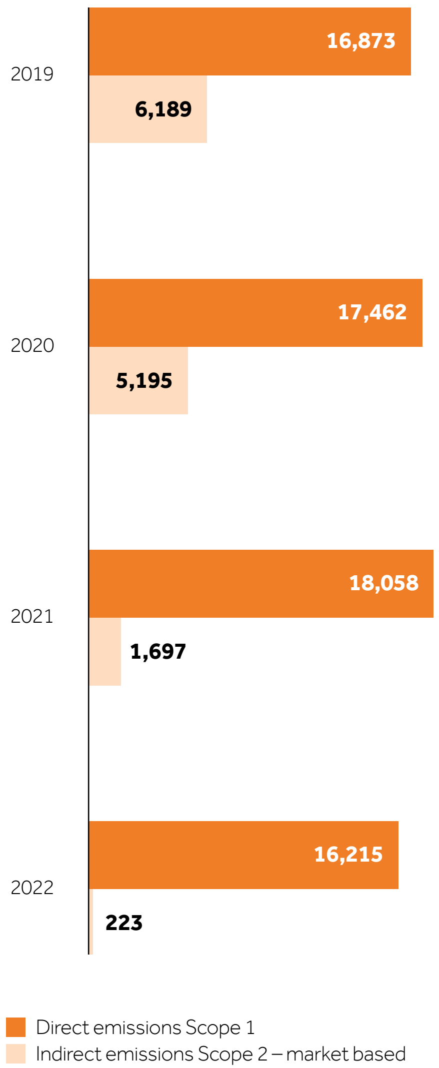
1. This data was subject to external independent limited assurance by DNV for the year ended 26 June 2022. DNV's assurance report is available on our corporate website at https://www.dfscorporate.co.uk/media/59327/DFS-DNV-Methodology-Report.pdf.
2. Prior year emissions have been recalculated and restated as the methodologies and data quality processes have been substantially improved as a result of our work with Planetly.
3. Gross sales includes £11.3m in FY22 and £9.3m in FY21 in relation to discontinued operations and FY19 gross sales is the 52 week pro-forma period.

Total Scope 1 & 2 emissions have reduced 17% year-on-year in absolute terms and 23% against our £m of gross sales intensity metric. Our Scope 1 emissions comprise the gas heating in our buildings and our delivery fleet, the 10% reduction is predominantly a reflection of the positive strides we have made in removing the gas boilers from our showrooms. However our fleet emissions have remained consistent year-on-year despite the increase in delivered revenues; this is impacted by our increased use of subcontractors to meet the final mile demand in the backdrop of the industry driver shortages and these subcontractor emissions fall within our Scope 3 emissions.

Our Scope 2 emissions have reduced to 223 TCO_2e as we successfully transitioned all our UK mainland sites' electricity supply to 100% renewable energy sources from October 2020.

During the year, we incorporated sustainability KPIs into our revolving credit facility (RCF) with a group of our relationship banks. These KPIs include Scope 1 emissions reduction, gender management in stores and material certification of both timber and leather, ensuring coverage across both environmental and social areas. This enables us to benefit from a lower interest rate if we deliver on our responsible business targets. The targets included within our sustainability-linked loan alongside our Scope 1 & 2 emissions have been externally assured by sustainability specialist DNV. Our first measurement period was December 2021 and all of our externally assured sustainability targets were achieved. See the reporting methodology on our corporate website[1].

Scope 1 & 2 emissions



Responsibility and sustainability report continued

Scope 3 emissions

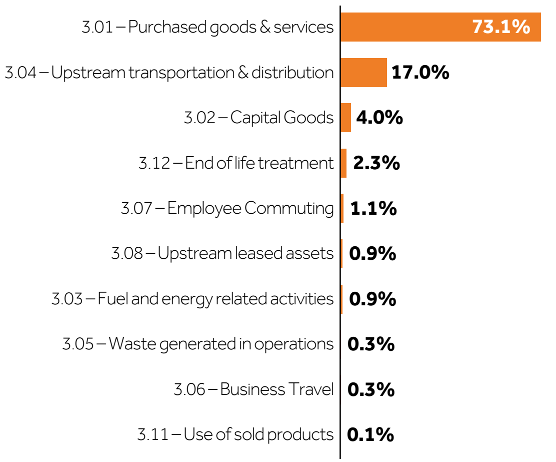
	KTCO$_2$e						KTCO$_2$e per £bn of gross sales		
Scope 3 emissions by category	**2022**	2021	Movement in year	% increase / decrease	2020	2019	**2022**	2021	% increase / decrease
3.01 – Purchased goods & services	**321.1**	309.2	11.9	3.8	215.8	284.8	**217.6**	222.6	(3.1)
3.02 – Capital goods	**17.4**	15.1	2.3	15.2	10.3	8.2	**11.7**	10.9	7.3
3.03 – Fuel and energy related activities	**4.0**	4.2	(0.2)	(4.8)	4.0	3.9	**2.7**	3.0	(10.0)
3.04 – Upstream transportation & distribution	**74.6**	58.5	16.1	27.5	33.2	36.7	**50.1**	42.1	19.0
3.05 – Waste generated in operations	**1.4**	1.3	0.1	7.7	0.9	1.3	**0.9**	0.9	–
3.06 – Business travel	**1.2**	0.8	0.4	50.0	1.3	1.3	**0.8**	0.6	33.3
3.07 – Employee commuting	**4.7**	4.1	0.6	14.6	4.5	5.4	**3.2**	3.0	6.7
3.08 – Upstream leased assets	**4.0**	3.2	0.8	25.0	3.1	2.5	**2.7**	2.3	17.4
3.11 – Use of sold products	**0.6**	0.7	(0.1)	(14.3)	0.5	0.7	**0.4**	0.5	(20.0)
3.12 – End of life treatment of sold products	**10.2**	9.7	0.5	5.2	7.1	9.0	**6.9**	7.0	(1.4)
Total Scope 3 emissions[1]	**439.2**	406.8	32.4	8.0	280.7	353.8	**297.0**	292.9	0.8

1. For further detail on each of the emissions categories and our calculation principles and methodologies, see the Emissions Methodology Report: https://www.dfscorporate.co.uk/media/59330/DFS-Emission-Methodologies-Report.pdf.

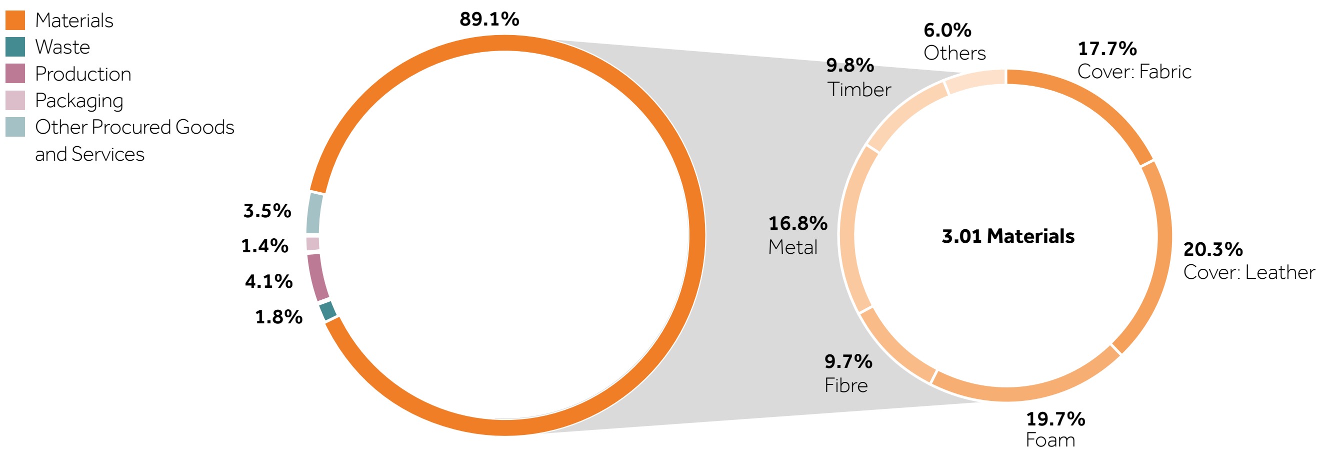
Similar to most retailers, the majority of our carbon emissions fall within Scope 3, primarily attributed to the product we sell (3.01) and upstream logistics (3.04). Within 3.01, our product emissions constitute over 85%, primarily from upholstery fillings, foam and fibre and covers made from fabric.

Using primary data from our largest suppliers, we created a detailed model of our product footprint, illustrating 'hot spots' within our materials – polyurethane foam, polyester fabric and polyester fibre. Changes in energy and materials types ensured the product footprint did not scale at the same rate as the volume of orders. Upstream transportation and distribution emissions (Scope 3.04) have also increased significantly predominantly due to the volume of orders. Business travel (3.06) and commuting (3.07) have increased but are still below pre-pandemic levels due to the increase in remote and flexible working within non-operational roles.

FY22 Scope 3 emissions by category %



3.01 – Purchased goods and services breakdown



Responsibility and sustainability report continued

Our Customers

Alignment to UN SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

FY22 highlights:
- Over 110,000 items saved from landfill during the year through our Sofa Rescue programme
- Sustainability Edit launched in Sofology and expanded our Grand Designs offer to include beds

FY23 Targets:
We are committed to launching at least three new sustainably focused ranges across the Group in FY23

As part of our ongoing research into materials and developing customer consideration, we will continue to develop sustainably focused ranges within each brand.

To ensure we deliver the highest levels of customer service we make a 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 carried out through an independent consumer research group.

Customer referral is a great indicator of 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.

DFS Post-Purchase NPS score has remained consistent year-on-year at 86.3% (FY21 86.4%). DFS Established Customer NPS score in the current year has been heavily impacted by uncontrollable issues within the supply chain resulting in longer than envisaged lead times and has decreased to 11.7% (FY21 30.7%).

Our 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.

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 UKCA compliance certification.
- Extensive fire tests: All products are tested by independent organisations such as FIRA (Furniture Industry Research Association) 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 and 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.

Responsibility and sustainability report continued

The Sustainability Edit

This collection of more environmentally friendly sofas includes ranges that use fabrics made from recycled pre and post-consumer waste, fillings that are recycled or recyclable to support a circular economy, as well as wooden frames from sustainable sources.

We are now the first sofa retailer in the UK to introduce a new, innovative seat option – Ultraflex Encore. This seat filling is a more sustainable foam alternative, offering all of the benefits of foam with a reduced environmental footprint as it is made from 20% recycled polyester with plastic bottle content.

Grand Designs range

DFS announced the launch of Grand Designs beds during the year – an extension to the already successful Grand Designs sofa range. This new collection of three stylish beds is made using only the most innovative and sustainable materials including FSC-certified timber frames, interiors made from recycled plastics bottles and fabric made from 100% recycled yarn.

The collaboration between DFS and Grand Designs first launched in 2021 and pioneers DFS' broader commitment to building a sustainable business model rooted in the principles of the circular economy – where waste is designed out, and more environmentally friendly materials are sourced, recycled and kept in use.

Sofa Rescue

The 'Sofa Rescue' initiative, ensures unwanted sofas can be disposed of in an eco-friendly, responsible way, collecting from customers' homes and recycling as many components as possible. This has saved over 110,000 pieces of furniture from landfill during the year and 210,000 items to date.

Using an integrated service model, our teams arrange collections of old sofas the day before delivering a new order to a customer's home. Utilising an extensive and selective network of waste transfer stations to ensure at least 85% of upholstery items collected are diverted from landfill. Additionally, all reverse logistics emissions to support Sofa Rescue are carbon offset.

Data protection policy and 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. Cyber has been identified as a principal risk, see page 41 for further details on the procedures and system in place to mitigate the risks.

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

Anti-corruption, bribery and tax strategy

We are committed to conducting all of our business in an honest and ethical manner, acting professionally, fairly and with integrity in all our business dealings and relationships. We implement effective systems to counter the risk of bribery and corruption.

All potential or actual conflicts of interest should be declared and managed. This will ensure they never stop us from making objective decisions.

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

Our anti-bribery policy and corruption, corporate criminal offence policy and tax strategy are available on our website[1].

1. https://www.dfscorporate.co.uk/governance/policies-statements.

Responsibility and sustainability report continued

Our Communities

Alignment to UN SDGs

FY22 highlights:
– Over £750,000 raised for BBC Children in Need during the year, our largest total since we began our partnership in 2013
– 100% of manufacturing suppliers risk assessed by Dec 2021

FY23 Targets:
Volunteering
15% of our non-operational colleagues will support community-based organisations through paid volunteering by June 2023.

We're proud to support our communities through paid volunteer time however our ambitious goal of over 1,000 days served across the group was hampered by the pandemic.

The new target for FY23 focused on non-operational roles due to labour challenges in specific sectors.

Modern slavery
Top 250 non-manufacturing suppliers by £ spend and sector risk assessed will complete ethical audits or training by December 2022.

Modern slavery is higher risk is certain sectors, especially those with temporary workforce such as warehousing, logistics and property maintenance. We're working with our suppliers to ensure they are aware of the risk and have a process in place to mitigate it.

"Together with our customers, we have now raised over £6,200,000 since 2013."

Our commitment

We are proud to be part of hundreds of communities across the UK and we are committed to helping each community thrive. There is a strong appetite among our colleagues to partake in volunteering opportunities however, the pandemic has severely limited the opportunities available and we have not been able to meet our original volunteering target. Since Covid restrictions have eased, more opportunities are starting to become available and we're seeing more colleagues taking their volunteering day.

Giving Back

It has been over a year since 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.

Our commitment is 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 (by volume) each year to charitable causes. 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

Since 2020, the money raised by colleagues and customers has helped to support nearly 6,500 children and young people with mental health issues to receive specialist counselling and this will be close to 10,000 children and young people in 2023.

2021/22 saw the Group raise over £786,700 for BBC Children in Need, our biggest annual total to date. Together with our customers, we have now raised over £6,200,000 since 2013. The funds have been raised through our in-store prize draw 'Give me Five', where customers donate £5 to be in with a chance of winning the cost of their order for free. Colleagues have raised money through staff sales, running the Virtual London Marathon and taking part in various fundraising activities throughout BBC Children in Need appeal week in November such as our 'Get your Strictly on' Fancy Dress.

In 2021, we partnered all our manufacturing and warehouse locations, offices and showrooms with a BBC Children in Need funded project within ten miles of their location to ensure a connection was established and to help drive local involvement. These relationships continue to go from strength to strength and sites are supporting their projects through volunteering, fundraising and product donations.

The Pennies Foundation

Sofology is now in the third year of its partnership with the registered charity "Pennies". Pennies allows customers to support local charities nominated by Sofology colleagues for each retail region. The charities selected predominantly work with children and young adults across the UK in a range of challenging situations. Sofology currently supports ten charities across the UK.

As well as supporting these charities through customer donations, over the past year Sofology colleagues have completed individual fundraising activities to raise extra funds, including one of our store managers spending a night in the cells to raise money for Teens Unite. Colleagues from our Stoke store taking part in the Continental Thunder Run, a challenging 24 hour race for Cancer Awareness for Teens & Twenties ('CATT's') as well as colleagues from our North Region climbing Pentland Hill and raising money for Children's Hospices Across Scotland ('CHAS') along the way.

We have also had numerous colleagues from our Cardiff store using their volunteer day to help with a team day at Velindre and colleagues from our North East Region again using their volunteer day to help out at the annual garden party for Grace House.

Responsibility and sustainability report continued

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[1] on our corporate website. 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.

We are committed to ensuring that our customers, employees, workers within our supply chain and the members of the local communities we operate in are treated with dignity and respect by upholding internationally recognised human rights principles.

Our approach is to implement the UN Guiding Principles on Business and Human Rights and to recognise and manage the risk of harm associated with human rights violations. Furthermore, our efforts include ongoing robust engagement with our business and major supply chain partners to mitigate potential human rights impacts beyond our direct control.

The modern slavery audits have been completed for all manufacturing partners. These audits enable us to address areas of risk and request changes within the manufacturing supply chains.

Of all manufacturing partners, 15% were deemed high risk and provided corrective action plans to address the key areas of concern. Follow up audits to ascertain whether those areas of risk have been addressed are in progress.

Non-manufacturing (GNFR) supplier audits are in progress and on track to be completed by December 2022. The suppliers were selected based on value and sector and low risk sections, such as finance and legal, were excluded.

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:

1. Regularly review human rights (and modern slavery) related risks associated with our business and supply chain. Our Anti-slavery and Human Trafficking policy sets out our approach.
2. Promote respect for human rights throughout the Group and embed this within the Group culture.
3. Promote the reporting of any human rights concerns throughout the DFS Group and Supply Chain, by providing sufficient ease of access to highlight any concerns, including the provision of an anonymous whistleblowing service as set out in our Whistleblowing Policy.
4. Continue to provide training through our Employee Code of Conduct e-learning modules, which are mandatory for all Group employees and in depth training on the risks of modern slavery in the wider supply chain for those employees who work most closely with our suppliers.
5. Our contracts require third parties to confirm that they comply with anti-corruption, and anti-slavery legislation and we have the right to terminate relationships with third parties where we find examples of breaches of those contractual obligations.
6. Continue to carry out rigorous due diligence to mitigate risks across our own operations and supply chain. We seek to address risks within the supply chain through our ethical sourcing commitments and through our Supplier Code of Practice.
7. Regularly monitor our performance and progress on key human rights issues indicators and report on this in our Modern Slavery Statement

For more detail, see our Group Human Rights Policy[2]

1 https://www.dfscorporate.co.uk/esg/modern-slavery-and-human-trafficking-statement.
2. https://www.dfscorporate.co.uk/media/57474/Group-Human-Rights-Policy-1-.pdf.

Responsibility and sustainability report continued

Task Force on Climate-related Financial Disclosures (TCFD)

The Group recognises the importance and benefits of the TCFD framework in demonstrating to stakeholders our strategy, climate-related risks and opportunities and our proposed response.

Our disclosures are consistent with the recommendations and recommended disclosures of the TCFD, and have considered Section C of the TCFD Annex entitled "Guidance for all sectors". Our disclosures are in compliance with the requirements of LR 9.8.6R with the exception of detailed climate scenario analysis which we are committed to undertaking in FY23.

Significant progress has been made during the year to comply with the TCFD and we will continue to evolve our disclosures now the building blocks for reporting are in place.

Governance

Board oversight

The Group has a clear governance structure in place for ESG related matters, see page 58 for the structure in place. Climate is one of the four pillars included in the RSC and we recognise that compared to the other more established pillars there is a greater level of resource and focus necessary in order to accomplish our longer-term goals. In order to evoke the level of change required in this area, a significant portion of time and resource has been dedicated to this area.

Role of senior management

Senior management form part of the Sustainability steering meetings and chair brand level ESG committees to ensure they are influencing and monitoring the progress of the ESG objectives. Responsibilities include updating the Board on ESG developments, driving the overall strategy of the business and the day-to-day management of the climate-related risks and opportunities of the business.

Since the announcement of our Sustainability strategy in September 2020 we are working with external consultants who specialise in sustainability, including:

– undertaking a climate-related materiality assessment with EY (completed FY21)
– calculating our Scope 3 emissions with Planetly (ongoing, commenced FY22)
– assuring our key sustainability KPIs through DNV (ongoing, commenced FY22) and;
– conducting scenario analysis with Willis Tower Watson (commenced August 22 – to be completed in FY23)

Management are informed about climate-related matters both internally and externally.

– Internally through regular updates from the brand level ESG committees and Sustainability Champions, who ensure a clear voice for matters to be raised and escalated effectively and help to identify areas for improvement.
– Externally through input from sustainability experts, such as James Cameron, to ensure our sustainability strategy is relevant and abreast of the regularly changing reporting and regulatory landscape.

Strategy and risk

We have used the understanding gained from the materiality assessment conducted in FY21 to identify and outline the risks and opportunities in relation to sustainability, see page 75. We are committed to performing scenario analysis with the guidance of Willis Tower Watson initiated in August 2022. Once completed, a more comprehensive list of risks and opportunities will be outlined.

We categorised the below risks and opportunities identified into the following time horizons.

Short term: 1-3 years

We perform detailed financial forecasting, including our viability reporting on a three-year cycle therefore we have aligned our short-term time horizon with this measure.

Medium term: 3-10 years

The significant strategic and operational changes needed to address our carbon footprint are expected to be embedded and monitored within this timeframe.

Long term: 10-30 years

Aligned with our Net-Zero ambition by 2040 and will include measures and investments, which look to fundamentally reshape our product portfolio and asset base to facilitate our transition.

The process for identifying climate-related risks has been integrated into our overall risk management process, see page 38.

Our materiality assessment performed last year, which involved in-depth meetings with stakeholders from across the Group and with senior management, has been further developed with input from the RSC and risk team to ensure material risks are identified and managed effectively.

ESG is a principal risk, which has the potential – to varying degrees – to impact our business in the short, medium and long-term. The process for assessing and identifying climate-related risks is the same for all principal risks, we prioritise principal risks through our Group risk register and risk heat map. The Board has overall responsibility for the Group's risk management and systems of internal control and this includes the climate-related risks we have identified.

Detailed within the risk management section, is how these risks could have a material financial impact on the organisation, the relevant significance of climate-related risks disclosed in relation to other organisational risks and the process used to determine the potential size and scope of the climate-related risks.

The integration of our climate-related risks ensures they are a consideration by both senior management and the Board when executing both strategic and business decisions and has sufficient influence on the Group's business strategy. We have set ambitious targets both in the short and medium term demonstrated by our ESG targets and in the long-term in relation to our 2040 Net-Zero ambition.

Impact on planning and strategy

To meet these targets we are committed to investing in research and development over the coming years to grow our sustainable product portfolio, adapt our supply chain and operations and reduce our emissions footprint.

The Group allocates funds to a separately managed, Board-approved, ESG budget, dedicated to responding to our climate-related risks and opportunities. This is critical even in the current market, which has seen inflationary pressures in our input costs. We acknowledge the long-term nature of our commitments and the foundations that must be established in the upcoming years in order to ensure these targets remain achievable.

Scenario analysis

We have committed to completing our scenario analysis by the end of FY23 and intend to assess the resilience of our business strategy against a range of climate-related scenarios including both:

– Low Carbon World (high transition risk)
– Hot House World (high physical risk)

Assumptions will be gathered from sources including the IPCC, NGFS and IEA. The physical risk, assessed on the exposure of our assets, will be evaluated on future time horizons against the different scenarios using a bespoke modelling tool.

The transition risk will draw on published assumptions and engagement with key internal stakeholders to evaluate exposure. Once performed we will review the existing risks and opportunities identified and ensure any additional risks are included in our current processes.

Metrics and targets

Our ESG frameworks and targets clearly outline the risks and opportunities and allows us track our performance against our sustainability goals over both the short and medium term. These include direct emission reductions, sustainable sourcing and modern slavery.

During the year we calculated our Scope 3 emissions for the last four financial years (FY19-FY22). See page 69 for the detailed breakdown.

We are committed to science-based reduction targets with the SBTi in the next two years. Additionally we have incorporated sustainability KPIs into our Revolving Credit Facility (see page 68 for more detail).

Responsibility and sustainability report continued

The below table summaries the key climate-related risks and opportunities identified that are considered to have the greatest impact on the business in the short, medium and long term.

	Description	Time horizon	Risks	Opportunities	Strategic response and resilience
Policy and legal	The financial performance of our business/industry could be adversely impacted as a result of current and emerging laws and regulations such as the introduction of carbon taxes and zero net deforestation policies	Current laws and legislation: Short-term Emerging laws and regulations: Medium/Long-term	Introduction of these policies could lead to an increase in input costs (raw materials, manufacturing, packaging etc.)	Opportunity through being proactive in our sustainability approach to gain an advantage over our competitors and avoid or reduce any impact of government taxes or sanctions.	We constantly review and reflect regulatory requirements and industry standards in our policies. Our suppliers have engaged with new standards and certifications, ensuring best practice and we will continue to amend these, as we deem appropriate.
Changing consumer preferences	As public concerns around climate change grow and the demand for sustainable product ranges increases it is essential our products align and respond to changes in customers' preferences.	Medium/Long-term	Reduction in demand and revenues over time if our products are perceived to be unsustainable by the general public.	By moving with or ahead of changing customer attitudes and preferences, we have an opportunity to appeal to a wider customer base through the development of more sustainable products.	We consider ourselves to be ahead of the current market in the sustainable products we have on offer. We will continue to invest in sustainable products and partnerships such as the Grand Designs and Sustainability Edit, ensuring that the ranges are affordable, comfortable and sustainable.
Transition to low carbon production and/or low emission technologies	Fossil fuels are a key component in our raw materials. In order to transition to renewable energy sources we are reliant on technological advancements such as 7.5 tonne electric vehicles within our direct emissions and engagement and willingness from our suppliers to transition to more sustainable practices.	Short/Medium-term	There are expected to be increased legislation and regulations introduced around carbon, which are likely to increase the overall production costs of our products, and could result in impairment of current assets in the future or significant investment required in new technologies.	Opportunities for reputational benefits and potential for lower energy use/operational savings from more efficient technology.	We have joined the Centre for Climate Change Innovation, a partnership which addresses specific material challenges in addition to working closely with our suppliers on the specification of materials on all new ranges. Additionally we are engaging in retail industry initiatives to address challenges such as electrified 7.5 tonne vehicles, being proactive rather than reactive and always pragmatic. We have already made progress within our company car fleet. Only hybrid or electric vehicles are available within our company car policy.
Physical – acute	Our operations could be physically damaged by extreme weather events, including damage or loss to our owned property or inventory of products. Additionally, weather related events could lead to disruptions in our supply chain which influence the availability of raw materials or significant delays in manufacturing of products.	Medium/Long-term	Closure of showrooms and the unavailability of raw materials or significant delays in manufacturing of products leading to reduced revenues and reputational damage.	n/a	Operations throughout the UK and omnichannel platform limit overall impact to the business from any extreme weather conditions. The pandemic demonstrated the Group's resilience during prolonged showroom closure and therefore we would anticipate limited financial impact as a result of climate-related events. Manufacturing sites' due diligence and our fluid business model ensures we are not limited to a single point of risk within our supply chain.

This strategic report was approved by the Board on 15 September 2022.
On behalf of the Board

TIM STACEY
Chief Executive Officer

MIKE SCHMIDT
Chief Financial Officer

Governance report

This section introduces our Directors, and details the activities of our Board and Board Committees.

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Board of Directors

IAN DURANT
Non-Executive Chair
N

Date of joining DFS: May 2017

Experience: Ian has held senior executive and non-executive positions in the retail, property, hotels and transport sectors in the UK and internationally. He brings to the Board over 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, Hongkong 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) Development Studies (Kent University)
- Fellow of the ICEAW

External appointments:
- Chair of Greggs Plc
- Non-Executive Director Warren Partners & Chair of Employee Ownership Trust

Independent:
- On appointment

TIM STACEY
Chief Executive Officer
S

Date of joining DFS: July 2011

Experience: Tim has been with the DFS Group for over 10 years and has an in-depth knowledge of all aspects of the business. Prior to being appointed Group CEO in November 2018, Tim served as the Chief Operating Officer, he was responsible for the showrooms, supply chain and customer service in addition to Online operations and International development.

Tim has significant experience in digital retail having joined DFS as Director of Online and Business Development and having led the multi-channel transformation of DFS. He was previously the Multi-Channel Director for Boots.com and Director for Online and Business Development for Alliance Boots.

Tim also has significant experience in M&A, Operations and Customer Services & Marketing.

Qualifications:
- BA (Hons) Accounting and Finance (Nottingham Trent University)
- Member of the ICAEW

External appointments:
- No external appointments

Independent:
- Not applicable

MIKE SCHMIDT
Chief Financial Officer
–

Date of joining DFS: March 2014

Experience: Prior to his appointment as CFO in July 2019, Mike served as DFS's Chief Development Officer with responsibility for property, strategic development, M&A and investor relations activities. Mike leads the Group finance, risk and compliance functions. In addition to his other responsibilities Mike previously 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) Economics and Management (Cambridge University)

External appointments:
- No external appointments

Independent:
- Not applicable

ALISON HUTCHINSON CBE
Senior Independent Non-Executive Director
A N R S

Date of joining DFS: May 2018

Experience: Alison has a background in both digital and retail financial services and was previously Group CEO of Kensington Group PLC. Over the last 12 years Alison, as the CEO of the Pennies Foundation charity has worked with the retail industry to establish the fintech charity the Pennies. Until March 2022, Alison was a Non-Executive Director of Liverpool Victoria Friendly Society Ltd. She has also held senior management positions, including Marketing Director, at Barclaycard having started her career at IBM. In 2016, Alison received a CBE for her services to the Economy and Charity.

Qualifications:
- BA (Hons) Technology & Business Studies (Strathclyde University)

External appointments:
- Chief Executive of The Pennies Foundation charity
- Vice Chair and Senior Independent Non-Executive Director of Yorkshire Building Society
- Senior Independent Non-Executive Director of Foresight Group Holdings Limited

Independent:
- Yes

Committee membership key

A Audit Committee Member
N Nomination Committee Member
R Remuneration Committee Member
S Responsibility and Sustainability Committee Member
Denotes Chair
– None

Board of Directors continued

JO BOYDELL
Non-Executive Director

A N R

Date of joining DFS: December 2018

Experience: Jo Boydell has been the Chief Executive Officer of Travelodge since May 2022, having previously served as the Chief Financial Officer since 2013 and has broad based finance experience in hospitality, leisure and retail. Prior to joining Travelodge Jo held senior finance roles across a number of consumer-facing companies including Mothercare, Jessops, Ladbrokes plc, Hilton Group plc and EMI Group.

Jo has significant experience in M&A and corporate restructuring as well as risk management and corporate governance.

Qualifications:
- BA (Hons) Physics (University of Oxford)
- Associate of ICAEW
- ICAEW Business & Finance Professional

External appointments:
- Director and Chief Executive Officer of Thame and London Limited, the parent company of the Travelodge Group and for Travelodge Hotels Limited and Director of other subsidiary companies within the group

Independent:
- Yes

STEVE JOHNSON
Non-Executive Director

A N R

Date of joining DFS: December 2018

Experience: Steve has over 25 years' experience in the retail sector, in both public and private equity businesses.

Previously served as CEO of Focus Wickes DIY Group and Woolworths, as well as working with several other retailers. Prior to this Steve spent 8 years at Asda having started his career with Bain & Co.

Steve is an experienced Independent Non-Executive Director and was on the Board of Big Yellow PLC until 2020 and was the Senior Independent Director of Lenta Limited until March 2022. Steve has significant retail and M&A experience. Most recently he held the position of Executive Chairman at the Matalan Group before stepping down in July 2022.

Qualifications:
- BA (Engineering) MEng (University of Cambridge)

External appointments:
- None

Independent:
- Yes

JANE BEDNALL
Non-Executive Director
Designated Director for Workforce Engagement

A N R S

Date of joining DFS: January 2020

Experience: Jane has 30 years experience in customer led 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 British Airways, InterContinental Hotels Group, and Centrica.

Jane previously held Non-Executive Directorships with EI Group and Smart Energy GB.

Qualifications:
- BA (Hons) Modern Languages (French, German, Spanish) (University of Sheffield)

External appointments:
- Non-Executive Director, Hostmore Plc
- Non-Executive Director of Kings Cross Central General Partnership

Independent:
- Yes

LORAINE MARTINS OBE
Non-Executive Director

A N R S

Date of joining DFS: June 2021

Experience: Loraine is the Global lead for diversity and inclusion at the Nichols Group having previously been the Director of Diversity and Inclusion at Network Rail between 2012 and February 2022. Prior to that Loraine was responsible for Jobs & Skills and Equality and Inclusion in the construction of the Queen Elizabeth Olympic Park for the London 2012 Olympic games, for which she was awarded an MBE. And In 2021 Loraine was awarded the OBE for her services to diversity and inclusion in the railway.

Loraine is a recognized expert in her field and brings a wealth of experience of organisational transformation, culture change and a strong commitment to responsible business.

Qualifications:
- BA Comparative American Studies (University of Warwick)
- FRSA (Fellow of Royal Society of Arts)

External appointments:
- None

Independent:
- Yes

Committee membership key

A Audit Committee Member
N Nomination Committee Member
R Remuneration Committee Member
S Responsibility and Sustainability Committee Member
Denotes Chair
– None

Corporate governance report

IAN DURANT
Chair of the Board
Bio on **page 77**

Dear Shareholder

Welcome to the Governance section of our 2022 annual report. On behalf of the Board, I am pleased to present the Corporate Governance report for the year ended 26 June 2022. At DFS, we recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our Company. This report details how the Board has ensured that all of the Group's activities are underpinned by high standards of corporate governance. In a rapidly changing global and economic environment, our governance framework demonstrated its resilience and supported effective decision-making, whilst enabling the Group to react and respond quickly to the needs of all our stakeholders.

Board activities in 2022 at a glance

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

- Assessing the operating and long term financial planning, budgeting and the performance and strategy of the Group, in the context of the increasingly challenging trading environment and market expectations
- Capital allocation and distribution of surplus funds & the share buyback programme
- Debating strategy development and overseeing stakeholder communications
- Capital Market Day in March detailing the Group's ambition in the wider home market
- Internal Board Evaluation and a review of Board Skills
- Appointing the Responsible and Sustainable Business Committee to focus on progress against our pledge around "Planet, People, Customer & Community"
- Overseeing the Group's exit from its operations in Spain and the Netherlands
- Developing the Group's Purpose to align with the new "Pillars & Platforms" Strategy
- The induction of a new Non-Executive Director, Loraine Martins
- Succession planning for the Board and Executive team
- Employee listening and engagement post pandemic, with a focus on the health & welfare of all our colleagues

Our Board composition & our People

All our Directors served throughout the year. There is true diversity in the Board, including gender, ethnic background and cognitive diversity. The Board oversees and supports the Group's Leadership Team and has worked to be collaborative as well as supportively challenging. At the start of the year the Board welcomed Loraine Martins. Loraine is an expert on diversity and inclusivity and has supported the Group with its "Everyone Welcome" agenda. The balance of the Board and the skills was reviewed as part of the work of the Nomination Committee to assess the needs of the Group going forward and the requirements for any new appointees to the Board.

The Board is cognisant that our decisions affect the lives of all our employees and their families as well as those of our many suppliers and contractors who work with us, the current economic uncertainty makes this even more important. Through out the year the Board has continued to focus on looking after the health and welfare of our people, and listened to their views and concerns help inform Board discussions.

Purpose, Values and Culture

The Board understands its role in setting the tone of the Group's culture, ensuring it aligns with our purpose, values and strategy. This year has further highlighted how fundamental the combination of a strong culture and values are in guiding the Group towards achieving its purpose. Our culture is shaped by our values and those values are at the heart of the culture, providing a clear foundation for our people. We believe that our values are integral to the achievement of the Group's strategy. They influence actions and behaviours, complement our strategic direction and support the integration of people into our business to work with common purpose.

Ambition to become a revenue business worth

£1.4bn

Corporate governance report continued

In March at the Capital Markets day for our investors the Group Leadership Team shared its ambition to become a £1.4 billion revenue business, through the delivery of the 'Pillars & Platforms' strategy and the enhanced focus on developing wider 'home' categories. To reflect our wider market ambition and the expansion into home furnishing the Board refreshed the Group's corporate purpose "To bring great design and comfort in an affordable, responsible and sustainable manner into every Home."

Environmental, Social and Governance ('ESG')

The Board recognises the importance of ESG and is committed to strategically integrating and advancing our sustainability efforts. To address this the Board has appointed the Responsible and Sustainable Business Committee, chaired by Alison Hutchinson, to oversee the delivery of our pledges to support Planet, People, Customers and Community and our journey to Net Zero.

Under the leadership of the Committee the Group has made significant progress in understanding the carbon footprint of our products. The team continues to work to bring new products to market which have a significantly lower carbon footprint, use new materials and new ways of working, service our customers, using technology to assess the need for our service teams to visit customers, so we can be sure of a right first time fix.

All areas of the Group have been reviewing their impact on the environment and in March we wrote to shareholders inviting them to receive shareholder communications and dividend payments electronically and I am pleased to say the uptake by our shareholders will significantly reduce the amount of printing we are required to do going forward. Further details on our approach to ESG can be found on pages 55 to 75.

Internal Controls

Following the publication of the BEIS consultation on audit and corporate governance reform, the Company has undertaken a review of our internal controls to benchmark where we are against the new recommendation. We will continue to develop the Group's response as greater clarity on future changes begins to emerge. The externally facilitated initial maturity assessment of the Group's controls undertaken last year has been followed up with a financial reporting risk assessment and the Group's goal remains a thorough and orderly approach to compliance.

2022 AGM

This year our AGM will be held on 4 November 2022 at 2:30pm at our Group Support Centre in Doncaster. Full details of the meeting arrangements and the resolutions to be proposed to Shareholders can be found in the Notice of AGM which will be made available on our website: www.dfscorporate.co.uk

I invite you to review the following pages, which set out how we have complied with the UK Corporate Governance Code (2018) ('the Code') and describes how the Directors have fulfilled their duties to our key stakeholders under Section 172 of the Companies Acts 2006 details of which can be found on pages 49 to 54.

IAN DURANT
Chairman
15 September 2022

Corporate governance report continued

Governance at a glance

Governance framework

Responsible for providing leadership to the Group's business, including setting the Group's purpose, strategy and values and promoting its long-term sustainable success. The Board has adopted a formal schedule of matters reserved for its approval.

The terms of reference for each Committee are documented and agreed by the PLC Board. These terms of reference are reviewed annually and are available on our website www.dfscorporate.co.uk

DFS Furniture plc Board

Audit Committee
Oversees financial reporting, internal controls, risk management, compliance, and audit.
See committee report on **pages 87 to 91**

Remuneration Committee
Oversees linking remuneration with strategy and determines the levels of remuneration.
See committee report on **pages 94 to 114**

Nomination Committee
Oversees the composition of the Board and succession planning.
See committee report on **pages 92 to 93**

Responsible & Sustainable Business Committee
Oversees the delivery of our ESG strategy.
See committee report on **pages 55 to 75**

Chief Executive
Responsible for the day-to-day running of the Group's business and performance, the development and implementation of strategy and promoting our culture and standards.

Group Leadership Team
Led by the Chief Executive, the members of the Group Leadership Team are collectively responsible for overseeing and driving the overarching Group financial and operational performance and executing on the strategic initiatives required to deliver the Group's strategy set by the Board.

Governance, Risk & Compliance Committee
Led by the Chief Financial Officer, the Committee is responsible for internal controls relating to Legal & Regulatory risks.

Brand ESG Committees
Led by the CEO's of the brand the Committees are responsible for overseeing the implementation of the People, Plant, Customer and Communities strategy.

Role of the Chair and Chief Executive Officer

As Chair, Ian leads the Board ensuring its effectiveness in all aspects of its role. Tim, the CEO, is responsible for managing the operation of the Group to create value over the long-term. There are clear divisions of accountability and responsibility that 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 Leadership 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 all of its stakeholders, the public and the media.

Role of the Senior Independent Director ('SID')

Alison Hutchinson, the Senior Independent Director is responsible for:

- Acting as a sounding board for the Chair;
- Meeting with the Non-Executive Directors annually, without the Chair being present and collating feedback to the Chair's performance as part of the annual Board evaluation process; 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

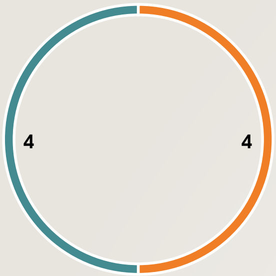
Liz McDonald, the Company Secretary & General Counsel is responsible for:

- Advising the Board and its Committees on corporate governance policies and procedure and for the management of Board and Committee meetings;
- Managing the provision of timely, accurate and considered information; and
- Advising the Board and representing the Company in legal matters.

Corporate governance report continued

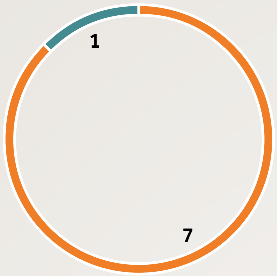
Governance at a glance

Gender Diversity



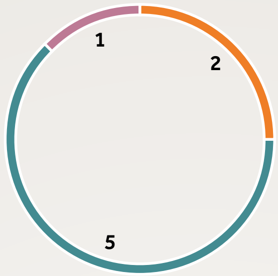
Male
Female

Ethnicity



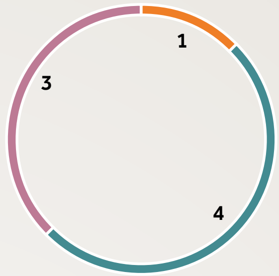
White
B.A.M.E.

Board Tenure



0-2 years
3-5 years
6-9 years

Age



36-45 years
46-55 years
56-65 years

Director' skills matrix

Skills and experience	Retail	Customer Services/ Marketing	People, Diversity & Inclusivity	Operations	International	Governance & Regulatory	Finance	Digital	M&A	Environmental	Logistics	Manufacturing
Ian Durant	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Tim Stacey	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓
Mike Schmidt	✓				✓	✓	✓	✓	✓			
Alison Hutchinson	✓	✓	✓	✓		✓	✓			✓		
Jo Boydell	✓		✓				✓	✓	✓			
Steve Johnson	✓	✓	✓	✓		✓		✓	✓		✓	✓
Jane Bednall	✓	✓	✓	✓								
Loraine Martins		✓	✓			✓	✓			✓		

Non-Executive Directors

The Board may appoint any person to be a Director any Director so appointed shall then be eligible for election by shareholders at the next AGM. Non-Executive Directors' appointments are for an initial period of three years. All Directors stand for annual re-election in compliance with the Code. Neither the Chair nor any Non-Executive Director have been in their position for more than nine years in accordance with the recommendations of the Code.

Independence

The Board reviews the independence of its non-executive directors annually. The Board considers that the Chair was independent on appointment and that all of the Non-Executive Directors are independent. The Company maintains clear records of the terms of service of the Chairman and Non-Executive Directors to ensure that they continue to meet the requirements of the Code. 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 Board considers that each of the Non-Executive Directors have sufficient time to devote to their role and that each Director's contribution is important to the long-term sustainable success of the Company. The Directors' biographies can be found on pages 77 and 78.

Corporate governance report continued

Governance at a glance

Name	Meetings attended	Maximum meetings	Independent	Responsibility and role during 21/22	Date of appointment
CHAIRMAN					
Ian Durant **Chairman**	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 **CEO**	8	8	–	Leading and managing Group performance and strategy to ensure the long-term profitable operation of the Group.	1 November 2018
Mike Schmidt **CFO**	8	8	–	Leading, managing, and maximising Group financial performance, investor relations, legal and risk functions.	11 July 2019
NON-EXECUTIVE DIRECTORS					
Alison Hutchinson **(SID)**	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
Steve Johnson	8	8	✓		6 December 2018
Jo Boydell	8	8	✓		6 December 2018
Jane Bednall	8	8	✓		1 January 2020
Loraine Martins	8	8	✓		28 June 2021
STANDING ATTENDEES					
Liz McDonald Company Secretary	8			Advising the Board on all legal, corporate governance and compliance issues	30 September 2018
ATTENDED BY INVITATION – members of the Group Leadership Team are invited to attend Board meetings to present papers and discuss key matters					
Nick Smith	4			The Group Leadership Team is led by the CEO, and is responsible for executing strategy and the day-to-day management of the business. Their attendance at Board meetings assists the Directors' in gaining a clearer insight into the Group's operations This process also affords the team the opportunity to bring matters to the attention of the Board.	
Scott Fishburn	3				
Emma Dinnis	2				
Alex Salden	2				
Russ Harte	2				
Jo Shawcroft	3				

Committee meetings

Name	Audit Committee	Remuneration Committee	Nomination Committee	Responsible and Sustainable Business Committee*
Ian Durant	–	–	1/1	–
Tim Stacey	–	–	–	2/2
Alison Hutchinson	3/3	3/3	1/1	2/2
Steve Johnson	3/3	3/3	1/1	–
Jo Boydell	3/3	3/3	1/1	–
Jane Bednall	3/3	3/3	1/1	2/2
Loraine Martins	3/3	3/3	1/1	2/2

* The Responsible and Sustainable Business Committee comprises Alison Hutchinson, Tim Stacey, Jane Bednall and Loraine Martins.

** All Directors are invited to Audit Committee meetings, and the Chair of the Board is invited to attend Remuneration & the Responsible and Sustainable Business committee meetings. The Chief Executive Officer and Chief Financial Officer are invited to attend both the Remuneration and Nomination committee meetings where appropriate to do so.

During the year the Chair and the Non-Executive Directors met twice without the Executive Directors' present, and the Non-Executive Directors met privately with the CEO on four occasions.

The Board has a full programme of Board meetings planned for the year ahead and intends to meet eight times, with additional meetings being held to review important trading periods or strategic matters, as required. All Directors have the right to have their concerns over, or opposition to, any Board decision noted in the minutes. All Directors have access to the Company Secretary and may take independent legal advice.

Corporate governance report continued

External appointments

During the year, there were various changes to the Directors' external interests. Jane Bednall, was appointed to the Board of Hostmore Limited, which subsequently listed on the London Stock Exchange as Hostmore PLC. Jane accepted this position after discussions with the Chairman and CEO in accordance with provision 15 of the Code, and the appointment was discussed with the wider Board. It was felt that Jane's appointment to the Board of Hostmore PLC would be of benefit to the Company. Alison Hutchinson, the Senior Independent Director of the Company, stepped down from the Board of the Liverpool Victoria Friendly Society Limited and Steve Johnson, Chair of the Remuneration Committee, stepped down from the Board of Lenta Limited.

The Executive Directors may accept outside appointments provided that such appointments do not impact their ability to perform their duties as Executive Directors of the Company.

Directors' Skills & Experience

The Board regularly reviewed the skills matrix to ensure it aligns with the evolution in the strategy. As part of their review the Director's concluded that the Board would benefit from Directors with experience dealing with the Environment, Logistics and Manufacturing. The competencies highlighted in the matrix will be considered in relation to the appointment of any new Directors' to the Board.

How the Board operates

The following section provides an overview of the content and structure of Board meetings. Agenda planning is undertaken in advance of every meeting to ensure there is appropriate allocation of time to strike the right balance between regular standing items, such as reports on current trading, financial performance & budgets, the strategic plan, regulatory and health and safety, with two or three detailed "deep dives" provided by members of the Group Leadership Team. 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. 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. All Board decisions are recorded and any Board decision made outside of a meeting is made by written resolutions. All meetings are structured to allow open discussion.

The Board has a formal schedule of matters specifically reserved for its decision and approval, which includes:

- Strategy, including responsibility for the overall leadership of the Group and setting the Group's vision, purpose, values and standards, satisfying itself that these align with the Group's culture.
- Capital and structure, including changes related to the Group's capital structure, major changes to the Group's corporate structure and changes to the Group's management and control structure.
- Board, Committee and other appointments, changes to the structure, size and composition of the Board, and succession planning for the Board and senior management.
- Remuneration, including determining the overall remuneration policy, setting the remuneration of the Independent Non-Executive Directors and introduction or amendments of the Group's share plans and equity incentive plans to be put to Shareholders for approval.
- Financial and annual reporting, including explanation of the Group's business model and strategy for delivering the objectives of the Group, approval of the Annual Report and Accounts, and statements containing financial information, including any half year report and preliminary announcement of financial results.
- Contracts, including approval of transactions that are material strategically or by size and investments and capital projects exceeding £3m per annum and £25m in aggregate.
- Risk Management and internal controls, including ensuring that the Group manages risk effectively by approving its risk appetite.
- Policies, including approval of any new key policies for the Group, or material amendment to existing key policies.

Board Meeting Attendance

The Board met eight times during the year, meetings took place at a number of operational locations to provide an opportunity to promote colleague engagement. Outside of the Board meeting schedule the Chair and each of the Non-Executive Directors spend time visiting the Group's showrooms, distribution and manufacturing sites throughout the UK. These visits provide the Non-Executive Directors with the opportunity to meet and talk with a wider group of colleagues and provide the in-depth knowledge necessary to facilitate strong debate and supportive challenge.

Corporate governance report continued

UK Corporate Governance Code 2018

Compliance statement

This Corporate governance report, which incorporates reports from the Audit and Nomination Committees on pages 87 to 93 together with the Strategic Report on pages 3 to 75, the Directors' remuneration report on pages 94 to 114 and the Directors' Report on pages 115 to 118, describes and explains how the Company has applied the relevant provisions and principles of the Code. The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations) and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules during the year ended 26 June 2022. A copy of the Code is available on the Financial Reporting Council's website, www.frc.org.uk

The Board confirms that we complied with all of the provisions set out in the Code, for the period under review, except for Provision 38. Provision 38 provides that Executive Director pension contributions should be in line with those of the wider workforce, following the approval of the Directors' Remuneration policy at last years' AGM, the CEO and CFO pension allowances will be reduced to 4% in line with the wider workforce level by December 2022. Further details regarding the Executive Directors pension contributions are set out at page 105 of the Directors' remuneration report.

Directors' indemnities and conflicts

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law, in respect of losses arising out of, or in connection with, the execution of their duties, powers or responsibilities as Directors of the Company. The indemnities do not apply in situations where the relevant Director has been guilty of fraud or wilful misconduct. Under the authority granted to them in the Company's articles of association, the Board has considered carefully any situation declared by any Director pursuant to which they have or might have a conflict of interest and, where it considers it appropriate to do so, has authorised the continuation of that situation.

In exercising their authority, the Directors have had regard to their statutory and other duties to the Company. 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 Company Secretary on an ongoing basis of any change in their respective positions. The Company maintains a related party register to record any conflicts which is updated annually. Additionally the Group has purchased Directors' and Officers' liability insurance.

Board Evaluation

As required by the Code, the Board undertakes an annual evaluation of its activities and those of its committees. Following last year's review by independent external consultant, Gould Consulting, to perform the external effectiveness review this year the Board carried out an internal review.

Between March and May 2021, a three-stage process was followed, as depicted to the right:

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, the review found that Board dynamics remain strong, that there has been an increased level of challenge by the Non-Executive Directors' and that this has led to an improvement in the quality of the debate. The quality of Board reporting, one of the actions from FY22's review has also improved significantly. The creation of the RSC Committee had been beneficial in ensuring the right level of focus on the Group's ESG strategy. The conclusion overall was that the Board is well led and the environment is managed effectively by the Chair. All Board members can contribute freely and play an active role in Board meetings. In addition, Board members had indicated that the Committees in particular the Audit and Nomination Committee were operating more effectively.

Stages of our external Board evaluation

Stage 1	Stage 2	Stage 3
Formal online questionnaire provided by Gould Consulting to provide a clear read across from the findings of the FY22 review One to one session with the SID	Results collated and shared with all the Directors SID fed back to the Chairman Discussion around the key learnings	Action plan for FY23.

Board action plan for FY23

- Elevated focus on Risk & controls and ensuring the quality and independence of the Internal Audit team
- Overseeing the strategic changes and the continued progression and development of each of the Group brands, with a particular emphasis on The Sofa Delivery Company
- Ensuring Boardroom transitions are handled seamlessly and effectively
- Enhancing Strategic KPIs and scorecard reporting
- A full review of the Group's contingency and business interruption planning, to ensure as a Group we are sufficiently agile to react to events

The Board will continue to review its procedures, effectiveness, development, and composition during the year ahead. The Chair will use the output of the Board evaluation to further develop the performance of the Board during the year ahead.

Culture and Company purpose

The Board recognises the importance of its role in setting the tone of the Company's culture. The culture is underpinned by our Purpose and our values, during the year the Company adapted our Purpose, to align with the next phase of our Strategy, to focus on offering Customers' a broad range of furniture for their Homes.

New Directors Induction

Following appointment, a new Director will undergo a detailed, tailored 6 month induction programme. Including meetings with the Company's external advisors and with colleagues from across Group to familiarise the Director with all operations, including those in showrooms, manufacturing sites and distribution centres, and our Group Support Centre.

Understand their duties	– One-to-one meeting with the Company Secretary to understand the Governance issues which applies to the business (e.g. Directors Duties (Companies Act 2006), Listing Rules and the UK Corporate Governance Code) – One-to-one meetings with the rest of the Board, including the Chairman, Executive Directors and other Non-Executives – Review previous Board & Committee papers, Committee terms of reference and Investor presentations etc. – Meeting with External Advisors (External Lawyers, Registrars etc.)
Meet the colleagues	– One-to-one meetings with the members of Group Leadership Team and the wider workforce – Presentations from key functions within the Group
Visit the business	– Visiting operational locations including showrooms, factories, support offices and customer distribution centres and meeting with our colleagues from these areas

Corporate governance report continued

Shareholder engagement

The Board actively seeks and encourages engagement with major institutional shareholders and other stakeholders. The Chief Executive Officer and Chief Financial Officer 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 March 2022, to allow for a more in depth discussion the Company held a Capital Markets Day for our institutional shareholders. At the session the Group Leadership Team delivered its ambition to become a £1.4 billion revenue business, through the delivery of a revamped strategy – moving from the '3x3' model to a new 'Pillars & Platforms' strategy and the continued expansion into wider 'Home' categories. Shareholders were also given the opportunity to tour our Milton Keynes CDC and visit the DFS and Sofology stores.

The Chairman makes himself available to shareholders so that any major issues and concerns can be communicated to the Board. 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. In addition to the extensive engagement carried out by the CEO and CFO, the Chairman, and other members of the Board met with major shareholders several times throughout the year.

Interaction with all shareholders

- presentations of full-year and interim results to analysts and shareholders, these are available on the Company's corporate website
- market announcements and 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 are regularly updated

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.

Relationships with other stakeholders

Details of how we consider our responsibilities to our wider stakeholders the Section 172 statement on pages 49 to 54 and the Responsibility and Sustainability Committee report on pages 55 to 75.

External auditor

Our external auditor is KPMG LLP and our engagement partner is Frances Simpson. Our auditor was appointed following a comprehensive tender process for the year ended 26 June 2022, and we continually assess the independence and expertise of KPMG LLP. Our non-audit services policy can be found on our website and further details on page 88.

Internal audit

Further details relating to the internal audit function are contained within the Audit Committee report on pages 87 to 91.

Remuneration

The remuneration policy is 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 94 to 114.

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 115 to 118.

Signed on behalf of the Board of Directors.

ELIZABETH MCDONALD
General Counsel & Company Secretary
15 September 2022

Non-Executive Director Induction

In June 2021, the Board appointed Loraine Martins as an Independent Non-Executive Director. Details of Loraine's background are set out on page 78. As part of the induction process, a series of engagements with colleagues were set up to familiarise the new NED with all operations, including retail – DFS and Sofology showrooms; manufacturing and distribution sites, and the Group Support Centre. Loraine also met with the Group Leadership Team and some senior members of their teams.

Audit Committee report

"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"

JO BOYDELL
Chair of the Audit Committee
Bio on **page 78**

On behalf of the Board I am pleased to present this year's Audit Committee report.

The Group's robust and agile approach to risk management has continued to be a strength as the impacts of the Covid-19 pandemic and related operational challenges extended into FY22, together with the further uncertainty arising from the conflict in Ukraine. This has enabled us to maintain a broad and effective internal audit programme this year as well as providing guidance and support in key risk areas.

Our internal audit team continues to innovate and has successfully extended its use of data analytics to create real-time dashboards of key assurance metrics across our retail estate and to support more focused and effective sampling and testing.

During the year we have also invested in a new risk management technology platform which is providing significant benefits in transparency and reporting of risks and controls.

Given the changing customer macroeconomic environment, viability reporting has remained a particular area of focus. The Committee has also considered the Group's approach to the new TCFD reporting requirements on page 74 and the evolving future reporting developments stemming from the BEIS consultation on audit and corporate governance reform.

FY22 represents the first year of KPMG LLP's appointment following the competitive tender process completed last year. The Committee continues to conduct regular assessments of the effectiveness of the external audit process.

Key activities during FY22

- Implementation of new risk management technology
- Review of new environmental reporting requirements (TCFD)
- Continued focus on future governance and reporting developments, including progressing the Group's approach to the BEIS consultation

I thank my fellow Committee members for their valuable contribution and support during the year, 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 who served during the year are Alison Hutchinson, Steve Johnson. Jane Bednall and Loraine Martins.

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 and recent executive roles, details of which are set out on page 78. 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 pages 77 and 78 and a summary of their principal skills and experience is shown on page 82.

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 Group Audit & Risk Director provides comprehensive updates at each meeting. The Company Secretary also attends by invitation in order to maintain a record of the meetings.

Audit Committee report continued

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 85. There were no significant concerns raised from this review and the Committee was deemed to be operating effectively.

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 financial and non-financial 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 and external audit:

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

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.

Activities of the Audit Committee

The Audit Committee met three times during the year and attendance at those meetings is shown on page 83. At each meeting, standing agenda items relating to risk, internal audit results, whistleblowing and litigation issues were reviewed in addition to specific financial reporting or other topics.

Financial Reporting

Financial Statements

The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The 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. This review includes an assessment of the adequacy of the disclosure with respect to going concern and viability reporting and due consideration to laws and regulations, the Task Force on Climate-related Financial Disclosures ('TCFD'). the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

In addition to existing requirements, the Committee monitors and considers future corporate reporting developments in order to develop the Group's approach to meet any new requirements. During the year there has been particular focus on the UK government's response to the BEIS consultation on audit and corporate governance reforms. While detailed legislation or updated Corporate Governance Code has yet to be published, the Group has continued to proactively work towards anticipated requirements.

The Committee was pleased to receive notification from the Financial Reporting Council ('FRC') that their review of the Group's FY21 annual report and accounts had identified no substantive matters requiring further correspondence. The FRC shared a small number of detailed suggestions of further enhancements that the Group could make, which have where relevant been reflected in the preparation of the FY22 report.

Viability

The Committee reviewed 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 Group's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis. As explained in further detail below, the Committee also reviewed the Group's longer term viability statement.

Fair, balanced and understandable

In reviewing the Annual report for the 52 weeks ended 26 June 2022, the Committee considered the balance of the strategic report with respect to proportional focus on positive and negative results and events, adequate disclosure of risks and the consistency of reporting of financial and other measures. The Committee also considered the extent and prominence of Alternative Performance Measures presented. 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.

Significant issues considered in relation to the financial statements

The Committee considered the following significant matters in relation to the financial statements and how these were addressed. This included reviewing papers prepared by management detailing the basis of and rationale for the treatments adopted. The Committee also received reports from and held discussions with the external auditor to ensure that a robust level of challenge had been made to management's assessments and to confirm that there were no significant differences of opinion between management and auditors.

Audit Committee report continued

Impairment of goodwill	Note 10
As a result of business acquisitions, the Group has recognised significant balances for goodwill. 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 made 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, and also reviewed KPMG LLP's report and discussed their observations and findings in this area. The Committee will continue to review the carrying value of intangible assets at least annually, or in the event of any significant changes to the structure or circumstances of the Group.
Parent company investments	Note 2 to the Company financial statements
The ultimate parent company of the Group, DFS Furniture plc, holds a significant value of investments in subsidiary companies in the Group. The carrying value of these investments and related intragroup borrowings is supported by the enterprise values of the underlying trading entities. Assessment of these enterprise values requires a number of judgements and estimates to be applied.	The Committee reviewed management's assessment of the recoverability of the parent company investments, including the underlying judgements and estimates, and considered the consistency of these with the assessment of the impairment of intangible assets as noted above. The Committee considered the appropriateness of the conclusions reached, and also reviewed KPMG LLP's report and discussed their observations and findings in this area. The Committee will continue to review the carrying value of the parent company investments at least annually, or in the event of any significant changes to the structure or circumstances of the Group.
Going concern and viability reporting	Page 48
In addition to the statement on going concern, the Group is required to make an assessment of its longer term viability. This requires the application of a number of judgements and estimates, particularly given the potential for further disruption to the Group's activities as a result of the Covid-19 pandemic.	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 26 June 2022, being a reasonable period for the assessment of key risks for a retail business given continuing political and economic uncertainties. This review included challenging underlying assumptions and stress-testing the scenario modelling, including the potential impacts of high inflation, rising interest rates and the conflict in Ukraine, and concluded that the going concern assumption remains appropriate and the Board is able to make the viability statement on page 48 of the Strategic Report.
Significant judgements	Note 1.19 and note 28
The presentation of the closed International businesses as discontinued operations requires the exercise of judgement with regard to the relevant criteria in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.	The Committee reviewed analysis prepared by management of the circumstances and status of the International businesses against the criteria in IFRS 5 and also reviewed KPMG LLP's report and discussed their observations and findings in this area. The Committee concluded that the analysis supported that the criteria under IFRS 5 had been met and presentation as discontinued operations was appropriate. In addition, the Committee considered the related disclosures made in the financial statements.

External Audit

Assessment of effectiveness of the external audit process

The Audit Committee oversees the relationship with the external auditor and considers the re-appointment of the Group's auditor, before making a recommendation to the Board to be put to shareholders.

As part of this responsibility to assess the effectiveness of the external auditors, the Committee approved the audit plan for the 52 weeks ended 26 June 2022 and reviewed the auditor's findings and management representation letters.

In addition to consideration of the audit process, responses to questions from the Committee and the audit findings reported to the Committee, a structured feedback exercise was again undertaken during the year. This exercise collated feedback on a wide range of factors from Non-Executive Directors, senior managers and relevant colleagues from the Finance, Audit and Risk, Legal and Compliance teams. The results of this feedback were positive from all stakeholder groups across all areas surveyed, particularly with regard to objectivity and robustness of challenge, strong formal reporting and open communication. These results further supported the Committee in its conclusion that the external audit process had been run efficiently and that KPMG LLP has been effective in its role as external auditor.

Appointment of the external auditor

The appointment of the Group's external auditors for FY22 was subject to a tender process as discussed in last year's annual report. Under current UK corporate governance requirements the external audit provision will be subject to another tender in ten years' time at the latest, ahead of the start of the FY32 audit

Safeguarding objectivity and independence relative to non-audit services

The Committee regularly reviews the Group's policy on non-audit services, which 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 a 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 26 June 2022, during which the only non-audit service provided by the Group's external auditor was an interim review, which is closely related to the audit.

Independence assessment by the Audit Committee

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.

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.

Audit Committee report continued

Internal Audit
At its July 2021 meeting, the Committee reviewed and approved the Group's internal audit plan for FY22 which was organised across the following categories:

- Regulatory;
- Company Risk, including cyber and ESG;
- Group Retail Estate;
- Sofa Delivery Company (CDC's);
- Manufacturing;
- Central Operations; and
- Group Initiatives.

Internal audit services continue to be delivered through a combination of traditional full audits and lighter touch assurance reviews. This is supplemented by engagement with third party specialists in key areas such as cyber, ESG and regulatory compliance. Having last year successfully introduced the use of data analytics to support the identification and tracking of risk areas, its use has been further expanded in FY22 with live dashboards for operational sites providing live metrics on key assurance areas. This has enabled the Internal Audit team to conduct more focussed sample testing and data analysis to identify potential non-compliance or fraud.

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. Priority factors also included regulatory requirements and audits that had not featured in recent previous years. The Committee also considered the areas not included in the FY22 audit plan in order to confirm the rationale for their exclusion.

While some modifications to the original plan were made during the year, due to colleague absence and to facilitate additional requests from the business for advice or investigation, the Committee retained oversight of these modifications to ensure that a broad-range of coverage was maintained. Areas covered by the plan in FY22 included:

- Retail audits in all brands including omnichannel/online sales
- Regulatory compliance monitoring programmes for DFS and Sofology brands
- Site audits for The Sofa Delivery Company
- ESG
- Business continuity planning
- Payroll and related systems
- Anti-bribery and modern slavery policies
- Colleague discounts

In addition, Internal Audit performed specific reviews on business projects completed in the year, such as the implementation of the Intelligent Lending Platform and the migration of Dwell trading activities onto Group systems, as well as providing consultancy and stakeholder engagement in a wide range of areas from stocktaking procedures to the process for charity furniture donations.

The internal audit team continues to focus on each pillar of ESG, and ensures that the annual audit plan scope of work considers ESG targets and associated risks. Where an audit subject includes an ESG pillar and/or target, the internal audit team works closely with relevant ESG stakeholders and the Group Risk team to capture all relevant documented risks and controls, KPIs, and expected compliance requirements. which are then evaluated and tested to establish control effectiveness and compliance.

The management of cyber risk remains a high priority for the Group. As noted in last year's report an external cyber audit was initiated in June 2021 and the findings have been incorporated into the Group's continuing activities in this area, as detailed in the Risks and Uncertainties section on page 41.

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 the overall risk profile across the business. Common themes emerging from internal audit work are also fed back to operational leadership teams to support controls and process improvements.

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
As detailed in its terms of reference the Committee bears delegated responsibility from the Board 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.

During FY22 the Group has implemented a new specialist risk management system, replacing the previous bespoke system and supporting an enterprise management approach across the brands and functional areas within the Group. The new system has enabled the Risk Team to take a more targeted approach to supporting business stakeholders across the Group with management of their risks and more detailed reporting capabilities. The Committee receives an update at each meeting, highlighting new and emerging risks, and progress and changes in rating of principal risks. Horizon scanning for emerging macro and internal risks is updated on a quarterly basis, with prioritisation based on likely severity and timing of the risks identified.

The Committee also maintains oversight of key process and controls developments in the Group. During FY22, a significant focus area was the reporting and reconciliation of new warehouse management systems and inventory master data and end to end stock control processes. The Committee received regular updates to support appropriate challenge and review of progress.

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, information technology (including cyber security) regulatory requirements, ESG, 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, the Group Leadership Team conducts a quarterly risk review and 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 Audit Committee and Board also receive recommendations from the Responsible and Sustainable Business Committee with regard to climate-related risk assessments.

Audit Committee report continued

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, including defined delegations of responsibility in the terms of reference for Board committees;
- 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 and the Board.

The continued impacts of the Covid-19 pandemic and associated changes to business operations on internal controls has been considered and appropriate modifications made where necessary, for example to accommodate remote working. Specific risks associated with the war in Ukraine have also been taken into account. There have been no failings in the operation of the Group's internal controls during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Group's control over financial reporting.

A further benefit of the Group's new risk management system is that all identified risks are assessed for ESG impacts and linked to a specific ESG risk register, ensuring strong focus on key ESG risks while embedding them within the Group's broader risk management framework.

Following the publication of the BEIS consultation on audit and corporate governance reform, the Committee has continued to consider the Group's response as greater clarity on anticipated future requirements begins to emerge. The externally facilitated initial maturity assessment of the Group's controls undertaken last year has been followed up with a financial reporting risk assessment and the Group's goal remains a thorough and orderly approach to compliance.

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 Group 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 38 to 47.

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. During FY22 the Group has continued to report and analyse whistleblowing incidents, including trends and highlights reviewed at the monthly Group Governance, Risk and Compliance Committee and shared with the Audit Committee.

During the year, there were 23 (FY21:40) reports received through the whistleblowing process, all of which were fully investigated and addressed in accordance with the policy.

Business ethics

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;
- Human rights;
- Gifts and entertainment; and
- Share dealing.

The Group is authorised and regulated by the Financial Conduct Authority in connection with the provision of interest-free credit to its customers, including requirements under the Senior Managers Certification Regime. An established governance framework is in place to implement and monitor appropriate processes, controls and training in support of the Group's regulatory compliance. The Group also commissions reviews by independent third party compliance experts to assess the controls in place and advise on best practice.

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.

The Group'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, is published on the Group's website (www.dfscorporate.co.uk).

The Group updates its Tax Strategy Statement each year, again published on the Group's website, in compliance with its duty under the Finance Act 2016, which sets out details of the Group's attitude to tax planning and tax risk.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Group and the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on pages 119 and 126. As set out in the Directors' report, the Directors consider the Group's business to be a going concern. The Group's viability statement can be found on page 48.

JO BOYDELL
Chair of the Audit Committee
15 September 2022

Nomination Committee report

"This year, the Nomination Committee has focused on reinforcing the succession plans in place to support the long term strategy of the Group."

IAN DURANT
Chair of the Nomination Committee
Bio on **page 77**

Dear Shareholders,

Welcome to the report from the Nomination Committee.

This year the Committee's activities focussed on succession planning and assessing director capabilities. The Board believes that diversity, together with the right blend of skills and experience, is an essential element of an effective board. The Committee adopts a formal and transparent procedure for the appointment of new directors to the Board.

This was a key consideration of the Committee in reviewing the skills required by the Company to support delivery of the strategy and will be critical to the future board composition.

The Committee also continues to take an active interest in the quality and development of talent and capabilities of the senior management team ensuring that appropriate opportunities are in place to develop high-performing individuals within the Group Leadership Team and to build diversity in senior roles across the business.

Key activities during FY22

- The appointment of a sub-committee led by Alison Hutchinson to conduct the search for a successor to the Chair.
- A review of the pipeline of talent within the Group Leadership Team and an assessment of their development needs.
- Developing the Board Action plan following the internal Board Evaluation.
- Reviewed the Board Diversity, Equality & Inclusion Policy.
- Conducting a review of the skills required by the Board to support the Platform & Pillars strategy.
- Post the year end the Nomination Committee has commenced a search for a new Chief Financial Officer.

The Nomination Committee regularly updates a matrix of the skills brought to the Board by all Directors, both Executive and Non-Executive. The current matrix is shown on page 82.

We are committed to having a diverse Board, I can report we currently have four female directors out of our Board of eight directors, a 50% female representation. The Directors biographies can be found at page 77 to 78 of the report.

Following the externally facilitated Board review in 2021, undertaken by Gould Consulting this year the Committee's performance was reviewed within the framework of the internal Board Review. More information on the process and outcomes is detailed at page 85 of this Corporate Governance report. I am pleased to report that this year's evaluation concluded that the Committee is regarded as being more engaged and challenging, with a clearer focus on succession planning both at Board level and in relation to the senior leadership team.

Committee membership

Each of the Non-Executive Directors is a member of the Nomination Committee. Although only members of the Committee have the right to attend Committee meetings, the Chief Executive Officer and the Chief Financial Officer are invited to attend meetings where appropriate.

As reported in the Governance Report at page 82 the Board considers that each of the Non-Executive Directors are independent and the Chair was independent upon appointment and as such the membership of the Committee complies with the UK Corporate Governance Code.

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

Nomination Committee report continued

Roles and responsibilities

The Committee makes recommendations to the Board, within the agreed terms of reference, on the appointment of Executive and Non-Executive Directors ensuring the Board is sufficiently diverse and has the blend of skills, knowledge and experience to support the Company. 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.

Board Appointment process

The Committee is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. External consultants may be used to assist in identifying suitable external Board candidates, based on a written specification for each appointment. Since the end of the year and following the announcement by Mike Schmidt the Chief Financial Officer, of his intention to leave the Company, the Committee working closely with the Chief People Officer has appointed an executive search firm to conduct a comprehensive search for a replacement. Appointments to the Board, as with other positions within the Group, are made on merit according to the balance of skills and experience offered by prospective candidates.

The Nomination Committee is led by the Senior Independent Director or another experienced Non Executive Director when dealing with the appointment of a successor to the Board chairmanship.

"Everyone Welcome"

Our objective of driving the benefits of a diverse Board, senior management team and wider workforce is underpinned by our Board Diversity Equality & Inclusion Policy ('the Policy'), which can be viewed on our corporate website. The Board and Group Leadership Team believe a diverse and inclusive workforce and a culture where everyone is welcome, is crucial to the long-term success of the Group.

All Board appointments are made on merit, in the context of the skills, experience, diversity and inclusion. DFS is committed to maintaining a Board, composed of talented and dedicated Directors with a diverse mixture of retail sector expertise, relevant experience, skills and backgrounds. As a Committee, we will continue to give due consideration to the skills and experience new Directors can bring in key areas such retail, manufacturing and logistics when making new appointments to the Board.

Key activities of the Nomination Committee

During the year, the Committee continued to review the talent across our Group on behalf of the Board. The Board continues to support and encourage initiatives that strengthen the pipeline of executive talent in the Company. Key activities included:

- A comprehensive talent review presented to the Board, mapping successional candidates and opportunities across all senior roles within the business.
- Initiatives for high potential talent to identify and develop senior talent across the business, broadening their skill-sets and experience to prepare them for future opportunities.
- This has been supported through greater Boardroom exposure, as part of the regular deep dives the Board holds into key topics throughout the year and the provision of senior management mentoring and coaching schemes.
- The Board continues to strengthen the pipeline of both senior female executives and those executives from ethnic backgrounds within the business, and ensure that there are no barriers to such individuals succeeding at the highest levels within DFS.

Going forward, the Committee will continue to review succession plans for the Board and key roles across the Group and will continue to review the future talent pipeline and suitable development initiatives for the Group Leadership Team.

IAN DURANT
Chair of the Nomination Committee
15 September 2022

What we will do in 2023

- Continue to assess the Board composition and size of the Board.
- Oversee the appointment of the Chair of the Board.
- Oversee the appointment of the Group Chief Financial Officer.
- Review the frequency and terms of reference of the Committee.
- Regular updates from the Chief People Officer on senior management succession.
- Group Leadership Team succession planning and talent management update will be provided to the Committee.

Directors' remuneration report

"The Remuneration Committee is focused on implementing the 2021 remuneration policy in a manner that drives results for the Group and our shareholders, aligning executive reward with the overall performance of the Group and the experience of our key stakeholders."

STEVE JOHNSON
Chair of the Remuneration Committee
Bio on **page 78**

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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.

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 FY23.

Key activities during FY22
- Setting performance targets for incentives in FY23.
- Determining outturns for incentives in respect of FY22, taking into consideration the experience of key stakeholders over the period.
- Review and update of employment contracts for current and future Executive Directors.
- Consideration of market trends and governance updates.
- Consideration of pay and conditions across the wider workforce.

As this is not a policy renewal year, we have included a summarised version of the policy report.

The full report as approved by shareholders at the 2021 AGM can be accessed online: https://www.dfscorporate.co.uk/investors/annual-report-2021.

Remuneration in context
The Committee were delighted by the positive voting outcome for the remuneration policy and annual report on remuneration at the 2021 AGM (both receiving 98.12% votes in favour). We would like to thank our shareholders for their continued support and for their engagement with the policy consultation exercise undertaken with them last year.

FY22 has been a challenging year for the Group, as it has been across the retail sector. Although order intake in the first quarter and our important post-Christmas third quarter trading period was strong, the operational challenges we faced throughout the year were considerable and in the fourth quarter we saw a significant reduction in market demand. Despite all these challenges, which had a direct impact on financial performance, the Group has continued to make good progress on its longer term strategic objectives, thanks to the hard work of its people led by the Group Leadership Team.

The Remuneration Committee carefully considered the experiences of our key stakeholders over the year, as well as overall Group performance, when making executive remuneration decisions. We have outlined below the key drivers influencing our decisions:

Group performance
- Group Profit Before Tax (PBT) from continuing operations for the year of £58.5m (FY21: £102.6m)) was impacted by external supply chain challenges and increased operating costs as a result of macro-economic pressures. Despite these challenges, performance was bolstered by management's hard work in increasing order intake growth, accelerating deliveries and the launch of new Sofology showrooms.

Directors' remuneration report continued

- Group Revenue from continuing operations for FY22 was £1,149.8m (FY21: £1,060.2m)) demonstrating the resilience of our business model and progression of our strategic agenda.

Shareholder experience

- Our robust balance sheet and outlook underpins our plan to return excess capital to shareholders.
- We returned £25m to shareholders through the payment of a special dividend and are on track to complete a £25m share buy-back programme in the next few months.

Colleague experience

- No colleagues were furloughed in respect of FY22
- The average salary increase for the workforce in respect of FY22 was 3%.
- We continue to invest in our enhanced Wellbeing programme which includes a range of services and benefits to support colleagues. This year saw the introduction of our partnership with Peppy Health, a digital healthcare tool that provides free access to leading health experts to support through different stages in life, such as the menopause, male-specific health issues, struggling with fertility and having a baby. Peppy is available to all our colleagues and their partners.
- No Group bonuses were paid to colleagues in respect of FY22 due to the profit threshold not being met.

Pay for performance in FY22

The Remuneration Committee is committed to a responsible approach to executive pay and believes that variable pay should only be earned for achievement against stretching targets.

Base salary increases for FY22

The base salaries of the Executive Directors were reviewed in April 2022 along with the wider workforce. Increases were agreed at 3% in line with the average award made to our wider workforce. Due to the shortage of available workers in manufacturing and logistics, colleagues in specific roles in our manufacturing and logistics businesses received a higher than 3% annual salary increase.

Annual bonus for FY22

The bonus for FY22 was based on 20% Revenue, 30% Profit before tax, 20% Cash Flow and 30% on non-financial measures. As noted above, the Group PBT threshold for FY22 was not achieved and as a consequence no bonuses were payable across the Group. Therefore no bonus will be paid to the Executive Directors for FY22, despite baseline bonus thresholds for Group revenue, ESG and personal targets being achieved.

LTIP vesting in respect of FY22

The 2019 LTIP award due to vest in 2022 had targets based 50% on EPS targets and 50% on relative TSR growth against two peer groups. Underlying basic EPS achieved for FY22 was 17.8p versus a threshold target of 23.5p, and Relative TSR performance against both peer groups was below threshold. The 2019 LTIP therefore did not vest.

Committee consideration of incentive outturns in the context of stakeholder experiences and overall Group performance

When assessing performance against the targets for both the Annual Bonus and LTIP, the Committee considered whether the outturns were appropriate based on overall Group performance, the experience of our stakeholders and in light of the risk of paying 'windfall' gains. The Committee are of the view that the incentive plan achievements fairly reflected overall Group performance and therefore no discretion has been exercised in determining pay-out levels.

Implementation of Remuneration Policy in FY23

Base salary for FY23

The base salaries of the Executive Directors will be reviewed in April 2023 along with those of the wider workforce. The expectation is that any increases will be in line with the wider workforce.

Annual bonus for FY23

The operation of the bonus for FY23 will be in line with the remuneration policy. The bonus opportunity for the CEO will be 120% of salary and for the CFO 110% of salary. For FY23, bonus performance will be based 70% on financial measures (20% Revenue, 30% Profit Before Tax, 20% Cash flow): and 30% on non-financial measures: 15% Strategic 'ESG' objectives and 15% Personal objectives. Bonus Targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP awards for FY23

The operation of the LTIP for FY23 will be in line with the remuneration policy. The maximum LTIP award level will be 175% of salary for the CEO and 140% of salary for the CFO. Performance will be based 50% on EPS growth and 50% on relative TSR against two peer groups. The TSR targets are set out on page 112. The EPS targets will be published prior to the AGM. It remains the Committees intention to include an ESG target within the LTIP for future awards.

Other pay decisions made during the year

Pension

As previously disclosed, the pension allowance for new Executive Director appointments will be in line with the average for the wider workforce and as stated last year, pension contributions for the CEO and CFO will be 4%, in line with the pension contributions made to the wider workforce, by the end of 2022.

Non-executive Director fees

The Committee (excluding the Chairman) reviewed the Chairman's fee against relevant market data and employee pay proposals and determined that an increase in line with the workforce of 3% would be awarded (from £187,275 to £192,895). A 3% increase to the basic fee provided to Non-Executive Directors was also agreed by the Chairman and Executive Directors (from £52,020 to £53,580). These increases were applied as of 1 April 2022. As part of the review of Non Executive Directors' fees during the year, the Board agreed to introduce a fee for the Chair of the Responsibility and Sustainability Committee in line with the fee paid to other Board Committee Chairs (£10,000).

Employment contract update for executive directors

The terms of the employment contracts for the Chief Executive Officer, Chief Financial Officer and for future Executive Directors were reviewed and updated to reflect developments in market, best practice and internal parity.

Management changes

As announced in July 2022, and described elsewhere in this report, Mike Schmidt, Chief Financial Officer has decided to step down. Mike is remaining with the business as Chief Financial Officer to oversee the year-end results process and to ensure an orderly transition. Mike's separation arrangements have yet to be finalised by the Committee but will be in line with the approved remuneration policy and disclosed in next year's report. I would like to thank Mike for all his hard work particularly during the pandemic and wish him well for the future.

We look forward to the continued support of our shareholders and welcome any comments you may have in relation to this report.

STEVE JOHNSON
Chair of the Remuneration Committee
15 September 2022

Part B: Remuneration at a glance

Overview of remuneration policy

Element	Policy
Pension	All executives: 4% of salary by the end of 2022
Post-cessation shareholding	2-year post-cessation of 200% of salary
Annual bonus opportunity and deferral	CEO: 120% of salary CFO: 110% of salary 25% of bonus deferred for 2 years
LTIP opportunity and timeframes	CEO: 175% of salary CFO: 140% of salary 3-year performance period with 2-year hold
Shareholding guidelines	200% of salary

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

Key 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 rolling annual 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	Post-cessation shareholding requirement of 2 years
Pension alignment	Pension contributions for new Executive Directors are aligned to the wider workforce. Pensions for incumbent Executive Directors will be aligned to the workforce by the end of December 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) attends the Employee Voice Forums and engages with the workforce

Key implementation decisions for FY22

Salaries were increased to CEO: £453,200 and CFO: £339,900 in April 2022.

Annual bonus

Performance measure	Weighting	Achievement
Group Revenue	20%	66.3%
Group PBT	30%	0%
Group free cash flow	20%	0%
Environmental	5%	0%
Social – Inclusion	5%	85.6%
Customer – Average NPS	5%	0%
Personal objectives	15%	80%

Payment of the FY22 bonus was subject to the achievement of threshold Group PBT; as this was not achieved no bonus was payable for FY22. FY21 Bonus opportunity: CEO: 120%, CFO: 110%

LTIP

Performance measure	Weighting	Achievement
TSR vs FTSE 250	15%	0%
TSR vs FTSE 350 Retailers	35%	0%
EPS growth	50%	0%

FY19 LTIP award opportunity: CEO: 150%, CFO: 120%

No discretion was used in determining the incentive plan outturns.

Implementation of policy for FY23

Element	Implementation for FY22
Base salary	Salaries to be reviewed in April 2023
Pension	CEO: 11% of salary, CFO: 9% of salary
Annual bonus maximum	CEO: 120% of salary. CFO: 110% of salary
Annual Bonus metrics	– 70% Financial (Revenue: 20%, Profit before tax: 30%, Free Cash Flow: 20%) – 15% Non-Financial Strategic 'ESC' objectives (Environmental: 5%, Social – Inclusion: 5%, Customer – Average NPS: 5%) – 15% Personal objectives
LTIP maximum	CEO: 175% of salary, CFO: 140% of salary
LTIP metrics	– Adjusted EPS growth (50%) – TSR relative to FTSE 250 excl. investment trusts (15%) – TSR relative to FTSE 350 General Retailers Index (35%)

Directors' remuneration report continued

Part C: Our Remuneration Philosophy and Workforce Reward

Our remuneration philosophy & Principles

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.

Fair, market competitive pay and benefits	Aligned to our business strategy and culture	Supports a high- performance sales and service culture
To pay a market competitive rate to reflect the role and skills of each employee. To operate a pay and reward system that is free from discrimination. To enable all employees to share in success by encouraging widespread equity ownership amongst the Group.	We strive to create an inclusive and diverse working environment and promote the right behaviours through fairness, equity of treatment and in doing the right things in the right way. Our incentive plans are designed to reward and promote delivery of the Group's business plan and key strategic goals, within the risk appetite of the Group.	Our pay and reward programmes are designed to encourage and support a high level of performance and positive customer experiences. We provide access to development opportunities enabling growth and success within function and cross-functionally.

Remuneration in the wider context

The Group employs approximately 5,500 people across the UK and Republic of Ireland. 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 "Your Deal" proposition are set out below.

Fair, market competitive pay	– 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. – We regularly review our pay and benefits arrangements for fairness and market competitiveness. – Employees can share in our success via bonus schemes and the Sharesave scheme. – The "Your Deal" Portal provides DFS employees with access to savings across a large number of retailers to help with the increased cost of living.
Aligned to our business strategy and culture	– Company-wide groups generate positive engagement more broadly with activities such as the Employee Assistance Programme (EAP) which provides a free and confidential support network designed to help our colleagues and their families with any issues that could be affecting their home life or work life, health and general wellbeing. – 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
Supports a high- performance sales and service culture	– We have delivered more than 300 virtual training sessions focusing on our sales and services skills, available to all colleagues. – We launched Career Pathways in 2021, utilising the apprenticeship standards and funding, and have more than 60 internal colleagues currently on a learning programme. – A further 28 existing colleagues across various parts of the business are undertaking a higher apprenticeship. – We have continued to recruit young apprentices into our business in Sales, Service, Manufacturing and People Teams; 38 new apprentices are currently on learning programmes.

Directors’ remuneration report continued

Cascade of remuneration across the group

The table below illustrates the remuneration framework across the Group:

Level	Employee numbers	Fixed remuneration	Annual bonus or incentive / commission plans	Restricted share plan	Long-term incentive plan	All employee HMRC plans
Group Leadership Team	5	✓	✓	✓	✓	✓
Heads of divisions and functions	92	✓	✓	✓		✓
Managers	367	✓	✓	✓		✓
All employees	5,048	✓	✓			✓

The table below explains how the remuneration framework operates across the Group:

<table>
<tr><th></th><th>Base salary</th><th>Pension & benefits</th><th>Annual bonus and recognition awards</th><th>LTIP, RSP & SAYE</th></tr>
<tr><td>Group Leadership Team</td><td rowspan="5">Base salary is set by reference to the wider workforce and market practice.</td><td rowspan="4">Taxable benefits include car, private medical insurance and reimbursement of business-related expenses.
Pension policy to align to workforce by end of 2022.</td><td rowspan="5">The annual bonus for our management population is based on a combination of financial and non-financial objectives.
Where possible we seek to ensure that Group based measures and targets are consistent.
Colleagues in operational areas across the Group (in retail showrooms, manufacturing sites and in the Sofa Delivery Company) have access to variable pay and bonuses based on a combination of individual and team performance</td><td>Our Group Leadership Team is eligible to participate in the LTIP which rewards achievement of stretching strategic goals which align their interests with investors over the long-term.</td></tr>
<tr><td>Heads of divisions and functions</td><td rowspan="4">The next level of management is eligible to participate in the RSP.
All employees in the UK may participate in the Group's Sharesave plan</td></tr>
<tr><td>All employees in the UK may participate in the Group's Sharesave plan.</td></tr>
<tr><td>Managers</td></tr>
<tr><td>All employees</td><td>Average pension provision is 4% of salary.</td></tr>
</table>

Part D: Remuneration Policy

The following section sets out a summary of the Directors' Remuneration Policy for the Board which was approved by binding shareholder vote at the AGM in November 2021, taking effect from the date of approval.

The Remuneration Policy 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 current Code and the Listing Rules.

Remuneration principles

The Committee concluded that the Company's remuneration principles remain appropriate and that the proposed Remuneration Policy Is in line with the relevant principles.

The remuneration principles are set out below:

- Attract, motivate and retain Executives and senior management in order to deliver the Company's strategic goals and business outputs.
- Encourage and support a high-performance sales and service culture ensuring good customer outcomes.
- Reward delivery of the Company'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 external stakeholders and encourage widespread equity ownership amongst the Group.

Executive Remuneration Policy Table

Base salary

To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group

Operation

Salaries are reviewed annually, and any change will generally take effect from 1 April.

When determining the salary of the Executives the Committee takes into consideration:

- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities;
- pay and conditions throughout the Group, including the level of salary increases awarded to other employees; and
- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity

Maximum opportunity

- Annual percentage increases are generally consistent with the range awarded across the Group.
- Percentage increases in salary above this level may be made in certain circumstances, such as a change in responsibility or a significant increase in the role's scale or the Group's size and complexity.
- Individuals who are recruited or promoted to the Board may have their salaries set below the targeted Policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general increase for employees until the target positioning is achieved

Performance measures/assessment and recovery provisions

- A broad assessment of individual and business performance is used as part of the salary review.
- No recovery provisions apply.

Benefits

To provide competitive benefits and to attract and retain high calibre employees

Operation

Reviewed periodically to ensure benefits remain market competitive.

Benefits currently include but are not limited to:

- Car and fuel allowance;
- Life insurance;
- Directors' & Officers' liability insurance;
- Private medical insurance (including cover for spouses and dependents);
- Professional subscriptions;
- Critical illness cover;
- Staff discounts; and
- Other minor benefits as provided from time to time, including seasonal gifts

Maximum opportunity

- Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits.

Performance measures/assessment and recovery provisions

- No performance or recovery provisions apply.

Pension

To provide a competitive Company contribution that enables effective retirement planning

Operation

- Pension is provided by way of a contribution to a personal pension scheme or cash allowance in lieu of pension benefits.
- The Committee may review pension contributions for new joiners to the Board to ensure the approach is aligned with corporate governance best practice/market practice.

Maximum opportunity

- Pension contributions for new Executive Directors will be aligned to the pension provision for the wider workforce which is currently 4% of base salary.
- Incumbent directors have agreed to a voluntary reduction to pension contributions in line with wider workforce levels to be implemented by the end of 2022.
- 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

Performance measures/assessment and recovery provisions

- No performance or recovery provisions apply.

Directors' remuneration report continued

Annual bonus

Incentivises the achievement of annual objectives which support the Group's short-term performance goals.

Operation

- Bonus awards are granted annually following the signing of the Report and Accounts, usually in October.
- 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.
- 25% of any bonus earned is granted as a deferred award under the Deferred Bonus Plan.
- The deferred award shall ordinarily have a vesting period of 2 years and its vesting is conditional on the participants continued employment with the Group at the end of the deferral period unless they are a "good leaver".
- The Committee may award dividend equivalents on shares subject to a deferred award.

Maximum opportunity

- The maximum Annual Bonus opportunity is 120% of salary.
- There will be no payment made for threshold performance. 65% of maximum will be paid for achievement of on-target budgeted performance. 100% of maximum will be paid for stretch performance.

Performance measures/assessment and recovery provisions

- Performance measures will be selected by the Committee annually and may include financial, strategic and personal objectives. Financial targets will account for no less than 50% of the weighting.
- The Committee will determine the performance targets and measurement weightings annually to ensure that they support the business strategy and objectives for the relevant year.
- Malus and clawback provisions apply to Annual Bonus awards at the discretion of the Committee where the Committee considers such action is reasonable and appropriate. See notes below table for further details.

Long-term incentive plan

The DFS Furniture plc 2015 Long-Term Incentive Plan (LTIP) incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders.

Operation

- Under the LTIP, the Committee may award annual grants of performance share awards in the form of nil-cost options or conditional shares (LTIP Awards) on an annual basis.
- LTIP Awards under the plan will vest after a three-year performance period subject to the achievement of the performance measures.
- A two-year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors. Upon vesting, sufficient shares can be sold to pay tax.
- Participants may be entitled to dividend equivalents representing the dividends paid during the performance period on LTIP awards that have vested

Maximum opportunity

- Maximum LTIP awards are equal to 175% of base salary.
- In exceptional circumstances the Committee retains discretion to increase this to 230% of 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.

Performance measures/assessment and recovery provisions

- Awards vest based on performance against challenging targets, aligned with the delivery of the Company's long-term strategy.
- The Committee will review performance measures, targets and weightings annually to ensure that they continue to align to the Group's strategy.
- In accordance with the rules of the LTIP, malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate. See notes below table for further details.

Directors' remuneration report continued

Minimum shareholding requirements

To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.

Operation

– Executive Directors are required to build or maintain (as relevant) a minimum shareholding in the Company. Shares included in this calculation are those held beneficially by the Executive Director and their spouse/life partners. This includes vested LTIP shares subject to the two-year post-vesting holding period and deferred bonus shares net of tax.

Maximum opportunity

– 200% of salary to be built up over five years from the date of appointment as an Executive Director.

Performance measures/assessment and recovery provisions

– No performance or recovery provisions apply.
– Executive Directors are not required to purchase shares to satisfy this requirement.

All-employee incentives

Encourages all employees to become shareholders and thereby align interests with shareholders

Operation

– Eligible employees may participate in the SAYE and Share Incentive Plan or country equivalent.
– Executive Directors will be entitled to participate on the same terms

Maximum opportunity

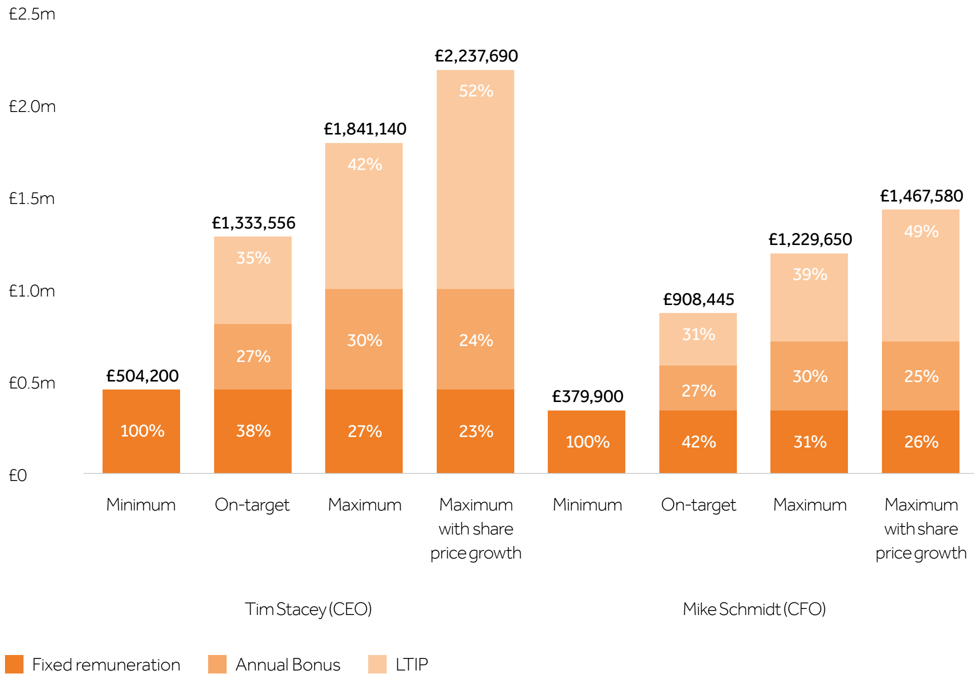
– Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.

Performance measures/assessment and recovery provisions

– Not applicable.

Illustrations of application of Policy

The charts below seek to demonstrate how pay varies with performance for the Executive Directors based on the stated remuneration Policy. The charts show an estimate of the remuneration that could be received by Executives Directors under the Policy set out in this report. Each of the bars is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP. The charts indicate that a significant proportion of both target and maximum pay is performance related. In line with changes to the Directors' remuneration reporting Regulations, scenarios including share price growth of 50% over the period of the Policy are shown.



Directors' remuneration report continued

Assumptions used in determining the level of pay-out under given scenarios are as follows:

Element	Minimum	On-target	Maximum
Fixed elements	CEO = £496,000 CFO = £376,000		
Annual bonus	Nil	65% of maximum	CEO: 120% of salary CFO: 110% of salary
LTIP	Nil	60% of maximum	CEO: 175% of salary CFO: 140% of salary

Approach to recruitment and promotions

The Committee aims to pay no more than is necessary to attract appropriately skilled and experienced individuals. The ongoing remuneration package for any new Executive Director would be in line with that set out in the remuneration Policy table.

For a new Executive Director who is an internal appointment, the Company may also continue to honour contractual commitments made prior to appointment to the Board even if those commitments are otherwise inconsistent with the Policy in force when the commitments are satisfied. Any relevant incentive plan participation may either continue on its original terms or the performance targets and/or measures may be amended to reflect the individual's new role, as the Committee considers appropriate.

Element	Policy description
Base salary and benefits	– The salary level will be set taking into account a number of factors including market factors, the individual's experience and responsibilities, the individual's previous salary and remuneration package, the salary Policy for the wider Group, the salary for the previous incumbent and for existing Executive Directors. – This may mean that the Executive Director is recruited on a salary below the market rate with a view that it would be increased (potentially by above workforce level increases) over a number of years, subject to performance. – Benefits may be provided in line with DFS' benefits Policy as set out in the remuneration Policy table.
Pension	– An Executive Director will be able to receive either a contribution to a personal pension scheme or a cash allowance in lieu of pension benefits in line with DFS' Policy as set out in the remuneration Policy table.
Annual bonus	– An Executive Director will be eligible to participate in the Annual Bonus as set out in the remuneration policy table. – Bonus will be pro-rated from the date of employment. – Awards may be granted up to the maximum opportunity allowable in the remuneration Policy table at the Committee's discretion.
LTIP	– An Executive Director will be eligible to participate in the Long-Term Incentive Plan as set out in the remuneration Policy table. – Awards may be granted up to the maximum opportunity allowable under scheme rules at the Committee's discretion.
Maximum variable remuneration	– The maximum annual variable remuneration that an Executive Director can receive upon recruitment is up to 350% of salary (i.e. Annual Bonus and exceptional LTIP Award limit)
Share buy-outs/ replacement awards	– The Company may, where appropriate, compensate a new Executive Director for variable or share based remuneration that has been forfeited as a result of accepting the appointment with the Company. Where the Company compensates a new Executive Director in this way, it will seek to do so under the terms of the Company's existing variable remuneration arrangements, but may compensate on terms that are more bespoke than the existing arrangements where the Committee considers that to be appropriate. The Committee may if necessary, rely on Listing Rule 9.4.2 to facilitate the making of awards. – In such instances, the Company will disclose a full explanation of the detail and rationale for such recruitment related compensation. In making such awards the Committee will seek to take into account the nature (including whether awards are cash or share-based), vesting period and performance measures and/or conditions for any remuneration forfeited by the individual when leaving a previous employer. Where such awards had outstanding performance or service conditions (which are not significantly completed) the Company will generally impose equivalent conditions. The Committee's preference is to buy-out forfeited awards using deferred share awards or performance-based share awards, however, cash may be used. – The value of the buy-out awards will broadly be the equivalent of, or less than, the value of the award being bought out.
Relocation policies	– In instances where the new Executive is relocated from one work location to another, the Company will provide compensation to reflect the cost of relocation for the Executive in cases where they are expected to spend significant time away from their home location in accordance with its normal relocation package for employees. – The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences; housing allowance; and schooling in accordance with the Company's normal relocation package for employees.

Directors' remuneration report continued

Executive Director service contracts

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	24 May 2022	6 months (Executive) or 12 months (Company)
Mike Schmidt	12 July 2019	6 months (Executive) or 6 months (Company)

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. All service contracts are available for viewing at the Company's registered office and at the AGM. The Executive Directors concerned may retain fees paid for these services.

Payments for loss of office

When determining any loss of office payment for a departing director the Committee will always seek to minimise cost to the Company whilst complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Executives will generally receive base salary for the duration of their contractual notice period, or in lieu of notice, except for certain circumstances such as termination for gross misconduct.

Executive Directors may at the Committee's discretion be eligible for an annual bonus for the financial year of cessation. Any annual bonus awarded would be based on performance during the year as determined by the Committee and pro-rated for time.

For good leavers (in accordance with the definition in the plan rules), outstanding Deferred Award Bonus Plan awards will generally continue and vest at the normal date. The Committee may determine to time pro-rate the number of shares to vest however it is the Remuneration Committee's normal policy is that it will not pro-rate awards for time. If a participant ceases employment for any other reason, their awards will lapse in full on the date of such cessation.

For good leavers (in accordance with the definition in the plan rules), outstanding LTIP awards will generally continue and vest at the normal vesting date, subject to the Committee's assessment of performance against targets, with awards pro-rated for time in office. However, the Committee retains discretion to allow vesting on cessation and to not pro-rate awards for time if it considers the circumstances warrant this action. If a participant ceases employment for any other reason, awards will lapse in full on the date of cessation. Unless otherwise determined by the Committee and except in the event of the participant's death, any applicable post-vesting holding period will continue to apply post cessation of employment.

Any vested annual bonus and LTIP shares that are subject to the post-cessation shareholding will be held for two years after cessation.

In exceptional circumstances and if it is considered in the best interest of the Group, arrangements may be made to facilitate the cessation of employment of an individual, any such arrangements would seek to minimise cost to the Group.

In a change of control, unless otherwise determined by the Board, outstanding Deferred Award Bonus Plan awards and LTIP awards will vest. Unless otherwise determined by the board, LTIP award vesting will be subject to an assessment of achievement of the performance conditions to date and subject to time pro-rating. However, the Committee retains discretion to not pro-rate awards for time or take into account performance conditions if it considers the circumstances warrant this action.

Consideration of employee remuneration and shareholders

Consideration of shareholder views

The Committee takes the views of the shareholders seriously and these views are taken into account in shaping the Policy and practice. Shareholder views are considered when evaluating and setting remuneration strategy and the Committee welcomes an open dialogue with its shareholders on all aspects of remuneration. The Committee will continue to maintain an open and constructive dialogue with its major shareholders and the representative bodies and where appropriate, will always seek to consult

Consideration of employee views and employment conditions elsewhere in the Group

In setting the remuneration for directors, the pay and conditions of other employees of DFS are taken into account, including any base salary increases awarded. The Committee is provided with data on the remuneration structure for management level tiers below the Executive Directors and uses this information to ensure consistency and fairness of approach throughout the Group.

Formal consultation on the remuneration of Executive Directors is not undertaken with employees. However, currently a survey on employee engagement is undertaken annually and includes discussion on parts of the Group's remuneration approach. The Committee is looking at ways that practice in this area can evolve.

The Policy described above applies specifically to Executive Directors of the Company. The Committee believes that the structure of management and employee reward at DFS should be linked to the Group's strategy and performance.

Directors' remuneration report continued

Non-Executive Director Remuneration Policy

Remuneration Policy table

The Chairman and the Executive Directors of the Board are responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman whose remuneration is determined by the Committee and recommended to the Board.

The table below sets out the key elements of the Policy for Non-Executive Directors:

Purpose
– To provide compensation that attracts high calibre individuals and reflects their experience and knowledge

Operation
– Fee levels are reviewed periodically taking into account independent advice and the time commitment required of Non-Executive Directors.
– The fees paid to the Chairman and the fees of the other Non-Executive Directors aim to be competitive with other fully listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity.
– Non-Executive Directors may receive a base fee and additional fees for the role of Senior Independent Director or membership and/or Chairmanship of certain committees.
– Non-Executive Directors also receive reimbursement of reasonable expenses incurred undertaking their duties and or Company business.
– Non-Executive Directors do not receive any variable remuneration element.
– Non-Executive Directors are entitled to staff discount on Group merchandise on the same basis as other employees and may also receive seasonal gifts.

Maximum opportunity
– Any increase in Non-Executive Director fees may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities.
– The Company will pay reasonable expenses incurred by the Chairman and Non-Executive Directors.

Performance measures/assessment and recovery provisions
– Non-Executive Director fees are not performance related.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the Policy which applies to current Non-Executive Directors. The current fee structure and levels are set out below:

Chairman fee	£192,895
Senior Independent Director fee	£64,300
Chair of Board Committee fee	£63,580
Basic Non-Executive Director fee	£53,580

Non-Executive Director fees will be kept under review and to the extent there are any increases to fees these will generally be in line with those awarded to the wider workforce. Fees for the Non-Executive Directors are paid via payroll and are subject to PAYE.

Non-Executive Directors do not participate in any incentive plans and do not receive any benefits except health insurance benefits provided to the Chair.

Letters of appointment

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

The table below sets out the dates that each Non-Executive Director was first appointed to the Board.

	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
Loraine Martins	28 June 2021

Part E: Annual Report on Remuneration for the Financial Year ended 26 June 2022

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[2]	RSP[3]	Pension[4]	Other[5]	Total Fixed	Total Variable	Total
Tim Stacey	**2022**	**443**	**7**	**–**	**–**	**–**	**44**	**2**	**496**	**–**	**496**
	2021	410	38	492	772	243	44	0	492	1507	1,999
Mike Schmidt	**2022**	**332**	**14**	**–**	**–**	**–**	**26**	**4**	**376**	**–**	**376**
	2021	308	14	338	88	–	26	4	352	426	778

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. The LTIP awards due to vest in respect of FY22, being the FY20 (2019) Plan lapsed based on performance to the end of FY22. 2021 LTIP award value has been restated for the share price at vest of £2.46.
3. There were no RSP awards due to vest in respect of FY22.
4. Where pension contribution is taken as a salary supplement the amount is reduced by the associated Employer's National Insurance contribution to ensure there is no cost to the company from this alternative.
5. The 'Other' column is a fuel card payment for Tim Stacey and for Mike Schmidt represents a car allowance supplement.

Annual Bonus outturn for FY22 – Audited

As disclosed in last year's report, FY22 bonus performance was based 70% on financial measures: 20% Revenue, 30% Profit before tax, 20% Cash Flow and 30% on non-financial measures: 15% Strategic 'ESC' objectives (Environmental 5%, Social – Inclusion 5%, Customer – Average NPS 5%) and 15% Personal.

Payment of the FY22 bonus was subject to achievement of a threshold Group PBT, which was not met. As a result, the bonus awarded to Tim Stacey is £nil (0% of maximum opportunity) and the bonus awarded to Mike Schmidt is £nil (0% of maximum opportunity). No discretion was exercised in determining the annual bonus outturn.

Performance against objectives

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Group Revenue	20%	£1,035.4m	£1,150.4m	£1,207.9m	66.3%
Group Profit Before Tax	30%	£77.0m	£85.5m	£89.8m	0%
Group free cash flow (net cash flow before dividends and RCF movement)	20%	£(1.8m)	£6.7m	£11.0m	0%
Environmental	5%	Roadmap and targets submitted to and approved by SBTI			0%
Social (inclusion) – Increase the number of females in management positions in the Group	5%	31.5%	35%	36.7%	85.6%
Customer – Group Customer Average Established Net Promoter Score	5%	13.1	14.6	15.3	0%
Personal objectives	15%	See notes below		67%	88%
				Tim Stacey	67%
				Mike Schmidt	88%
Bonus outcome (% maximum)				Tim Stacey	0%
				Mike Schmidt	0%
Total bonus outcome (£)				Tim Stacey	0%
				Mike Schmidt	0%

Directors' remuneration report continued

Detail of performance against personal objectives

Performance against the personal objectives and the Committee's assessment of performance for the CEO and CFO is set out in the tables to the right.

As part of its assessment, the Committee also took into account Group health and safety objectives to ensure that a safe environment was in place for all employees and customers. The Committee was satisfied that timely reporting of health and safety and risk mitigation activities had been undertaken throughout the year with no major incidents.

CEO – Tim Stacey	To develop and execute the short term strategy to increase end to end supply chain capacity in order to manage the step change in volume across the Group	– Increase total manufacturing capacity – Improve % on time deliveries to customers – Reduce picking / delivery errors to	Not achieved, but progress made throughout the year.
	To accelerate the execution of the strategic transformation plan focused on Sodelco roll out, the move to a new Group Operating Model and developing the Home Strategy. Develop the new future strategy in a collaborative way engaging all internal and external stakeholders	– Establish Group Operating Model – Complete roll out of The Sofa Delivery Co. – Home performance ahead of budget for FY22, with delivery and fulfilment infrastructure in place to support long term – New strategy signed off by the Board	Achieved
	To lead the culture change in the Group to become a more responsible and sustainable business for our people, our planet, our customers and our communities	– New Responsible and Sustainable business committee established, including agreement on scope – High levels of measured engagement in culture change – Clear strategy for ESG embedded throughout the Group	Achieved

CFO – Mike Schmidt	Drive the Group's strategic finance agenda and taking action to optimise return on capital, capital structure and long-term profit within our short-term and long-term strategy formulation	– Ensure clear investment cases, project tracking and success KPIs are in place for each key strategic project – Introduce a cost-of-capital framework for financial commitments – Continue to review capital structure and funding arrangements to ensure efficiency and appropriateness	Achieved
	Lead the integration of the Group finance team and continue the process of developing the maturity of finance processes and systems across Group	– Single Group finance team in place – Establish the process for ongoing segmental budgeting and reporting for new business structure – Continue roll-out of transaction accounting systems improvements	Achieved
	Strengthen the Group's processes, documentation and reporting around risk management, financial controls and ESG reporting in line with anticipated regulatory requirements	– Develop an Audit & Assurance policy for internal use – Establish the plan and timeline for ICFR controls development, and make progress on that plan in line with agreed timelines – Align material aspects of FY22 annual report to TCFD standards	Part achieved

Directors' remuneration report continued

LTIP awards vesting in relation to performance in FY22 – audited

The 2019 award was granted on 25 October 2019 and was assessed against the performance targets at the end of FY22 (i.e., to 26 June 2022).

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Actual performance	Vesting %
2019 LTIP	EPS growth	50%	Reported underlying EPS	23.5p	28.5p	17.8p	0%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	Below Index	0%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	Below Index	0%
	Total vesting						**0%**

For threshold performance 20% of awards vest. For Maximum performance 100% of awards vest. Vesting is on a straight-line basis between these points.

The final level of vesting of these awards was 0%. No discretion was exercised in respect of award vesting levels.

Scheme interests awarded in FY22 (2021 awards) – audited

Details of LTIP awards and Deferred Bonus Awards granted during FY22 are set out in the table below.

Director	Scheme	Type of award	Number of shares awarded	Value of award at date of grant (£)*	Value of award as % of salary
CEO – Tim Stacey	LTIP[1]	Nil cost option	251,908	£660,000	175%
	LTIP[2]		39,169	£110,000	
	DBP[3]		31,911	£85,841	37%
	DBP[4]		28,300	£76,127	
CFO – Mike Schmidt	LTIP[1]	Nil cost option	151,145	£396,000	140%
	LTIP[2]		23,501	£66,000	
	DBP[3]		17,875	£48,084	27%
	DBP[4]		15,852	£42,642	

1. Initial LTIP grant up to previous policy maximum (CEO: 150% and CFO: 120% of salary). The number of shares granted was based on a share price of £2.62 (which was the average of the closing share price on the three days prior to the grant – 11 October 2021).
2. Top up grant up to the new policy maximum of 25% and 20% of salary (CEO: 175% and CFO: 140%). The number of shares granted was based on a share price of £2.81 (which was the average of the closing share price on the three days prior to the grant – 12 November 2021).
3. Grant of deferred shares in relation to the FY21 bonus. The number of shares granted was based on a share price of £2.69 (which was the closing share price on the day immediately prior to the grant on 21 October 2021) and the Director's salary at the grant date.
4. Grant of deferred shares in relation to the FY21 bonus, awards granted later due to a miscalculation in relation to 21 October 2021 grant. The number of shares granted was based on a share price of £2.69 (which was the closing share price on the day immediately prior to the grant on 21 October 2021) and the Director's salary at the grant date.

Performance conditions for FY22 (2021 award) LTIP

Adjusted EPS (50%)

Percentage of this portion of the Award vesting

Nil	20%	60%	100%	Between 20% and 60% on a straight-line basis	Between 60% and 100% on a straight-line basis
Less than 24.8p	24.8p	26.1p	28.7p or more	Between 24.8p and 26.1p	Between 26.1p and 28.7p

Relative TSR (50% weighting)

Percentage of this portion of the Award vesting

Weighting	Nil	20%	100%	Between 20% and 100% on a straight-line basis
15% – FTSE 250 Index (excluding investment trusts)	Below FTSE 250 Index	Equal to FTSE 250 Index	10% p.a. above the FTSE 250 Index	Between FTSE 250 Index return and 10% p.a.
35% – FTSE 350 General Retailers Index	Below FTSE 350 General Retailers Index	Equal to FTSE 350 General Retailers Index	10% p.a. above the FTSE 350 General Retailers Index	Between FTSE 350 General Retailers Index return and 10% p.a.

Directors' remuneration report continued

SAYE awards – audited

No Directors were granted SAYE options during FY22. Mike Schmidt was granted 11,111 SAYE options on 27 November 2020.

Details of LTIP award performance conditions (where not disclosed elsewhere in report)

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Threshold level vesting	Maximum vesting
2020 LTIP	EPS growth	50%	Reported underlying EPS	18.7p	24.7p	20%	100%
	TSR	15%	Relative TSR (FTSE 250 Index)	Index	Index + 10% p.a.	20%	100%
		35%	Relative TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%

Dilution

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.

Payment to past directors – audited

None

Payment for loss of office – audited

None

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	Other	Total
Ian Durant	**2022**	**190**	**1**	**191**
	2021	185	1	186
Alison Hutchinson	**2022**	**65**	**–**	**65**
	2021	62	–	62
Jo Boydell	**2022**	**60**	**–**	**60**
	2021	58	–	58
Steve Johnson	**2022**	**60**	**–**	**60**
	2021	58	–	58
Jane Bednall	**2022**	**52**	**–**	**52**
	2021	51	–	51
Loraine Martins	**2022**	**52**	**–**	**52**
	2021	–	–	–

Notes:
1. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019 and chairs the Responsible and Sustainable Business Committee.
2. Loraine Martins was appointed to the Board on 28 June 2021.
3. Ian Durant other remuneration relates to health insurance benefit in kind.

Directors' remuneration report continued

Shareholding and other interests at 26 June 2022 – 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 which for FY22 was equal to 200% of their base salary in the Company (for existing Executive Directors only) over a five-year period from appointment.

Director	Number of beneficially owned shares[1]	% of salary held[2]	Shareholding requirement met[3]	Subject to conditions[4]	Not subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 26 June 2022
Tim Stacey	684,173	251%	Yes	937,274	–	–	–	1,621,447
Mike Schmidt	68,077	40%	No	559,964	–	–	11,111	628,041
Ian Durant	44,666	–	–	–	–	–	–	44,466
Jane Bednall	13,333	–	–	–	–	–	–	13,333
Jo Boydell	13,333	–	–	–	–	–	–	13,333
Alison Hutchinson	48,056	–	–	–	–	–	–	48,056
Steve Johnson	26,666	–	–	–	–	–	–	26,666
Loraine Martins	6,023	–	–	–	–	–	–	6,023
Total	**904,327**	**–**	**–**	**1,497,238**	**–**	**–**	**11,111**	**2,401,365**

Notes:
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Number of beneficially owned shares includes the 2018 LTIP award that has vested and is subject to a two year holding period (Tim Stacey: 166,369 shares; Mike Schmidt: 18,922 shares).
3. Shareholding requirement calculation is based on the share price at the end of the year (£1.59 at 26 June 2022) and includes beneficially owned shares and the deferred bonus shares net of 47% tax (Tim Stacey: 31,912 shares; Mike Schmidt: 17,875 shares).
4. Shareholdings subject to conditions relate to the outstanding share awards under the 2020 and 2021 LTIP awards and shares held under the deferred bonus plan.

At 15 September 2021 there had been no movement in Directors' shareholdings and share interests from 26 June 2022.

Outstanding share awards

The following share awards remain outstanding as at 26 June 2022 for the Executive Directors:

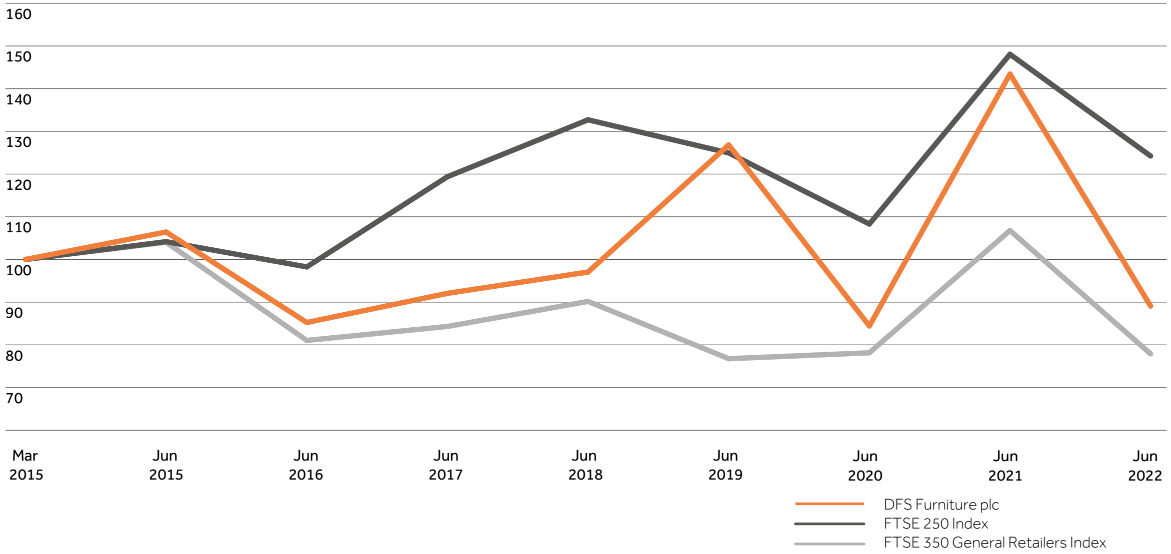
Director	Type of award	Date of grant	Number of awards	Award vested	Awards lapsed	Outstanding awards	Share price[1]	Normal vesting date
Tim Stacey	2019 LTIP	25/10/19	248,275	–	–	248,275	£2.42	25/10/22
	2020 LTIP	06/10/20	337,711	–	–	337,711	£1.77	6/10/23
	2021 LTIP	11/10/21	251,908	–	–	251,908	£2.62	11/10/24
	2021 LTIP	12/11/21	39,169	–	–	39,169	£2.81	12/11/24
	2021 DBP	21/10/21	31,911	–	–	31,911	£2.71	21/10/24
	2021 DBP	20/12/21	28,300	–	–	28,300	£2.35	21/12/24
Mike Schmidt	2019 LTIP	25/10/19	148,965	–	–	148,965	£2.42	25/10/22
	2020 LTIP	06/10/20	202,626	–	–	202,626	£1.77	6/10/23
	2021 LTIP	11/10/21	151,145	–	–	151,145	£2.62	11/10/24
	2021 LTIP	12/11/21	23,501	–	–	23,501	£2.81	12/11/24
	2021 DBP	21/10/21	17,875	–	–	17,875	£2.71	21/10/24
	2021 DBP	20/12/21	15,852	–	–	15,852	£2.35	21/12/24

1. The share price for calculation is the average of the closing share price on the three days prior to the grant.

Directors' remuneration report continued

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 FY22 (26 June 2022). The peer groups here represent the Company's key markets for investment capital.



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.

	FY22	FY21	FY20	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	Tim Stacey	Tim Stacey	Tim Stacey[1]	Ian Filby	Ian Filby	Ian Filby	Ian Filby	Ian Filby
Single Figure (£000)	**496**	1,999	568[3]	464	374	673	666	804	790
Annual Bonus (% of max)	**0%**	100%	0%[2]	26.2%	32.2%	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**0%**	100%	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.

Directors' remuneration report continued

Percentage change in the Directors' remuneration

The table to the right 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.

		FY19-FY20			FY20-FY21			FY21-FY22		
Annual % change		**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus[1]**
CEO	Tim Stacey	2%	41%	-100%	10%	-6%	100%	3%	-82%	-100%
CFO	Mike Schmidt	39%	0%	-100%	10%	10%	100%	3%	0%	-100%
Non-Executive Directors	Ian Durant	5%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a
	Alison Hutchinson	17%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a
	Jo Boydell	81%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a
	Steve Johnson	79%	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a
	Jane Bednall	n/a	n/a	n/a	2%	n/a	n/a	3%	n/a	n/a
	Lorraine Martins[2]	n/a	n/a	n/a	n/a	n/a	n/a	3%	n/a	n/a
Employee pay[3]		0%	n/a	n/a	2%	n/a	n/a	3%	n/a	-100%

In line with the regulations, this analysis will be extended up to five years in the future. Notes on the percentage change in remuneration for previous years are provided in the FY21 Annual Report.

1. No annual bonus was paid to Executive Directors for FY22.
2. Loraine Martins was appointed to the Board on 28 June 2021.
3. The annual bonus for the wider employee population for FY22 was not payable, as the financial gateway was not achieved.

Directors' remuneration report continued

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	2022	2021	% change
Employee remuneration	**£208.9m**	£197.7m	5.7%
Distributions to shareholders (dividends and share buybacks)	**£58.2m**	–	–

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

Statement of implementation of remuneration policy in FY23

Base salary

Base salaries for FY23 will be determined as part of our pay review in April 2023. In setting salary levels, the Committee considered a range of factors including individual performance and experience, pay and conditions for employees across the Group, the general performance of the Company and external market data.

Pension and benefits

The pension contribution for Tim Stacy for FY23 will be equal to 4% of salary from the end of 2022. Pension contribution for the period to the end of 2022 will remain £50,000 per annum (pro-rated for the period).

Benefits provided will be in line with the policy.

Annual bonus

The operation of the bonus for FY23 will be in line with the remuneration policy. The bonus opportunity for the CEO will be 120% of salary and for the CFO 110% of salary.

For FY23, bonus performance will be based 70% on financial measures: and 30% on non-financial measures, including strategic 'ESC' objectives and personal objectives. Bonus targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP

The operation of the LTIP for FY23 will be in line with the remuneration policy. The maximum LTIP award level will be 175% of salary for the CEO and 140% of salary for the CFO. The Committee has decided that the framework for the performance conditions will remain the same.

(i) Adjusted EPS (50%)

For the EPS component of the LTIP award, performance will be measured by reference to the reported Adjusted EPS figure for the Financial Year ending in 2025. EPS targets will be set on an absolute basis to provide a clear line of sight for management and shareholders alike. Furthermore, the targets will represent appropriate year on year growth against the 2022 LTIP award targets in line with the progress against our strategic plan and taking into account the external operating environment. We will fully communicate details of targets to shareholders when the LTIP awards are granted.

Relative TSR (50%)

Percentage of this portion of the Award vesting

Measure and weighting	Nil	20%	100%	Between 20% and 100% on a straight-line basis
15% (FTSE 250 Index)	Below FTSE 250 Index	Equal to FTSE 250 Index	10% p.a. above the FTSE 250 Index return	Between FTSE 250 Index return and 10% p.a.
35% (FTSE 350 General Retailers Index)	Below FTSE 350 General Retailers Index	Equal to FTSE 350 General Retailers Index	10% p.a. above the FTSE 350 General Retailers Index return	Between FTSE 350 General Retailers Index return and 10% p.a.

Non-Executive Director fees

The Non-Executive Directors' Fee and the fee for the Chair were increased by 3% in April 2022 in line with the average base salary increase for the wider workforce.

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 2021 in April 2022 and it is available online: www.dfscorporate.co.uk

Our analysis for 2021 shows Group level reductions in both the mean and median gender pay gap figures. The mean gender pay gap was 8.2%, a fall of 3.6% against last year's figure; the median gender pay gap was 7.1%, a reduction of 1.8% against the 2020 number. This in part reflects improvements made in female representation across our leadership positions. As we continue to address this imbalance we believe this will further reduce our gender pay gap.

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.

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 Responsibility and Sustainability Report on pages 60 to 62 of this Annual Report.

Directors' remuneration report continued

Inclusivity and diversity

Across the Group, we are committed to our ambition to reflect the customers we serve and the communities we live and work in, and to building a workplace where everyone is welcome. We have made good progress and in the last year we have completed the following:

- The creation of a social community workplace where colleagues can celebrate culture and participate in the ongoing conversation around inclusion, marking events like International Women's Day, Black History Month and Disability Pride Month.
- The production of a live Group-wide event to launch inclusion as a top priority to all colleagues, generating unprecedented levels of engagement and participation.
- The build of a bespoke cinematic adventure learning module designed to help colleagues understand their impact in the workplace and the part they play in creating an inclusive culture.
- Connecting a network of LGBTQ+ colleagues and allies, and investing in ongoing learning with our partners at Stonewall to encourage active allyship across the Group during Pride Month and beyond.
- Engaging with Inclusive Employers as a best-in-class partner to advise on plans and provide ongoing education and expertise in areas such as the creation of new policies, inclusive recruitment and data collection.

CEO pay ratio

This is the third year in which we are required to disclose the CEO Pay ratio.

As in prior years, the Company has adopted Option B: Gender Pay Gap data, this approach was considered to remain appropriate due to data availability and to allow consistency with prior year comparison. 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 for each year were identified in April (2022 and 2021) using our Gender Pay Gap data. The pay and benefits data for the relevant 25th, 50th and 75th percentile employees is taken from the 12-month period ending in June 2021 (financial year FY21) and June 2022 (Financial year FY22). 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 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.

CEO Pay Ratio Data

Year	Method	Measure	CEO	25th percentile	50th percentile	75th percentile
2022	**Option B**	**Pay Ratio**		**20:1**	**15:1**	**12:1**
		Salary	**£443,300**	**£22,467**	**£30,830**	**£39,307**
		Total pay and benefits	**£495,432**	**£24,203**	**£32,704**	**£39,307**
2021	Option B	Pay Ratio		76:1	66:1	61:1
		Salary	£410,000	£23,864	£28,470	£31,000
		Total pay and benefits	£2,027,809	£26,691	£30,905	£33,110
2020	Option B	Pay Ratio		24:1	20:1	16:1
		Salary	£386,667	£21,850	£25,648	£30,367
		Total pay and benefits	£568,399	£23,644	£28,740	£35,048

In line with the regulations, this analysis will be extended up to ten years in the future. The change in pay ratio for FY22 is reflective of a nil bonus payment and the 2019 LTIP not vesting compared to maximum bonus achievement in FY21.

Matters covered during the Committee's meetings in FY22

As at 26 June 2022, the Committee consisted of the following members:

- Steve Johnson (Chair)
- Alison Hutchinson
- Jo Boydell
- Jane Bednall
- Loraine Martins

Directors' remuneration report continued

The key matters covered by the Committee during the year are summarised below.

Matter	July 2021	Sep 2021	Mar 2022
Sign off Remuneration Policy	•	•	
FY21 Bonus Update	•		
FY22 Bonus Construct and scorecard	•		
2021 Directors' remuneration report	•	•	
2021 Equity Awards Outturn		•	
FY21 Bonus Outturn		•	
Remuneration Committee Terms of Reference		•	
FY21 Workforce Report			•
Inflight LTIP Awards – TSR performance updates			•
2021 Gender Pay Gap			•
Approved FY22 Annual Pay Review			•

Note:
Details of meeting attendance by Committee members can be found on page 83 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 during FY22 from Willis Towers Watson, the Committee's independent advisors. Willis Towers Watson is considered by the Committee to be objective and independent, is a member of the Remuneration Consultants Group and, as such, voluntarily operates 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 Willis Towers Watson and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to Willis Towers Watson in respect of services to the Committee during the year were £51,200. Additionally, the Committee received a small amount of advice from PwC, who had previously advised the Committee. The total fees paid to PwC during the year amounted to £5,000. All fees were determined based on the scope and nature of the projects undertaken for the Committee.

STEVE JOHNSON
Chair of the Remuneration Committee
15 September 2022

Directors' report

The Directors' Report includes information required to be disclosed under the Companies Act 2006 ('the Act'), the UK Corporate Governance Code ('the Code'), the Financial Conduct Authorities Listing Rules ('Listing Rules') and the Disclosure and Transparency Rules ('DTRs').

DFS Furniture PLC (the "Company") is the holding company of the DFS Group of companies (the "Group"). The Company has no overseas subsidiaries but operates branches in the Republic of Ireland, and in Spain and the Netherlands. The Directors present their Annual Report and audited financial statements for the 52 weeks ended 26 June 2022, in accordance with section 415 of the Companies Act 2006. 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.

The Strategic report and this Directors' report together with sections of the Corporate Governance report incorporated by reference, together form the Management Report for the purpose of DTR 4.1.8R. The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R.

The table below makes reference to the relevant sections of the Annual Report:

Disclosure	Page
Audit Committee report	87-91
Colleague Engagement	60-62
Conclusion and Outlook	14
Corporate governance report	79-86
Directors' interests	109
Directors' remuneration report	94-114
Executive Share Plans	109
Health, safety & wellbeing	63-64
Human rights and modern slavery	73
Inclusivity and Diversity	60-62
Independent auditors' report	120-126
Internal Controls / Risk Management	38-47
Nomination Committee report	92-93
Our Communities	72-73
Section 172 statement	49-55
Task Force on Climate Related Financial Disclosures	74-75

Annual General Meeting ('AGM')

The Company's next AGM will take place on 4 November 2022 at the DFS Group Support Centre, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA at 2.30pm. The Chair and the Chair of each of the Board's Committees will be available to answer questions put to them by shareholders. Shareholders are invited to submit questions prior to the meeting by emailing the Company Secretary Liz McDonald liz.mcdonald@dfs.co.uk.

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 offers 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.

Directors

The membership of the Board and biographical details of the Directors are provided on pages 77 and 78. There were no changes to the Directors during the year. Details of Directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 109.

Director	Position	Service in the year ended 26 June 2022
Ian Durant	Chair	Served throughout the year
Tim Stacey	Chief Executive Officer	Served throughout the year
Mike Schmidt	Chief Financial 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	Served throughout the year
Loraine Martins	Independent Non-Executive Director	Served throughout the year

Appointment & Removal of Directors

Directors are appointed or replaced in accordance with the Company's Articles of Association (the "Articles"), the Act and the Code. The Articles 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 Directors stand for re-election on an annual basis at the Company's AGM in accordance with the recommendations of the Code. The business of the Company will be managed by the Board in accordance with the Articles, the Act and any directions given by special resolution.

Executive Directors' Contracts

The Executive Directors serve under rolling contracts. Details of which are set out on page 103 of the Directors' remuneration report. Non-Executive Directors have letters of appointment. The term is for an initial period of two-three-year terms with a provision for termination on three months' notice from either party, or six months' notice from either party in the case of the Chairman. Letters are then renewed annually.

The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM. The Directors' service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office 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' indemnities and insurance

In accordance with the Companies Act 2006 and the Company's Articles, the Company has purchased and has maintained throughout the year, directors', and officers' liability insurance cover. This cover has been renewed during the period and remains in force at the date of this report. An annual review is carried out to ensure that the Board remains satisfied that an appropriate level of cover is in place.

Directors' report continued

Each Director and Officer also has the benefit of a qualifying indemnity, as defined by the Act, and as permitted by the Articles, providing cover for any liabilities incurred in the performance of their duties. Neither arrangement provides cover should it be proven that the Director acted fraudulently or dishonestly. No amount was paid under these arrangements in the period other than the applicable insurance premiums.

Conflicts of interest

The company has robust procedures in place to identify, authorise and manage potential or actual conflicts of interest, and these procedures have operated effectively during the year. Where potential conflicts arise, they are reviewed, and if appropriate, approved by the Board. Processes for managing such conflicts are put in place to ensure no conflicted Director is involved in any decision related to his or her conflict. Directors' other key appointments are set out in the Directors' biographies on pages 77 and 78.

Dividends

On 15 March 2022 the Board announced its interim results and announced an Interim Dividend of 3.7p and a Special Dividend of 10.0p. The Board proposes a final dividend payment of 3.7p to be paid in respect of the 52 weeks ended 26 June 2022.

The final dividend will be paid on 29 December 2022 to all shareholders on the register at 2 December 2022. The Company's shares will trade ex-dividend from 1 December 2022. The dividend is subject to approval by shareholders at the AGM on 4 November 2022.

3.7p interim dividend	(last year 0.0 per share)
10.0p special dividend	(last year 0.0p per share)
3.7p proposed final dividend	(last year 7.5p per share)
Total dividend of 17.4p per share for 2021/22	(last year 7.5p per share)

Substantial Shareholders

As at 12 September 2022, 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. The information provided below was correct at the date of notification. These holdings are likely to have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed.

Investor	Number of Ordinary Shares	% voting rights	Date of notification
Adriana S.A.	21,419,580	8.85	12 September 2022
State Street Bank	18,419,580	7.13	2 February 2022
Aberforth Partners LLP	12,843,307	5.00	14 June 2022
Allianz Global Investors GmbH	12,386,797	5.02	24 August 2022
Janus Henderson Investors	12,927,268	5.00	23 March 2022
Jupiter Fund Management	12,548,079	4.87	24 May 2022
Cobas Asset Management	10,088,413	4.08	23 August 2022
Martin Currie Investment Management Limited	4,400,000	1.80	6 September 2022

Takeover directive information

Following the implementation of the European Directive on Takeover Bids by certain provisions of the Companies Act 2006, the Company is required to disclose certain additional information in the Directors' Report. This information is set out below:

Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders.

The Company's articles of association set out how Directors are appointed and replaced. Directors can be appointed by the Board or by the shareholders in a general meeting.

At each annual general meeting, any Director appointed by the Board since the last annual general meeting must retire from office but is eligible for election by the shareholders.

Furthermore, the Board has resolved that, in line with Corporate Governance Code (2018 revision), all the Directors will be subject to annual re-election by shareholders. Under the CA 2006 and the Company's articles of association, a Director can be removed from office by the shareholders in a general meeting;

The Company's articles of association set out the powers of the Directors. The business of the Company is to be managed by the Directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or the Company's articles of association required to be exercised or done by the Company in general meeting, subject to the provisions of any relevant statutes and the Company's articles of association and to such regulations as may be prescribed by the Company by special resolution.

Shares

The Company has only one class of shares, Ordinary Shares of £0.10 pence each. The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 52 weeks ended 26 June 2022. The Company has an issued share capital of 258,636,720 ordinary shares of £0.10p each. On 26 June 2022, the Company held 2,775,840 Ordinary Shares in treasury (2021:250,332). As at 12 September 2022 the Company held 14,870,124 shares in Treasury. It is envisaged that the shares held in Treasury will be cancelled on completion of the current share buyback programme announced on 15 March 2022. The rights and obligations attached to these shares are governed by Companies Act 2006 and the Company's Articles. 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.

At a general meeting of the Company, on a show of hands, every shareholder present in person or by proxy has one vote only and, in the case of a poll, every shareholder present in person or by proxy has one vote for every share in the capital of the Company held by him or her. 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.

Under the Company's Share Dealing code, persons discharging managerial responsibilities and other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company. 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.

Details of the Company's share capital are set out in note 22 to the consolidated financial statements.

Share Buyback

On the 15 March 2022, together with the 2022 Interim Results, the Company announced a share buyback programme. The programme, to purchase for cancellation up to a maximum value of £25m Ordinary Shares (within the limits of approval given by Shareholders at the 2021 AGM), is for the sole purpose of reducing the issued share capital of the Group. All shares bought through the programme are held in treasury until an appropriate time to cancel the shares

The Group's Brokers, Jefferies International Limited and Peel Hunt LLP have a joint mandate to conduct the share buyback.

Directors' report continued

Authority to purchase own shares

At the last AGM of the Company on 12 November 2021, 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 11 November 2022 unless revoked, varied, or renewed prior to that meeting.

Authority to allot shares

At the last AGM of the Company on 12 November 2021, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £8,612,879.60 (or up to £17,225,759.20 in connection with an offer by way of a rights issue).

The Company did not allot any further shares during the year. (2021 – 3,000,000 new ordinary shares of £0.10p allotted).A resolution will be proposed at the 2022 AGM to renew this authority.

Distributable reserves

Prior to paying any dividend or purchasing its own ordinary shares, the Company is required to ensure that at all times it has the requisite level of distributable profits and, in the case of any dividend payments, the requisite level of net assets by reference in each case to relevant accounts (as defined in the Companies Act 2006 ('the Act'). The Company, overseen by the Audit Committee, has an agreed and documented process and controls in place to evidence this. Where relevant, the Company prepares interim accounts (as defined in the Act) showing the requisite level of distributable reserves/net assets and files them at Companies House. From time to time, dividends are paid to the Company from its subsidiary undertakings to ensure sufficient reserves are available for payment of dividends to shareholders.

Ahead of the payment of the interim and special dividend in May 2022, the process and controls had been followed, a dividend had been paid by subsidiaries up to the Company, and interim accounts had been filed. However the Board has subsequently become aware that the calculation of the requisite net assets had not correctly reflected the consideration paid for shares held by the EBT or those held in treasury by the Company. As a result, despite there being ample distributable reserves available in the Group, insufficient amounts had been transferred to the Company at the time of the dividend payment and subsequent purchases of treasury shares meaning that up to 14 September 2022, regrettably £21.9m of the total distribution (of which £1.4m related to the dividend payments) was made otherwise than in accordance with the Act.

The Directors took immediate action to remedy this technical oversight by paying dividends of £70.0m to the Company from its subsidiaries, and therefore as at 15 September 2022, the Company held distributable reserves in excess of the amount required in respect of both the historic payments noted above and the known future committed capital returns in FY23.

The Company has been advised that as a consequence of these distributions having been made otherwise than in accordance with the Act, it may have claims against past and present shareholders who were recipients of the dividends and against persons who were Directors of the Company at the time the dividends were paid or treasury share purchases entered into. Therefore resolutions will be proposed to shareholders at the earliest opportunity (i) confirming that profits will be set aside to cover the amount of the dividend that was paid from non-distributable items; and (ii) authorising the Directors to enter into deeds of release releasing all claims the Company has against (a) past and present shareholders of the Company who were in receipt of any of the dividends and (b) Directors of the company at the time the dividends were paid or the time of entry into each of the purchases of treasury shares. The Directors and Audit Committee will also review and augment the processes already in place to control the payment of dividends to provide additional assurance on the sufficiency of distributable reserves prior to a dividend payment being made.

Change of control

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 Change of control provisions. Outstanding options and awards may vest on a change of control.

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.

Significant relationships

The Company does not have any contractual or other relationships with any single party which are essential to the business of the Group and, therefore, no such relationships have been disclosed.

Everyone's Welcome

At DFS our strategy is that "Everyone's Welcome". It is embedded in our values that all our colleagues are able to be themselves at work, whatever their background, preferences, or views. In the event our colleagues require adjustments to be made to support their employment then every effort will be made to ensure they are supported. Our Group is committed to creating a work environment free of discrimination, bullying, harassment and victimisation, where everyone is treated equally with dignity and respect. This applies in all aspects of employment including, recruitment and selection, promotion, transfer, training or other developmental opportunities, pay and benefits, other terms of employment, discipline and selection for redundancy. DFS aims to support the health and welfare of all our employees and their families through a variety of initiatives including life and critical illness cover, and employee assistance services.

Charitable donations

During the year, the Group published its first Communities and Charitable Giving Policies. The Group made Charitable donations of £78,000 (2021: £138,000) during the year. The Group does not make donations to political organisations or independent election candidates.

Treasury and risk management

The Company's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Risks and Uncertainties section on page 43 and note 24 to the annual financial statements.

Independent auditors

In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit and Risk Committee, a resolution is to be proposed at the AGM for the reappointment of KPMG LLP as auditor of the Group.

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.

Subsequent events

Between 26 June 2022 and the date of this report, Mike Schmidt resigned from the Company and will leave the business and step down from the Board on 14 October 2022. On 12 September 2022 Ian Durrant confirmed his intention to retire from the Board at the conclusion of the Company's AGM on 4 November 2022; Steve Johnson has been appointed as Chair of the Board with effect from the same date. There have been no further reportable events.

Directors' report continued

Disclaimer

This Directors' Report, Strategic Report and the financial statements contain certain forward-looking statements with respect to the financial condition, results, operations, and business of DFS Furniture plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Directors' Report and Strategic Report or in these financial statements should be construed as a profit forecast.

Going concern

The Group remains highly cash generative and currently has sufficient medium and long-term facilities in place, including a £215.0 million senior revolving credit facility, extended during the year until December 2024 with a further one-year extension option to extend the facility to December 2025.

Out of this £215.0 million, £178.0m is currently utilised at the date of this report. Further details of the facilities and the Group's financial management objectives are detailed in note 24 to the financial statements.

On the basis of their assessment of the Group's financial position, forecasts and projections, the Company's Directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence as detailed in the Viability Statement on page 48. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors' Report was approved by the Board of Directors on 15 September 2022 and signed on its behalf by:

ELIZABETH MCDONALD
Group General Counsel & Company Secretary
15 September 2022

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 are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with UK-adopted International Financial Report Standards ('IFRS') and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, 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 the Group's 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards;
- 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 parent Company 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.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' 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.

We consider the annual report and accounts, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

TIM STACEY
Chief Executive Officer

MIKE SCHMIDT
Chief Financial Officer
15 September 2022

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' & 'the Group') for the 52 week period ended 26 June 2022 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 the 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 26 June 2022 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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.

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 8 financial periods ended 26 June 2022. 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	£2.5m (2021: £3.0m) 4.2% of profit before tax from continuing operations excluding non-underlying items (2021: 4.2% of three financial period average absolute Group profit/ loss before tax excluding non-underlying items)	
Coverage	92% of group profit before tax from continuing operations excluding non-underlying items (2021: 91% of Group profit before tax)	
Key audit matters		**vs 2021**
Recurring risks	Going concern	◀▶
	Impairment of goodwill	◀▶
	Recoverability of the parent's investment in subsidiaries and receivables from other group companies	◀▶
Event driven	Presentation of discontinued operations	**New**

2. Key audit matters: 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 (unchanged from 2021), in decreasing order of audit significance, 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

	The risk	Our response
Going concern Refer to page 43 (Principal Risks), page 48 (Viability reporting), page 89 (Audit Committee Report), page 118 (Director's report) and pages 133 and 167 (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 to operate 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 parent Company's available financial resources over this period are: – The current economic climate impacting the demand for the Group's products including reduced customer demand for furniture as we exit the Covid-19 pandemic, increases in the cost of living, cost inflation and supply chain issue; and – Regulatory changes to the sale of financial products, including extended warranties. 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 the fact would have been required to be disclosed.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's and parent Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. 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 period and for the forecast period; – **Historical comparisons:** Critically assessed historical results in order to consider the directors' track record of forecast accuracy versus actual cash flow achieved in the current financial period and previously; – **Benchmarking assumptions:** Benchmarked the key assumptions behind the cash flow forecasts to third party evidence, including analyst reports and market data where available; – **Sensitivity analysis:** Considered sensitivity of 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 scenarios including a reduction in sales due to a decrease in customer confidence; – **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 reductions in non-essential capital expenditure, variable cost savings including reduced marketing costs, reductions in dividends and reductions in bonuses; and – **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 (2021: acceptable).

Independent auditor's report continued

	The risk	Our response
Impairment of goodwill £508.3 million; 2021: £509.3 million. Refer to page 89 (Audit Committee Report), pages 135 and 136 (accounting policy) and page 150 (financial disclosures).	**Forecast based assessment** There is a risk that the business may not meet expected growth projections in order to support the carrying value of goodwill held relating to the DFS Trading and Sofology cash generating units ('CGUs'). This risk remains significant in light of the financial trading performance for the entity falling behind internal expectations both for the period and post period end. The directors considered the recoverability of the goodwill balance 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 for audit planning purposes, we determined that the value in use had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, we concluded that reasonably possible changes to the value in use would not be expected to result in material impairment.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Historical comparisons:** Compared the previous forecasts for each CGU against actual outcomes to assess the historical reliability of the forecasting; – **Benchmarking assumptions:** Compared each CGU's trading forecasts against current trading performance and anticipated growth in the furniture retail sector and applying our knowledge of the Group and retail sector, and investigated any significant deviations in order to challenge the assumptions included in the forecasts; – **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 internal valuation specialists to assess and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculations, benchmarking 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 to the Group's debt adjusted market capitalisation to assess the reasonableness of those cash flows and the reasonableness of the carrying value of those assets; – **Assessing transparency:** Considered the adequacy of the Group's disclosures around the carrying value of goodwill and the impairment analysis. **Our results** – We found the Group's conclusion that there is no impairment of goodwill to be acceptable (2021 result: acceptable).

Independent auditor's report continued

	The risk	Our response
Presentation of discontinued operations Underlying loss from discontinued operations: £1,500,000 (2021: £3,400,000 (restated)) Non-underlying loss from discontinued operations: £11,300,000 (2021: £nil) Refer to page 89 (Audit Committee Report), page 136 (accounting policy) and page 163 (financial disclosures).	**Judgement around presentation** The Group is currently going through a strategic change to exit and close their International operations, being Spain and the Netherlands, in order to focus on the core UK and Ireland business. There is a risk that the directors' plan for closing the International businesses does not meet the presentation requirements of the relevant accounting standards, or the disclosures given are not adequate with relation to the criteria of IFRS 5.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Challenging assumptions:** We assessed and challenged the directors' assumptions and judgements made behind the presentation of International operations as discontinued/assets abandoned against the relevant criteria within the accounting standard. – **Evaluating the directors' intent:** We obtained an understanding of the planned operations which are abandoned, the timing of the decisions to abandon and evidence of the status at the period end to support management's judgements with reference to the relevant accounting standards. – **Assessing transparency:** We assessed the adequacy of disclosures made in respect of discontinued operations, and the judgements underpinning this presentation throughout the annual report. **Our results** – We found the Group's treatment of the International operations being presented as discontinued operations to be acceptable (2021 result: not applicable).
Recoverability of the parent's investment in subsidiaries and receivables from other group companies Parent Company's investment in subsidiaries: £252.8m; 2021 £250.1m Parent Company's receivables: £205.0m; 2021 £355.7m. Refer to page 89 (Audit Committee Report), page 167 (accounting policy) and page 168 (financial disclosures).	**Low risk, high value** The carrying amounts of the parent Company's investments in subsidiaries and the intra-group debtor balance represent 55% (2021: 41%) and 45% (2021: 59%) of the parent Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, these are considered to be the areas that had the greatest effect on our overall parent Company audit.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. – Assessing 100% of the total group debtors balance to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. – **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. Assessing the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results** – We found the Company's conclusion that there is no impairment of the investments in subsidiaries and the intra-group group debtor balance to be acceptable (2021: acceptable).

Independent auditor's report continued

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 £2.5m (2021: £3.0m), determined with reference to a benchmark of profit before tax from continuing operations excluding non-underlying items (2021: three financial period average absolute profit/loss before tax excluding non-underlying items), of which it represents 4.2% (2021: 4.2%).

Materiality for the parent Company financial statements as a whole was set at £1.6m (2021: £1.6m), determined with reference to a benchmark of Company total assets, of which it represents 0.35% (2021: 0.26%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £1.88m (2021: £2.25m) for the Group and £1.2m (2021: £1.2m) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.125m (2021: £0.15m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2021: 9) reporting components, we subjected 3 (2021: 3) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite. The work on all components including the Parent company, was performed by the Group audit team.

The remaining 1% (2021: 3%) of total Group revenue, 8% of Group profit before tax from continuing operations excluding non-underlying items (2021: 9% of Group profit before tax) and 6% (2021: 3%) of total Group assets is represented by 6 (2021: 6) reporting components, none of which individually represented more than 4% (2021: 2%) of any of total Group revenue, Group profit before tax or total Group assets. 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 scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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').

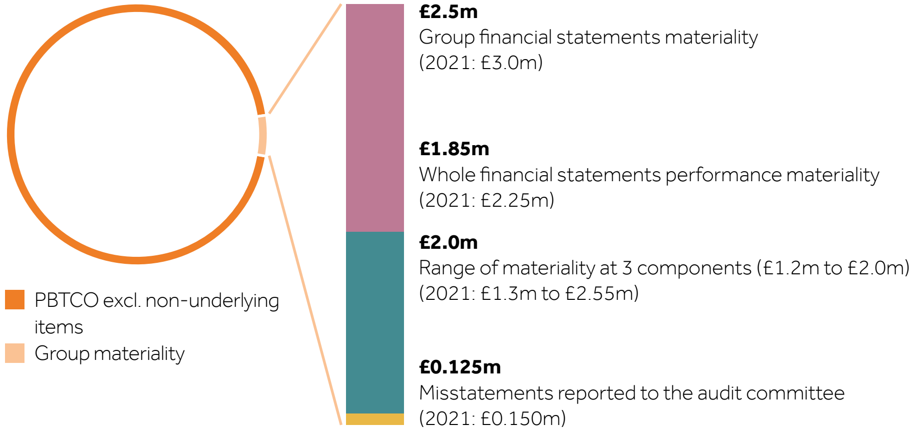
An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;

Group profit before tax from continuing operations excluding non-underlying items
£58.9m (2021: £107.8m)

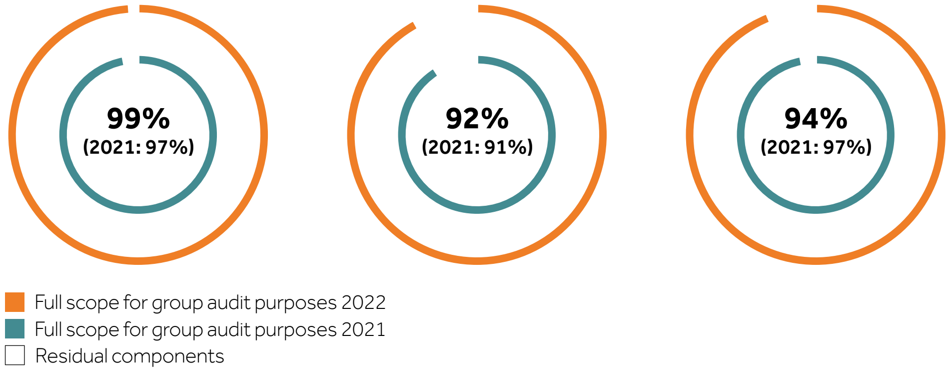
Group materiality
£2.5m (2021: £3.0m)



Group revenue from continuing operations

Group profit before tax from continuing operations excluding non-underlying items (2021: group profit before tax)

Group total assets from continuing operations



Independent auditor's report continued

- we have nothing material to add or draw attention to in relation to the directors' statement in note 1.1 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 Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1.1 to be acceptable; and
- the related statement under the Listing Rules set out on page 118 is materially consistent with the financial statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and general counsel and company secretary as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering the Long Term Incentive Plan, Deferred Bonus Scheme, Restricted Share Plan and Save As You Earn remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group and component management may be in a position to make inappropriate accounting entries;
  the risk of bias in accounting estimates and judgements such as impairment assumptions and provisions; and
- The risk that revenue is misstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation of some of the Group-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unexpected accounts combinations, and unusual cash journals.
- Evaluated the business purpose of significant unusual transactions.
- Assessing identified accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements, in particular the current regulatory focus on consumer duty with regards to the provision of product aftercare insurance.

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. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We obtained the relevant accounts to support the distributions in the period and assessed the dividend payment made and share buybacks against distributable reserves. We assessed whether the Company had the requisite level of net assets after taking account of the consideration payable for shares held by the Employee Benefit Trust or those held in treasury by the Company. We assessed the disclosures on page 117 in the Directors report and in note 21 to the consolidated financial statements against our understanding from legal correspondence.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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.

Independent auditor's report continued

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 period 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

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Reporting on page 48 that they have carried out a robust assessment of the emerging and 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 how emerging risks are identified, 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.

We are also required to review the Viability Reporting, set out on page 48 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 119, 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 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 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.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

9. 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
Leeds LS1 4DA
15 September 2022

Financial statements

This section presents details of the Group's and the Company's financial performance and position as at 26 June 2022.

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Consolidated income statement *for 52 weeks ended 26 June 2022 (52 weeks ended 27 June 2021)*

	Note	52 weeks to 26 June 2022 Underlying £m	Non-underlying £m	Total £m	52 weeks to 27 June 2021* Underlying £m	Non-underlying £m	Total £m
Continuing operations							
Gross sales	1, 2	**1,474.6**	**–**	**1,474.6**	1,359.4	–	1,359.4
Revenue	2	**1,149.8**	**–**	**1,149.8**	1,060.2	–	1,060.2
Cost of sales		**(543.9)**	**–**	**(543.9)**	(463.1)	–	(463.1)
Gross profit		**605.9**	**–**	**605.9**	597.1	–	597.1
Selling and distribution costs		**(368.0)**	**–**	**(368.0)**	(298.0)	–	(298.0)
Administrative expenses	3	**(62.0)**	**(0.4)**	**(62.4)**	(75.1)	(2.1)	(77.2)
Operating profit before depreciation, amortisation and impairment		**175.9**	**(0.4)**	**175.5**	224.0	(2.1)	221.9
Depreciation		**(77.7)**	**–**	**(77.7)**	(75.7)	–	(75.7)
Amortisation		**(10.5)**	**–**	**(10.5)**	(7.9)	–	(7.9)
Operating profit/(loss)	2, 3	**87.7**	**(0.4)**	**87.3**	140.4	(2.1)	138.3
Finance expenses	5	**(28.8)**	**–**	**(28.8)**	(32.6)	(3.1)	(35.7)
Profit/(loss) before tax		**58.9**	**(0.4)**	**58.5**	107.8	(5.2)	102.6
Taxation	6	**(14.3)**	**–**	**(14.3)**	(11.9)	1.4	(10.5)
Profit/(loss) for the period from continuing operations		**44.6**	**(0.4)**	**44.2**	95.9	(3.8)	92.1
Loss for the period from discontinued operations	28	**(1.5)**	**(11.3)**	**(12.8)**	(3.4)	–	(3.4)
Profit/(loss) for the period		**43.1**	**(11.7)**	**31.4**	92.5	(3.8)	88.7
Earnings per share							
Basic	7						
– from continuing operations		**17.5p**	**(0.2p)**	**17.3p**	37.3p	(1.5)p	35.8p
– from discontinued operations		**(0.6)p**	**(4.4)p**	**(5.0)p**	(1.3)p	–	(1.3)p
Total		**16.9p**	**(4.6)p**	**12.3p**	36.0p	(1.5)p	34.5p
Diluted							
– from continuing operations		**17.4p**	**(0.2)p**	**17.2p**	36.9p	(1.4)p	35.5p
– from discontinued operations		**(0.6)p**	**(4.4)p**	**(5.0)p**	(1.3)p	–	(1.3)p
Total		**16.8p**	**(4.6)p**	**12.2p**	35.6p	(1.4)p	34.2p

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Consolidated statement of comprehensive income *for 52 weeks ended 26 June 2022 (52 weeks ended 27 June 2021)*

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021* £m
Profit for the period	**31.4**	88.7
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	**23.6**	(22.4)
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**1.9**	9.2
Recognised in finance expense	**–**	1.9
Income tax on items that are or may be reclassified subsequently to profit or loss	**(6.4)**	2.6
Other comprehensive income/(expense) for the period, net of income tax	**19.1**	(8.7)
Total comprehensive income for the period	**50.5**	80.0
Total comprehensive income for the period attributable to owners of the parent		
– from continuing operations	**63.3**	83.4
– from discontinued operations	**(12.8)**	(3.4)
	50.5	80.0

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Consolidated balance sheet *at 26 June 2022 (27 June 2021)*

	Note	26 June 2022 £m	27 June 2021 £m
Non-current assets			
Property, plant and equipment	8	**105.9**	91.6
Right of use assets	8, 9	**338.0**	345.1
Intangible assets	10	**533.8**	535.4
Other financial assets	12	**4.8**	0.1
Deferred tax assets	13	**10.8**	24.7
		993.3	996.9
Current assets			
Inventories	14	**64.4**	61.1
Other financial assets	12	**12.8**	0.1
Trade and other receivables	15	**24.3**	17.1
Current tax assets		**7.8**	6.9
Cash and cash equivalents (excluding bank overdrafts)		**17.3**	22.7
		126.6	107.9
Total assets		**1,119.9**	1,104.8
Current liabilities			
Bank overdraft		**(12.3)**	(16.7)
Trade payables and other liabilities	16	**(280.7)**	(297.4)
Lease liabilities	9	**(89.0)**	(88.1)
Provisions	20	**(12.8)**	(15.1)
Other financial liabilities	17	**–**	(6.7)
		(394.8)	(424.0)
Non-current liabilities			
Interest bearing loans and borrowings	18	**(93.5)**	(23.1)
Lease liabilities	9	**(356.4)**	(366.0)
Provisions	20	**(6.3)**	(5.7)
Other financial liabilities	17	**–**	(1.5)
		(456.2)	(396.3)
Total liabilities		**(851.0)**	(820.3)
Net assets		**268.9**	284.5
Equity attributable to owners of the Company			
Share capital	22	**25.9**	25.9
Share premium	22	**40.4**	40.4
Merger reserve	22	**18.6**	18.6
Capital redemption reserve	22	**357.8**	357.8
Treasury shares	22	**(4.9)**	(0.7)
Employee Benefit Trust shares	22	**(6.9)**	(0.2)
Cash flow hedging reserve	22	**17.5**	(8.0)
Retained earnings		**(179.5)**	(149.3)
Total equity		**268.9**	284.5

These financial statements were approved by the board of directors on 15 September 2022 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	Capital redemption reserve £m	Treasury shares £m	Employee Benefit Trust shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 28 June 2020	383.4	40.4	18.6	–	(0.7)	–	3.3	(243.1)	201.9
Profit for the year	–	–	–	–	–	–	–	88.7	88.7
Other comprehensive (expense)/income	–	–	–	–	–	–	(11.3)	2.6	(8.7)
Total comprehensive (expense)/income for the year	–	–	–	–	–	–	(11.3)	91.3	80.0
Purchase of shares by Employee Benefit Trust	0.3	–	–	–	–	(0.3)	–	–	–
Employee Benefit Trust shares issued	–	–	–	–	–	0.1	–	1.0	1.1
Repurchase and cancellation of deferred shares	(357.8)	–	–	357.8	–	–	–	–	–
Settlement of share based payments	–	–	–	–	–	–	–	(2.1)	(2.1)
Share based payments	–	–	–	–	–	–	–	3.6	3.6
Balance at 27 June 2021	25.9	40.4	18.6	357.8	(0.7)	(0.2)	(8.0)	(149.3)	284.5
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31.4**	**31.4**
Other comprehensive income/(expense)	**–**	**–**	**–**	**–**	**–**	**–**	**25.5**	**(6.4)**	**19.1**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**25.5**	**25.0**	**50.5**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(53.8)**	**(53.8)**
Purchase of own shares	**–**	**–**	**–**	**–**	**(4.4)**	**–**	**–**	**–**	**(4.4)**
Treasury shares issued	**–**	**–**	**–**	**–**	**0.2**	**–**	**–**	**(0.2)**	**–**
Purchase of shares by Employee Benefit Trust	**–**	**–**	**–**	**–**	**–**	**(8.1)**	**–**	**–**	**(8.1)**
Employee Benefit Trust shares issued	**–**	**–**	**–**	**–**	**–**	**1.4**	**–**	**(1.0)**	**0.4**
Settlement of share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2.7)**	**(2.7)**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2.6**	**2.6**
Tax recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Balance at 26 June 2022	**25.9**	**40.4**	**18.6**	**357.8**	**(4.9)**	**(6.9)**	**17.5**	**(179.5)**	**268.9**

Consolidated cash flow statement *for 52 weeks ended 26 June 2022 (52 weeks ended 27 June 2021)*

	Note	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
Profit for the period		**31.4**	88.7
Adjustments for:			
Income tax expense	6	**13.4**	10.5
Finance expenses	5	**29.1**	32.9
Exceptional financing costs	5	**–**	3.1
Depreciation of property, plant and equipment	8	**20.7**	19.7
Depreciation of right of use assets	9	**58.5**	57.7
Amortisation of intangible assets	10	**10.5**	7.9
Impairment of assets	28	**6.0**	–
Gain on sale of property, plant and equipment	3	**(1.1)**	(1.2)
Loss/(gain) on disposal of right of use assets	3	**0.1**	(1.4)
Loss on sale of subsidiaries	3	**–**	0.7
Settlement of share based payments		**(2.7)**	(2.1)
Share based payment expense	25	**2.6**	3.6
(Increase)/decrease in trade and other receivables		**(7.2)**	4.6
Increase in inventories		**(3.3)**	(2.2)
(Decrease)/increase in trade and other payables		**(16.6)**	81.4
(Decrease)/increase in provisions		**(1.7)**	3.3
Net cash from operating activities before tax		**139.7**	307.2
Tax paid		**(6.8)**	(8.2)
Net cash from operating activities		**132.9**	299.0
Investing activities			
Proceeds from sale of property, plant and equipment		**1.8**	1.5
Proceeds received from sale of subsidiaries		**–**	0.3
Acquisition of property, plant and equipment	8	**(36.8)**	(38.0)
Acquisition of other intangible assets	10	**(10.6)**	(11.2)
Net cash used in investing activities		**(45.6)**	(47.4)
Financing activities			
Interest paid		**(3.8)**	(6.1)
Interest paid on lease liabilities	9	**(25.0)**	(26.7)
Payment of lease liabilities	9	**(63.5)**	(77.1)
Exceptional financing costs		**–**	(4.1)
Drawdown/(repayment) of borrowings	26	**70.0**	(195.0)
Proceeds on issue of shares	22	**–**	0.3
Purchase of own shares		**(8.2)**	(0.3)
Proceeds from sale of own shares		**0.4**	1.1
Purchase of treasury shares		**(4.4)**	–
Ordinary dividends paid		**(28.4)**	–
Special dividends paid		**(25.4)**	–
Net cash used in financing activities		**(88.3)**	(307.9)
Net decrease in cash and cash equivalents	26	**(1.0)**	(56.3)
Cash and cash equivalents at beginning of period	26	**6.0**	62.3
Cash and cash equivalents (including bank overdraft) at end of period	26	**5.0**	6.0

Notes to the consolidated financial statements

1 Accounting policies

DFS Furniture plc ('the Company') is a 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.

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 1.19.

1.1 Basis of preparation

The consolidated financial statements have been prepared and approved by the directors in accordance with international accounting standards in accordance with UK-adopted international accounting standards ('UK-adopted IFRS'). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 26 June 2022 (last year 52 weeks to 27 June 2021).

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 165 to 169.

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 £215.0m revolving credit facility which has been extended to mature in December 2024, with an option to extend the facility for a further year, subject to mutual agreement with the consortium of lending banks. At 12 September 2022, £37.0m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £5.5m.

Covenants applicable to the revolving credit facility are: 3.0x net Debt / EBITDA and 1.5x Fixed Charge Cover, and are assessed on a six-monthly basis at June and December.

The Directors have prepared cash flow forecasts for the Group covering a period of at least twelve months from the date of approval of these financial statements, which indicate that the Group will be in compliance with these covenants. These forecasts include a number of assumptions in relation to: market size and the Group's order intake; average order values; inflationary impacts on gross margin and other costs; sector-wide manufacturing and supply chain capacities; 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 scenarios included: sustained market declines of up to 15%, leading to reduced customer spending; impacts on gross margin and other costs from inflationary cost pressures; increases in interest rates, and; supply chain impacts as a result of direct and indirect consequences of the conflict in Ukraine and the broader economic environment, and a combination of these scenarios.

As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. Should these severe but plausible scenarios occur, the Directors could implement these actions to help reduce the impact on the Group. These mitigating actions included reducing discretionary advertising expenditure, retail price increases, a pause on expansionary capital investment, a reduction or pause in dividend payments, 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 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 current economic and political environment and future impacts of the Covid-19 pandemic, and are confident that the Group has adequate resources to continue to meet all liabilities as and when they fall due for the foreseeable future and at least twelve months from the date of approval 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.

1.3 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 applicable SONIA 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 interest 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.

Notes to the consolidated financial statements continued

1 Accounting policies continued

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 Government grants

Government grants are recognised where there is reasonable assurance that the Group will comply with all attached conditions and that the grant will be received.

When the grant relates to an expense item, it is recognised as a deduction from the related expense within the period it becomes receivable.

1.5 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 measured at present value. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains and losses.

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.

1.6 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.

1.7 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.

1.8 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 effective differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

1.9 Business combinations

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.

1.10 Property, plant and equipment

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

Notes to the consolidated financial statements continued

1 Accounting policies continued

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 life 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.

1.11 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease under IFRS 16. 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.

Lease liability – initial recognition

The Group recognises right of use assets and lease liabilities at the lease commencement date. The lease liabilities are recognised at the present value of future lease payments discounted at the incremental borrowing rate applicable to the lease.

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 generally 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. Generally, right of use assets are initially measured at an amount equal to the lease liability.

Right of use asset – subsequent measurement

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

- less any accumulated depreciation and any accumulated impairments 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.

Practical expedients and exemptions used

The Group has opted to apply the following practical expedients and exemptions:

- use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- recognising lease payments on short term (less than 12 months) leases and low value leases as an expense;
- Covid-19 Related Rent Concessions amendment to IFRS 16 "Leases" – 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 to IFRS 16 "Leases" was adopted by the IASB on 28 May 2020 and endorsed by the European Union on 12 October 2020. On 31 March 2021, the IASB published a further amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. The Group continues to apply this amendment to all relevant rent concessions during the period. These concessions did not include waivers of rent payable.

1.12 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. Implementation costs associated with software and cloud computing arrangements are only capitalised where they relate to an identifiable asset under the control of the Group.

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

1.13 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.

1.14 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.

Notes to the consolidated financial statements continued

1 Accounting policies continued

1.15 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 judgments in note 1.19.

1.16 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.

1.17 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.

1.18 Profit or loss from discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, abandoned, or is classified as held for sale. A discontinued operation represents a separate major line of the business or geographical area of operation. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal group(s) constituting the discontinued operation (see also note 28). When an operation is classified as a discontinued operation, the comparative Consolidated Income Statement is restated as if the operation had been discontinued from the start of the comparative period.

1.19 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, but may differ from actual results. No significant areas of estimation arose in the current financial statements.

Significant judgement: discontinued operations

The presentation of discontinued operations is an area of significant judgement, requiring consideration of the criteria under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* as to whether the terminated operations represent a major separate line of business or geographical area of operations, are part of a single coordinated disposal plan or represent a subsidiary acquired exclusively with a view to resale.

In considering the closure of the Group's International operations, the Directors assessed a number of factors. The Group's expansion into mainland Europe had represented a specific major component of the Group's growth strategy and had demanded distinct products, supply chain, retail and operational management structures to those of the existing UK and ROI operations. While the revenues ultimately achieved in these territories were modest compared with growth in the rest of the Group, the withdrawal from the entirety of the Group's operations in mainland Europe is nonetheless a substantial change in strategic focus and structure of the DFS brand business.

The critical steps to effect the closure of the International businesses had been completed by 26 June 2022, although the Group retains certain obligations to its customers after the cessation of trade in respect of orders yet to be fulfilled and continuing guarantees of delivered products

The Directors judged that these operations represented a major geographical area of business and the closure was part of a single coordinated disposal plan and were therefore satisfied that the criteria under IFRS 5 have been met and presentation as discontinued operations is appropriate. Accordingly, the results of these operations are presented as discontinued operations in the consolidated income statement.

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 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 26 June 2022.

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 are provided in note 10. The Directors are satisfied that no reasonably possible change in these estimates would

Notes to the consolidated financial statements continued

result in the recognition of an impairment within the next twelve months and accordingly the carrying value of goodwill is not considered a significant estimate as at 26 June 2022.

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 26 June 2022.

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 26 June 2022.

1.20 New accounting standards

There are no new standards, amendments to existing standards or interpretations that are effective for the first time in the period ended 26 June 2022 that have a material impact on the Group's results.

A number of new, but not yet effective, standards, amendments to existing standards, and interpretations have been published by the IASB. None of these have been adopted early and therefore have not been applied by the Group in these financial statements.

2 Segmental Analysis

Segment revenue and profit – continuing operations

	External gross sales		Inter-segment sales		Total gross sales	
	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021* £m	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021* £m	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021* £m
DFS	**1,169.1**	1,083.9	**–**	–	**1,169.1**	1,083.9
Sofology	**304.9**	269.2	**–**	–	**304.9**	269.2
Other segments	**0.6**	6.3	**187.9**	–	**188.5**	6.3
Eliminations	**–**	–	**(187.9)**	–	**(187.9)**	–
Gross sales	**1,474.6**	1,359.4	**–**	–	**1,474.6**	1,359.4

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Total segments gross sales	**1,474.6**	1,359.4
Less: value added and other sales taxes	**(233.8)**	(215.8)
Less: costs of interest free credit and aftercare products	**(91.0)**	(83.4)
Revenue	**1,149.8**	1,060.2
Of which:		
Furniture sales	**1,096.8**	1,005.7
Sales of aftercare products	**53.0**	54.5
Revenue	**1,149.8**	1,060.2

52 weeks to 26 June 2022 – continuing operations

	DFS £m	**Sofology £m**	**Other £m**	**Eliminations £m**	**Total £m**
Revenue	**906.3**	**242.9**	**188.5**	**(187.9)**	**1,149.8**
Cost of sales	**(452.9)**	**(121.6)**	**(59.8)**	**90.4**	**(543.9)**
Gross profit	**453.4**	**121.3**	**128.7**	**(97.5)**	**605.9**
Selling & distribution costs (excluding property costs)	**(210.1)**	**(65.9)**	**(137.1)**	**74.7**	**(338.4)**
Brand contribution (segment profit)	**243.3**	**55.4**	**(8.4)**	**(22.8)**	**267.5**
Property costs					**(29.6)**
Underlying administrative expenses					**(62.0)**
Underlying EBITDA					**175.9**

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5. These discontinued operations were previously included within the DFS segment.

Notes to the consolidated financial statements continued

2 Segmental Analysis continued

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Group Leadership Team. Segment performance is assessed based upon brand contribution. Brand contribution is defined as underlying EBITDA (being earnings before interest, tax, depreciation, amortisation 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 retailing of upholstered furniture and related products through DFS and Dwell branded stores and websites.

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

In FY21, other segments comprised the retailing of upholstered furniture and related products through Sofa Workshop until its disposal on 18 September 2020. Following a significant change in the internal organisation and reporting structure of the business from the beginning of FY22, other segments comprises the manufacture of upholstered furniture and the supply of contract logistics. The nature and extent of this change means that it has not been practicable to restate prior periods on the same basis.

52 weeks to 27 June 2021*

	DFS £m	Sofology £m	Other £m	Total £m
Revenue	840.4	214.6	5.1	1,060.1
Cost of sales	(360.0)	(101.8)	(1.3)	(463.1)
Gross profit	480.4	112.8	3.8	597.0
Selling & distribution costs (excluding property costs)	(239.9)	(55.6)	(0.5)	(296.0)
Brand contribution (segment profit)	240.5	57.2	3.3	301.0
Property costs				(2.0)
Underlying administrative expenses				(75.2)
Underlying EBITDA				223.8

	Note	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021* £m
Underlying EBITDA		**175.9**	224.0
Non-underlying items	3	**(0.4)**	(2.1)
Depreciation & amortisation		**(88.2)**	(83.6)
Operating profit		**87.3**	138.3
Finance expenses		**(28.8)**	(32.6)
Non-underlying financing costs	5	**–**	(3.1)
Profit before tax		**58.5**	102.6

A geographical analysis of revenue is presented below:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021* £m
United Kingdom	**1,129.3**	1,044.7
Europe	**20.5**	15.5
Total revenue	**1,149.8**	1,060.2

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5. These discontinued operations were previously included within the DFS segment.

Notes to the consolidated financial statements continued

2 Segmental Analysis continued

Segment assets and liabilities

	Assets		Liabilities	
	26 June 2022 £m	27 June 2021 £m	**26 June 2022 £m**	27 June 2021 £m
DFS	**948.4**	931.4	**(625.0)**	(647.0)
Sofology	**167.6**	174.1	**(142.6)**	(157.8)
Other segments	**30.0**	–	**(52.2)**	–
Total segments	**1,146.0**	1,105.5	**(819.8)**	(804.8)
Loans and financing	**–**	–	**(93.5)**	(39.8)
Financial assets/(liabilities)	**17.6**	0.2	**–**	(8.2)
Current tax	**7.8**	6.9	**–**	–
Deferred tax	**10.8**	24.7	**–**	–
Eliminations	**(62.3)**	(32.5)	**62.3**	32.5
Total Group	**1,119.9**	1,104.8	**(851.0)**	(820.3)

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 comprise trade payables and current and non-current other liabilities and provisions. The balances as at 27 June 2021 have been represented for improved understanding of the assets and liabilities.

	Additions to non-current assets		Depreciation, amortisation and impairment	
	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
DFS	**72.0**	51.6	**66.0**	66.4
Sofology	**14.8**	17.9	**17.3**	17.8
Other segments	**12.5**	–	**4.9**	1.1
Total Group	**99.3**	69.5	**88.2**	85.3

Additions to non-current assets include both tangible and intangible non-current assets.

Notes to the consolidated financial statements continued

3 Operating profit – continuing operations

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

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021* £m
Depreciation on tangible assets (including depreciation on right of use assets)	**77.7**	75.7
Amortisation of intangible assets	**10.5**	7.9
Net gain on disposal of property, plant and equipment	**(1.1)**	(1.2)
Net loss/(gain) on disposal of right of use assets	**0.1**	(1.4)
Cost of inventories recognised as an expense	**548.1**	462.0
Write down of inventories to net realisable value	**4.6**	5.6
Other costs of sales	**(8.8)**	(4.6)
Release of provisions (note 20)	**(2.1)**	(1.3)
Government grants received (business rates relief)	**(2.0)**	(29.0)
Operating lease rentals	**0.7**	0.5

Non-underlying items

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Restructuring costs	**0.9**	1.4
Acquisition costs	**(0.2)**	–
Release of lease guarantee provision	**(0.3)**	–
Loss on disposal of subsidiaries	**–**	0.7
	0.4	2.1

Restructuring costs arose from significant changes to the Group's operating model and the associated consolidation of central activities. The release of acquisition costs relate to the Group's November 2017 acquisition of Sofology; deferred consideration relating to the acquisition was finalised and settled on 11 August 2021, with the residual of the related provision credited to profit and loss. The release of the lease guarantee provision relates to the property provisions detailed in note 20.

In the 52 weeks to 27 June 2021 the Group formally completed the disposal of The Sofa Workshop Limited for cash consideration of £0.3m. The loss on disposal included professional fees, property guarantees and other costs associated with the disposal. In addition, non-underlying redundancy costs were incurred in the year in respect of a significant operational restructuring of the DFS sales administration function.

In addition to the non-underlying costs for continuing operations above, a further £11.3m of non-underlying costs were recognised in respect of discontinued operations. These costs relate to the impairment of tangible and intangible assets and employee compensation and other closure costs associated with the termination of discontinued operations. Further details are presented in note 28 to the consolidated financial statements.

Auditor's remuneration

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Audit of these financial statements	**0.6**	0.4
Audit of the financial statements of Group subsidiaries	**0.1**	0.2
Amounts receivable by the Company's auditor and its associates in respect of:		
All other services	**–**	–
	0.7	0.6

During the period, an amount of £50,000 was receivable by the Company's auditor in respect of the review of the Group's interim financial statements (FY21: £50,000) and £nil in respect of other audit related services (FY21: £5,000).

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Notes to the consolidated financial statements continued

4 Staff numbers and costs – continuing operations

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

	Number of employees	
	52 weeks to 26 June 2022	52 weeks to 27 June 2021*
Production	**1,009**	1,187
Warehouse and transport	**1,315**	1,012
Sales and administration	**3,182**	3,087
	5,506	5,286

The aggregate payroll costs of these persons were as follows:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021* £m
Wages and salaries	**180.7**	169.5
Social security costs	**17.6**	17.1
Other pension costs	**5.6**	4.7
	203.9	191.3
Share based payment expense (equity settled)	**2.6**	3.6
	206.5	194.9

Aggregate remuneration payable to directors in respect of qualifying services was as follows:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Emoluments	**1.3**	2.0
Pension contributions	**0.1**	0.1
Gain on exercise of share options	**0.9**	1.1

Two directors accrued retirement benefits under pension schemes in the period (2021: two). All of the directors' pension contributions were to defined contribution schemes.

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Notes to the consolidated financial statements continued

5 Finance expense – continuing operations

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021* £m
Interest payable on senior revolving credit facility	**2.5**	4.2
Bank fees	**1.5**	2.0
Unwind of discount on provisions	**–**	0.1
Interest on lease liabilities	**24.7**	26.2
Other interest	**0.1**	0.1
Total underlying finance expense	**28.8**	32.6
Non-underlying items:		
Refinancing costs	**–**	3.1
Total finance expense	**28.8**	35.7

Non-underlying finance costs relate to the refinancing of the Group's revolving credit facility in December 2020.

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

6 Taxation

Recognised in the income statement

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Current tax		
Current period	**4.9**	8.9
Adjustments for prior years	**0.9**	0.1
Current tax expense	**5.8**	9.0
Deferred tax		
Origination and reversal of temporary differences	**6.8**	7.4
Deferred tax rate change	**1.6**	(5.2)
Adjustments for prior years	**(0.8)**	(0.7)
Deferred tax expense	**7.6**	1.5
Total tax expense in income statement	**13.4**	10.5
Total tax expense in income statement		
– from continuing operations	**14.3**	10.5
– from discontinued operations	**(0.9)**	–
	13.4	10.5

Notes to the consolidated financial statements continued

6 Taxation continued

Reconciliation of effective tax rate

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Profit before tax for the period	**44.8**	99.2
Tax using the UK corporation tax rate of 19% (2021: 19%)	**8.5**	18.8
Non-deductible expenses	**2.2**	0.8
Tax exempt revenues	**(1.1)**	(0.3)
Effect of tax rates in foreign jurisdictions	**1.4**	0.3
Disposal of subsidiaries	**–**	(0.5)
Recognition of previously unrecognised tax losses	**0.3**	(2.6)
Adjustments in respect of share options	**0.4**	(0.2)
Adjustment in respect of prior years	**0.1**	(0.6)
Impact of change in tax rate on deferred tax balances	**1.6**	(5.2)
Total tax expense/(credit)	**13.4**	10.5

Profit before tax arises from continuing operations (£58.8m, 2021: £102.6m) and discontinued operations (loss of £13.7m, 2021: loss of £3.3m). Refer to note 28 for further information on discontinued operations.

The Finance Act 2021, which was substantively enacted in May 2021, included provisions to increase the rate of UK corporation tax to 25% with effect from 1 April 2023.

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 25% has been applied when calculating deferred tax assets and liabilities at 26 June 2022 (25% at 27 June 2021).

Income tax recognised in other comprehensive income

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Effective portion of changes in fair value of cash flow hedges	**4.8**	(3.9)
Net change in fair value of cash flow hedges reclassified to profit or loss	**0.4**	1.7
Adjustments in respect of share options	**–**	0.1
Impact of change in tax rate on deferred tax balances	**1.2**	(0.5)
	6.4	(2.6)

Notes to the consolidated financial statements continued

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 22 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 share based payment arrangements (note 25). 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 Directors' remuneration report.

	52 weeks to 26 June 2022 pence	52 weeks to 27 June 2021* pence
Basic earnings/(loss) per share		
– from continuing operations	**17.3**	35.8
– from discontinued operations	**(5.0)**	(1.3)
Total basic earnings per share	**12.3**	34.5
Diluted earnings/(loss) per share		
– from continuing operations	**17.2**	35.5
– from discontinued operations	**(5.0)**	(1.3)
Total diluted earnings per share	**12.2**	34.2

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021* £m
Profit/(loss) for the period attributable to equity holders of the parent company		
– from continuing operations	**44.2**	92.1
– from discontinued operations	**(12.8)**	(3.4)
	31.4	88.7

	26 June 2022 No.	27 June 2021 No.
Weighted average number of shares in issue for basic earnings per share	**254,675,661**	257,096,686
Dilutive effect of employee share based payment awards	**1,220,492**	2,352,481
Weighted average number of shares in issue for diluted earnings per share	**255,896,153**	259,449,167

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 26 June 2022 £m	52 weeks to 27 June 2021* £m
Continuing operations		
Profit for the period attributable to equity holders of the parent company	**44.2**	92.1
Non-underlying loss after tax	**0.4**	3.8
Underlying profit for the period attributable to equity holders of the parent company from continuing operations	**44.6**	95.9

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Notes to the consolidated financial statements continued

7 **Earnings per share** continued

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 * £m
Discontinued operations		
Loss for the period attributable to equity holders of the parent company	**(12.8)**	(3.4)
Non-underlying loss after tax	**11.3**	–
Underlying loss for the period attributable to equity holders of the parent company from discontinued operations	**(1.5)**	(3.4)

	52 weeks to 26 June 2022 pence	52 weeks to 27 June 2021* pence
Underlying basic earnings/(loss) per share		
– from continuing operations	**17.5**	37.3
– from discontinued operations	**(0.6)**	(1.3)
Total underlying basic earnings per share	**16.9**	36.0
Underlying diluted earnings/(loss) per share		
– from continuing operations	**17.4**	36.9
– from discontinued operations	**(0.6)**	(1.3)
Total underlying diluted earnings per share	**16.8**	35.6

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Notes to the consolidated financial statements continued

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 June 2020	8.6	174.4	12.0	454.4	649.4
Reclassifications	0.3	(0.8)	–	–	(0.5)
Additions	13.0	24.2	0.8	20.3	58.3
Remeasurements	–	–	–	13.4	13.4
Disposals	(1.4)	(5.3)	(2.6)	(25.2)	(34.5)
Balance at 27 June 2021	20.5	192.5	10.2	462.9	686.1
Reclassifications	**–**	**0.9**	**(0.1)**	**(0.4)**	**0.4**
Additions	**2.0**	**34.4**	**0.4**	**51.9**	**88.7**
Remeasurements	**–**	**–**	**–**	**5.4**	**5.4**
Disposals	**(0.6)**	**(45.3)**	**(1.8)**	**(9.6)**	**(57.3)**
Balance at 26 June 2022	**21.9**	**182.5**	**8.7**	**510.2**	**723.3**
Depreciation and impairments					
Balance at 28 June 2020	1.5	109.5	9.9	69.9	190.8
Reclassifications	0.2	(0.7)	–	–	(0.5)
Depreciation charge for the period	1.0	17.6	1.1	57.7	77.4
Disposals	(1.0)	(5.0)	(2.5)	(9.8)	(18.3)
Balance at 27 June 2021	1.7	121.4	8.5	117.8	249.4
Reclassifications	**–**	**0.5**	**–**	**(0.4)**	**0.1**
Depreciation charge for the period	**0.4**	**19.8**	**0.5**	**58.5**	**79.2**
Impairments	**0.1**	**1.2**	**0.1**	**3.1**	**4.5**
Disposals	**(0.1)**	**(45.2)**	**(1.7)**	**(6.8)**	**(53.8)**
Balance at 26 June 2022	**2.1**	**97.7**	**7.4**	**172.2**	**279.4**
Net book value					
At 28 June 2020	7.1	64.9	2.1	384.5	458.6
At 27 June 2021	18.8	71.1	1.7	345.1	436.7
At 26 June 2022	**19.8**	**84.8**	**1.3**	**338.0**	**443.9**

Capital commitments

At 26 June 2022 the Group had contracted capital commitments of £11.8m (2021: £3.6m) for which no provision has been made in the financial statements.

Notes to the consolidated financial statements continued

9 Leases

Right of use assets

	Property £m	Vehicles £m	Equipment £m	Total £m
Cost				
At 28 June 2020	434.0	19.1	1.3	454.4
Additions	17.4	2.3	0.6	20.3
Remeasurements	13.4	–	–	13.4
Disposals	(21.5)	(3.7)	–	(25.2)
At 27 June 2021	443.3	17.7	1.9	462.9
Reclassifications	**(0.4)**	**–**	**–**	**(0.4)**
Additions	**44.2**	**7.7**	**–**	**51.9**
Remeasurements	**5.4**	**–**	**–**	**5.4**
Disposals	**(6.8)**	**(2.8)**	**–**	**(9.6)**
At 26 June 2022	**485.7**	**22.6**	**1.9**	**510.2**
Depreciation and impairment				
At 28 June 2020	60.5	8.4	1.0	69.9
Depreciation charge for the period	53.8	3.7	0.2	57.7
Disposals	(6.3)	(3.5)	–	(9.8)
At 27 June 2021	108.0	8.6	1.2	117.8
Reclassifications	**(0.4)**	**–**	**–**	**(0.4)**
Depreciation charge for the period	**54.6**	**3.7**	**0.2**	**58.5**
Disposals	**(4.1)**	**(2.7)**	**–**	**(6.8)**
Impairments	**3.1**	**–**	**–**	**3.1**
At 26 June 2022	**161.2**	**9.6**	**1.4**	**172.2**
Net book value				
At 28 June 2020	373.5	10.7	0.3	384.5
At 27 June 2021	335.3	9.1	0.7	345.1
At 26 June 2022	**324.5**	**13.0**	**0.5**	**338.0**

Amounts recognised in the consolidated balance sheet:

	26 June 2022 £m	27 June 2021 £m
Current lease liabilities	**89.0**	88.1
Non-current lease liabilities	**356.4**	366.0

For more information on the maturity of the Group's lease liabilities, see note 24.

Notes to the consolidated financial statements continued

9 Leases continued

Amounts recognised in the consolidated income statement:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Interest on lease liabilities	**25.0**	26.7
Variable lease payments not included in the measurement of lease liabilities	**(1.0)**	(0.6)
Income from subleasing right of use assets	**(0.1)**	(0.5)
Expenses relating to short term leases and low value leases	**1.8**	1.6

Amounts recognised in the consolidated cash flow statement:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Total cash outflow for lease liabilities	**88.5**	103.8

Non-cancellable short term lease rentals are payable as follows:

	26 June 2022 £m	27 June 2021 £m
Less than one year	**0.1**	0.1
Between one and five years	**–**	–
More than five years	**–**	–
	0.1	0.1

The Group has entered into short term leases in respect of warehouses and equipment.

At 26 June 2022, future rentals receivable under non-cancellable leases where the Group is the lessor were £2.8m (2021: £2.7m).

During the period ended 26 June 2022 the Group applied the practical expedient to all Covid-19 related rent concessions. This gave rise to £nil impact on profit and loss during the period (2021: £nil).

Notes to the consolidated financial statements continued

10 Intangible assets

	Computer software £m	Brand Names £m	Goodwill £m	Total £m
Cost				
Balance at 28 June 2020	34.6	16.8	514.6	566.0
Additions	11.2	–	–	11.2
Disposals	(0.9)	(2.0)	(5.3)	(8.2)
Balance at 27 June 2021	44.9	14.8	509.3	569.0
Additions	**10.6**	**–**	**–**	**10.6**
Disposals	**–**	**–**	**–**	**–**
Reclassification	**(0.2)**	**–**	**–**	**(0.2)**
Balance at 26 June 2022	**55.3**	**14.8**	**509.3**	**579.4**
Amortisation and impairments				
Balance at 28 June 2020	22.8	5.4	5.3	33.5
Amortisation charge for the period	6.5	1.4	–	7.9
Disposals	(0.8)	(1.7)	(5.3)	(7.8)
Balance at 27 June 2021	28.5	5.1	–	33.6
Amortisation charge for the period	**9.1**	**1.4**	**–**	**10.5**
Impairments	**–**	**0.5**	**1.0**	**1.5**
Balance at 26 June 2022	**37.6**	**7.0**	**1.0**	**45.6**
Net book value				
At 28 June 2020	11.8	11.4	509.3	532.5
At 27 June 2021	16.4	9.7	509.3	535.4
At 26 June 2022	**17.7**	**7.8**	**508.3**	**533.8**

Goodwill

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

	Goodwill	
	26 June 2022 £m	27 June 2021 £m
DFS Trading Limited	**479.9**	479.9
Sofology Limited	**28.4**	28.4
DFS Spain Limited	**–**	1.0
	508.3	509.3

Notes to the consolidated financial statements continued

10 Intangible assets continued

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

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations 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 an estimated long-term growth rate for the UK upholstery furniture sector of 2.0% (2021: 2.0%). These cash flow forecasts were then discounted at pre-tax discount rates of 10.3%-11.1% (2021: 9.9%-10.1%). The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

Following the decision to close the DFS Spain business the related goodwill has been impaired to a nil carrying value.

For DFS and Sofology, the value in use 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.

11 Investments in subsidiaries

The following companies are incorporated in England & Wales, with the exception of Coin Retail Limited (Jersey) which is incorporated in Jersey. They are all 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
Sofology Limited[3]	Furniture retailer
Sofaworks Limited[1]	Dormant
Haydock Furniture Limited[3]	Dormant
The Sofa Delivery Company Limited[1]	Contract logistics
The Sofa Manufacturing Company Limited[1]	Dormant
The Sofa Servicing Company Limited[1]	Dormant
Coin Retail Limited (Jersey)[2]	Intermediate holding company
Coin Furniture Limited[1]	Furniture retailer
DFS Spain Limited[1]	Furniture retailer

Registered offices:
1. Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster DN6 7NA.
2. 13-14 Esplanade, St Helier, Jersey JE1 1BD.
3. Ashton Road, Golborne, Warrington, WA3 3UL.

Notes to the consolidated financial statements continued

12 Other financial assets

	26 June 2022 £m	27 June 2021 £m
Non-current		
Foreign exchange contracts	**4.8**	0.1
Current		
Foreign exchange contracts	**12.8**	0.1

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 24).

13 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	26 June 2022 £m	27 June 2021 £m
Fixed asset timing differences	**3.6**	7.3
IFRS 16	**10.6**	11.9
Remeasurement of derivatives to fair value	**(4.4)**	2.0
Tax losses carried forward	**0.4**	2.4
Brand names	**(1.9)**	(2.2)
Share based payments	**0.7**	1.3
Corporate interest restriction	**–**	–
Other temporary differences	**1.8**	2.0
Net tax assets	**10.8**	24.7

The deferred tax movement in the period is as follows:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
At start of period	**24.7**	24.0
Recognised on adoption of IFRS 16	**–**	–
(Charged)/credited to the income statement:		
Fixed asset timing differences	**(3.7)**	1.5
Unwind of IFRS 16 transition impact	**(1.2)**	1.6
Tax losses carried forward	**(2.2)**	(3.9)
Brand names	**0.3**	(0.2)
Share based payments	**(0.5)**	0.3
Corporate interest restriction	**–**	(1.8)
Other temporary differences	**(0.1)**	1.0
Disposal of subsidiaries	**–**	(0.4)
Recognised in the statement of comprehensive income	**(6.5)**	2.6
At end of period	**10.8**	24.7

Deferred tax assets on losses of £5.3m (2021: £2.7m) have not been recognised as there is uncertainty over the utilisation of these losses.

Notes to the consolidated financial statements continued

14 Inventories

	26 June 2022 £m	27 June 2021 £m
Raw materials and consumables	**7.3**	6.6
Finished goods and goods for resale	**76.0**	68.6
	83.3	75.2
Provision for net realisable value	**(18.9)**	(14.1)
	64.4	61.1

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 or 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

	26 June 2022 £m	27 June 2021 £m
Trade receivables	**12.6**	9.3
Prepayments	**11.4**	7.2
Accrued income	**0.3**	0.4
Other receivables	**–**	0.2
	24.3	17.1

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

	26 June 2022 £m	27 June 2021 £m
Current		
Payments received on account	**72.2**	117.7
Trade payables	**122.5**	83.9
Other creditors including other tax and social security	**32.5**	31.3
Accruals	**53.5**	64.5
	280.7	297.4

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. For more information on lease liabilities, see note 1.11.

Notes to the consolidated financial statements continued

17 Other financial liabilities

	26 June 2022 £m	27 June 2021 £m
Non-current		
Foreign exchange contracts	**–**	1.5
Current		
Foreign exchange contracts	**–**	6.7

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 24).

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 24.

	26 June 2022 £m	27 June 2021 £m
Senior revolving credit facility	**95.0**	25.0
Unamortised issue costs	**(1.5)**	(1.9)
	93.5	23.1

The revolving credit facility bears interest at a rate of credit spread adjusted SONIA plus 2.455% and is currently repayable on 21 December 2024, with an option to extend the facility by one further year, subject to mutual agreement with the consortium of lending banks. The revolving credit facility is secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Group.

For more information on the maturity of the Group's lease liabilities, see note 24.

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 £5.6m (2021: £4.7m).

Notes to the consolidated financial statements continued

20 Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 27 June 2021	9.1	3.7	8.0	20.8
Provisions made during the period	4.4	0.6	5.5	10.5
Provisions used during the period	(4.8)	–	(5.3)	(10.1)
Provisions released during the period	–	(0.3)	(1.8)	(2.1)
Balance at 26 June 2022	**8.7**	**4.0**	**6.4**	**19.1**
Current	6.1	0.7	6.0	12.8
Non-current	2.6	3.3	0.4	6.3
	8.7	**4.0**	**6.4**	**19.1**

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 £0.8m. The directors have therefore concluded that reasonably possible variations in estimate would not result in a material difference.

Property provisions relate to potential obligations under lease guarantees offered to former subsidiary companies, the majority of which expire in 2025, and wear and tear costs for Group properties based on anticipated lease expiries and renewals, which 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 at 27 June 2021 included deferred consideration payable on the Group's November 2017 acquisition of Sofology. The deferred consideration payable was finalised and settled on 11 August 2021 with the difference between the provision and the amount payable, including costs, being credited to profit and loss (see note 3). Other provisions also include costs associated with the exit from the Netherlands and Spain, see note 28 for details.

Notes to the consolidated financial statements continued

21 Dividends

The following dividends were recognised and paid during the period:

	Pence per ordinary share	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
Final ordinary dividend for FY21	7.5p	**19.0**	–
Interim ordinary dividend for FY22	3.7p	**9.4**	–
Special dividend	10.0p	**25.4**	–
		53.8	–

The Directors recommend a final dividend of 3.7p in respect of the financial period ended 26 June 2022, resulting in a total proposed dividend of £8.9m. Subject to shareholder approval it is intended that this dividend will be paid on 29 December 2022. DFS Furniture plc shares will trade ex-dividend from 1 December 2022 and the record date will be 2 December 2022. This dividend has not therefore been recognised as a liability in these financial statements.

As noted in the Directors' Report on page 117, subsequent to the payment of the interim and special dividends in FY22 the Directors became aware that £1.4m of the total distribution had been made otherwise than in accordance with the Companies Act 2006. Resolutions to release all claims the Company has against shareholders and Directors in respect of this will be presented to shareholders at the earliest opportunity.

22 Capital and reserves

Share capital

Ordinary shares of £0.10 each	**Number of shares '000**	**Ordinary shares £m**
Allotted, called up and fully paid		
At the start and end of the financial period	**258,637**	**25.9**

Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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 of 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 26 June 2022 2,585,666 shares (2021: Nil) were acquired and 63,444 at a total cost of £4.4m and of the Company's own ordinary shares (2021: 16,141) were used to satisfy employee share based payment awards. At 26 June 2022 the company had 2,797,863 ordinary shares held in treasury (2021: 250,332).

As noted in the Directors' Report on page 117, subsequent to the period end, the Directors became aware that the purchase of some treasury shares by the Company had been made otherwise than in accordance with the Companies Act 2006. Resolutions to release all claims the Company has against shareholders and Directors in respect of this will be presented to shareholders at the earliest opportunity.

Notes to the consolidated financial statements continued

22 Capital and reserves continued

Employee Benefit Trust shares

The Employee Benefit Trust holds ordinary shares which are issued for the purpose of satisfying future employee share based payments awards.

During the period ending 26 June 2022 the Company acquired and issued 3,000,000 ordinary shares to the Employee Benefit Trust (2021: 3,000,000) of which 824,009 were subsequently used during the period (2021: 1,135,013). At 26 June 2022 the Employee Benefit Trust held 4,040,978 of the Company's ordinary shares (2021: 1,864,987).

23 Financial instruments: categories and fair value

	26 June 2022 £m	27 June 2021 £m
Financial assets		
Derivatives in designated hedging relationships	**17.6**	0.2
Loans and receivables	**12.6**	9.5
Cash	**17.3**	24.1
Financial liabilities		
Derivatives in designated hedging relationships	**–**	(8.2)
Senior revolving credit facility	**(93.5)**	(23.1)
Bank overdraft	**(12.3)**	(16.7)
Amortised cost	**(195.1)**	(164.2)
Fair value	**–**	(5.0)
Finance lease obligations	**(445.4)**	(454.1)

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 have reviewed for expected credit losses and consider the amount of any such losses to be immaterial.

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

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:

26 June 2022	**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	**176.0**	**–**	**–**	**–**	**176.0**
Lease liabilities	**84.3**	**79.0**	**200.8**	**179.0**	**543.1**
Senior revolving credit facility	**3.5**	**3.5**	**96.6**	**–**	**103.6**
Other liabilities	**12.8**	**3.0**	**1.3**	**2.0**	**19.1**
	276.6	**85.5**	**298.7**	**181.0**	**841.8**
Derivatives: net settled	**–**	**–**	**–**	**–**	**–**
Derivatives: gross settled					
Cash in flows	**(143.7)**	**(68.3)**	**–**	**–**	**(212.0)**
Cash out flows	**143.0**	**51.6**	**–**	**–**	**194.6**
Total cash flows	**275.9**	**68.8**	**298.7**	**181.0**	**824.4**

27 June 2021	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	148.4	–	–	–	148.4
Lease liabilities	86.1	80.0	203.1	187.0	556.2
Senior revolving credit facility	0.7	0.7	25.4	–	26.8
Other liabilities	15.1	2.9	–	2.8	20.8
	250.3	83.6	228.5	189.8	752.2
Derivatives: net settled	–	–	–	–	–
Derivatives: gross settled					
Cash in flows	(119.5)	(60.7)	–	–	(180.2)
Cash out flows	144.3	44.9	–	–	189.2
Total cash flows	275.1	67.8	228.5	189.8	761.2

Notes to the consolidated financial statements continued

24 Financial instruments: risk management continued

Interest rate risk management

The Group's operating profit is affected by the cost of providing interest free credit to its customers. This cost is in turn impacted by interbank lending rates, including SONIA (which replaced LIBOR from December 2021). While the relationship is not wholly direct, an increase in SONIA of one percentage point would reduce the Group's reported revenue by 0.7%.

The Group is also exposed to interest rate risk on its senior revolving credit facility, which bears interest at a rate of credit spread adjusted SONIA plus 2.455%; no related interest rate hedging was in place as at 26 June 2022. Based on drawn amounts under the facility at that date, an increase of one percentage point in SONIA would increase the Group's annual interest cost by £1.1m.

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 24 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:

	26 June 2022		**27 June 2021**	
	Notional amount £m	Fair value £m	**Notional amount £m**	Fair value £m
Derivatives in designated hedging relationships				
US Dollar	**194.6**	18.8	**189.2**	(8.8)

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

	Assets		**Liabilities**	
	26 June 2022 £m	27 June 2021 £m	**26 June 2022 £m**	27 June 2021 £m
US Dollar	**1.5**	7.6	**(10.3)**	(8.6)
Euro	**4.2**	2.9	**(0.2)**	(0.3)

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 26 June 2022 £m	52 weeks to 27 June 2021 £m	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
US Dollar	**0.9**	–	**(20.8)**	(17.8)
Euro	**(0.4)**	(0.3)	**–**	–

Notes to the consolidated financial statements continued

24 Financial instruments: risk management continued

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 considers that expected credit losses on derivative assets arising from the default of counterparties are not material.

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.

25 Share based payments

The Group has four 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 94 to 114.

Based on the scheme rules, the Group may settle the vested shares in cash sum equivalent to the market value of the shares and this decision is driven solely at the discretion of the Board. During the year, the Group settled part of the vested LTIP shares by offering cash payments (£1.5m) to participating employees. As there is no present obligation that the Group will settle future awards in cash, the Group will continue to recognise the LTIP as an equity settled scheme.

Deferred Bonus Plan (DBP)

25% of any bonus earned by the Executive Directors is granted as a deferred award under the Deferred Bonus Plan. The deferred award ordinarily has a vesting period of three years, and its vesting is conditional on the participant's continued employment with the Group at the end of the vesting period unless they are a "good leaver".

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). For awards granted on or after 1 July 2019, 50% of awards made to each individual are subject to either an earnings per share or underlying profit before tax performance target; remaining awards are not subject to other performance conditions.

Based on the scheme rules, the Group may settle the vested shares in cash sum equivalent to the market value of the shares and this decision is driven solely at the discretion of the Board. During the year, the Group settled part of the vested RSP shares by offering cash payments (£1.2m) to participating employees. As there is no present obligation that the group will settle future awards in cash, the Group will continue to recognise the RSP as an equity settled scheme.

Notes to the consolidated financial statements continued

25 Share based payments continued

Save as You 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.	DBP No.	RSP No.	SAYE No.
Outstanding at the beginning of the period	**1,929,231**	**–**	**3,113,529**	**4,197,239**
Granted	**675,766**	**93,938**	**955,496**	**1,094,094**
Forfeited	**(77,435)**	**–**	**(347,775)**	**(151,159)**
Exercised	**(545,299)**	**–**	**(1,028,375)**	**(252,598)**
Lapsed	**–**	**–**	**–**	**(35,689)**
Cancelled	**–**	**–**	**–**	**(735,858)**
Outstanding at the end of the period	**1,982,263**	**93,938**	**2,692,875**	**4,116,029**
Weighted average remaining contractual life (months)	**15.9**	**27.6**	**16.0**	**19.4**
Weighted average share price at exercise	**£2.45**	**–**	**£1.64**	**£2.28**

At 26 June 2022 the weighted average exercise price of outstanding SAYE options was £1.81 (2021: £1.69) and the range of exercise prices was £1.62 to £2.18 (2021: £1.61 to £1.88). At 26 June 2022 there were 148,051 (2021: 7,314) exercisable SAYE options, with a weighted average exercise price of £1.80 (2021: £1.85). There were no exercisable LTIP, DBP or RSP options at 26 June 2022 (2021: nil).

Notes to the consolidated financial statements continued

25 Share based payments continued

Fair value calculations

The LTIP, DBP, 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	DBP	RSP	SAYE
Grant date	11 October 2021	21 October 2021	11 October 2021	25 November 2021
Share price at date of grant	£2.66	£2.71	£2.66	£2.73
Exercise price	Nil	Nil	Nil	£2.18
Volatility	46.8-53.3%[1]	46.8%	–[2]	46.8%
Expected life	3 years	3 years	3 years	3.3 years
Risk free rate	0.7–0.8%[1]	–	–[2]	0.0%
Dividend yield	–[3]	2.5%	2.5%	2.5%
Fair value per share				
Market based performance conditions	£1.20–£1.45[1]	–	–	–
Non-market based performance condition	£2.22–£2.66[1]	–	£2.47	–
No performance condition	–	£2.71	£2.47	£0.95

1. The 2021 LTIP grant included a number of required holding periods, giving a range of volatility and fair values.
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. LTIP participants are entitled to receive dividend equivalents on unvested awards therefore dividend yield does not impact the fair value calculation.

Expected volatility is calculated over the period of time commensurate with the relevant performance period or holding period. 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 £2.6m (2021: £3.6m).

Notes to the consolidated financial statements continued

26 Net debt

	27 June 2021 £m	Cash flow £m	Other non-cash changes £m	**26 June 2022 £m**
Cash in hand, at bank	22.7	(5.4)	–	**17.3**
Bank overdraft	(16.7)	4.4	–	**(12.3)**
Cash and cash equivalents	6.0	(1.0)	–	**5.0**
Senior revolving credit facility	(23.1)	(70.0)	(0.4)	**(93.5)**
Lease liabilities	(454.1)	63.5	(54.8)	**(445.4)**
Total net debt	(471.2)	(7.5)	(55.2)	**(533.9)**

	28 June 2020 £m	Cash flow £m	Other non-cash changes £m	27 June 2021 £m
Cash in hand, at bank	62.3	(39.6)	–	22.7
Bank overdraft	–	(16.7)	–	(16.7)
Cash and cash equivalents	62.3	(56.3)	–	6.0
Senior revolving credit facility	(218.7)	195.0	0.6	(23.1)
Lease liabilities	(517.2)	77.1	(14.0)	(454.1)
Total net debt	(673.6)	215.8	(13.4)	(471.2)

Non-cash changes include the addition of leases within the period of £51.9m (2021: £20.3m), lease remeasurements of £5.4m (2021: £13.5m), disposals of leases of £2.5m (2021: £13.6m), impact of the disposal of Sofa Workshop on lease liabilities of £nil (2021: £6.2m) and the amortisation of capitalised debt issue costs of £0.4m (2021: £0.6m).

27 Related parties

Key Management Personnel

At 26 June 2022, Directors of the Company held 0.4% of its issued ordinary share capital (2021: 0.3%), and a further 0.1% (2021: 0.1%) was held by other key management personnel. The compensation of key management personnel (including the Directors) is as follows:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Emoluments	**4.0**	4.9
Share based payments expense	**0.8**	1.2
Company contributions to money purchase schemes	**0.3**	0.3
	5.1	6.4

Notes to the consolidated financial statements continued

28 Discontinued operations

During the period the Group took the decision to exit its operations in the Netherlands and Spain. As disclosed in note 1.19, the Directors considered a number of factors and exercised judgement in concluding that it was appropriate to present the results of these businesses as discontinued operations, in accordance with the Group's accounting policy. The revenues and expenses of the discontinued operations have therefore been eliminated from the consolidated income statement for the Group's continuing operations and are shown as a separate single post-tax line item. Prior to being classified as discontinued operations, these operations were included within the DFS segment of the Group's segmental analysis.

Results from discontinued operations

	52 weeks to 26 June 2022			52 weeks to 27 June 2021
	Underlying £m	Non-underlying £m	Total £m	Total £m
Revenue	**9.0**	**–**	**9.0**	7.6
Cost of sales	**(4.6)**	**–**	**(4.6)**	(3.5)
Gross profit	**4.4**	**–**	**4.4**	4.1
Selling and distribution costs	**(5.0)**	**–**	**(5.0)**	(5.5)
Administrative expenses	**–**	**(5.3)**	**(5.3)**	–
Operating loss before depreciation, amortisation and impairment	**(0.6)**	**(5.3)**	**(5.9)**	(1.4)
Depreciation	**(1.5)**	**–**	**(1.5)**	(1.7)
Impairment	**–**	**(6.0)**	**(6.0)**	–
Operating loss	**(2.1)**	**(11.3)**	**(13.4)**	(3.1)
Finance expenses	**(0.3)**	**–**	**(0.3)**	(0.2)
Loss before tax	**(2.4)**	**(11.3)**	**(13.7)**	(3.3)
Taxation	**0.9**	**–**	**0.9**	(0.1)
Loss for the period from discontinued operations	**(1.5)**	**(11.3)**	**(12.8)**	(3.4)

Non-underlying items from discontinued operations

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Write down of right of use assets	**3.1**	–
Write down of other assets	**1.4**	–
Write off of goodwill and intangible assets	**1.5**	–
Other closure costs	**5.3**	–
	11.3	–

The write down of right of use assets arises due to the closure of leased showrooms and warehouses in Spain and the Netherlands. Other assets, mostly inventory, have been written down to their net realisable value following the closure. Goodwill and other intangibles held in the consolidated balance sheet in relation to DFS Spain have been written off. Other closure costs relate to staff redundancy and other costs such as legal costs.

Notes to the consolidated financial statements continued

28 Discontinued operations continued

Cash flows from discontinued operations

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Net cash from operating activities	**1.1**	0.3
Net cash used in investing activities	**–**	(0.3)
Net cash used in financing activities	**(1.4)**	(1.2)
Net decrease in cash and cash equivalents	**(0.3)**	(1.2)
Cash and cash equivalents at beginning of period	**1.6**	2.8
Net cash and cash equivalents (including bank overdraft) at end of period	**1.3**	1.6

Company balance sheet *at 26 June 2022*

	Note	**26 June 2022 £m**	27 June 2021 £m
Non-current assets			
Investments	2	**252.7**	250.1
Amounts due from group companies	3	**205.1**	355.7
		457.8	605.8
Current liabilities			
Amounts due to group companies	4	**(20.1)**	(112.0)
Net assets		**437.7**	493.8
Capital and reserves			
Called up share capital	5	**25.9**	25.9
Share premium	5	**40.4**	40.4
Merger reserve	5	**18.6**	18.6
Capital redemption reserve	5	**357.8**	357.8
Treasury shares	5	**(4.9)**	(0.7)
Shares held by employee benefit trust	5	**(6.9)**	(0.2)
Retained earnings		**6.8**	52.0
Equity shareholders' funds		**437.7**	493.8

The Company's profit for the period was £10.0m (2021: £nil).

These financial statements were approved by the board of directors on 15 September 2022 and were signed on its behalf by:

TIM STACEY
Chief Executive Officer

MIKE SCHMIDT
Chief Financial Officer

Company registered number: 0723676

Company statement of changes in equity *at 26 June 2022*

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Treasury shares £m	Shares held by employee benefit trust £m	Retained earnings £m	Total equity £m
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	**–**	**(0.7)**	**–**	**49.5**	**491.2**
Profit for the period	–	–	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	–	–	–
Purchase of shares by Employee Benefit Trust	0.3	–	–	–	–	(0.3)	–	–
Repurchase and cancellation of deferred shares	(357.8)	–	–	357.8	–	–	–	–
Employee benefit trust shares issued	–	–	–	–	–	0.1	1.0	1.1
Settlement of share based payments	–	–	–	–	–	–	(2.1)	(2.1)
Share based payments	–	–	–	–	–	–	3.6	3.6
Balance at 27 June 2021	**25.9**	**40.4**	**18.6**	**357.8**	**(0.7)**	**(0.2)**	**52.0**	**493.8**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**10.0**	**10.0**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**10.0**	**10.0**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(53.8)**	**(53.8)**
Purchase of own shares	**–**	**–**	**–**	**–**	**(4.4)**	**–**	**–**	**(4.4)**
Treasury shares issued	**–**	**–**	**–**	**–**	**0.2**	**–**	**(0.2)**	**–**
Purchase of shares by Employee Benefit Trust	**–**	**–**	**–**	**–**	**–**	**(8.1)**	**–**	**(8.1)**
Employee Benefit Trust shares issued	**–**	**–**	**–**	**–**	**–**	**1.4**	**(1.0)**	**0.4**
Settlement of share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(2.7)**	**(2.7)**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**2.6**	**2.6**
Tax recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Balance at 26 June 2022	**25.9**	**40.4**	**18.6**	**357.8**	**(4.9)**	**(6.9)**	**6.8**	**437.7**

Notes to the Company financial statements *at 26 June 2022*

1 Accounting policies

Basis of preparation

The financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ('UK-adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006. 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 £10.0m (2021: £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 Company heads a group which has a £215.0m revolving credit facility which has been extended to mature in December 2024, with an option to extend the facility by a further year, subject to mutual agreement with the consortium of lending banks. The Directors have considered the projected trading and cash flow forecasts for the Company's group, including the inherent uncertainty in forecasting the impact of the current economic and political environment and future impacts of the Covid-19 pandemic, and are confident that the Company and its Group has adequate resources to continue to meet all liabilities as and when they fall due for the foreseeable future and at least twelve months from the date of approval 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 at fair value and subsequently measured at amortised cost less any provision for impairment.

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 of 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 consolidated financial statements for Key Management Personnel compensation.

Notes to the Company financial statements continued

2 Investments

	Shares in subsidiary undertakings	
	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Cost and net book value		
At the start of the financial period	**250.1**	246.5
Additions	**2.6**	3.6
At the end of the financial period	**252.7**	250.1

Details of the Company's investments are given in note 11 to the consolidated financial statements. Additions in the current and prior period relate to capital contributions made in respect of share based payments schemes for the Group's employees. Following the decision to close operations in Spain, the Company's investment in DFS Spain Limited of £100 was written off to £nil. As a consequence of the Company's share price at 26 June 2022, a value in use calculation was performed to test the carrying value of the investments for impairment. This calculation confirmed that the recoverable amount of the investments exceeded their carrying value and consequently no impairment charge was recognised.

Coin Furniture Limited is exempt from the requirement of the Companies Act relating to the audit of individual financial statements by virtue of s479A of the Companies Act 2006. DFS Furniture plc will guarantee the debts and liabilities of Coin Furniture Limited in accordance with Section 479C of the Companies Act 2006.

3 Debtors

	26 June 2022 £m	27 June 2021 £m
Amounts due from subsidiary undertakings (non-interest bearing, repayable on demand)	**205.1**	355.7

Amounts due from subsidiary undertakings have been classified as non-current assets as they are not expected to be settled within the next 12 months.

4 Creditors: amounts due in less than one year

	26 June 2022 £m	27 June 2021 £m
Amounts due to subsidiary undertakings (non-interest bearing, repayable on demand)	**20.1**	112.0

5 Capital and reserves

Share capital

	Number of shares '000	Ordinary shares £m
Ordinary shares of £0.10 each		
Allotted, called up and fully paid		
At the start and end of the financial period	**258,637**	**25.9**

Notes to the Company financial statements continued

5 Capital and reserves continued

Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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 of 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 26 June 2022 2,585,666 shares were acquired and 63,444 of the Company's own ordinary shares (2021: 16,141) were used to satisfy employee share based payment awards. At 26 June 2022 the company had 2,797,863 ordinary shares held in treasury (2021: 250,332).

As noted in the Directors' Report on page 117, subsequent to the period end, the Directors became aware that the purchase of some treasury shares by the Company had been made otherwise than in accordance with the Companies Act 2006. Resolutions to release all claims the Company has against shareholders and Directors in respect of this will be presented to shareholders at the earliest opportunity.

Employee Benefit Trust shares

The Employee Benefit Trust holds ordinary shares which are issued for the purpose of satisfying future employee share based payments awards.

During the period ending 26 June 2022 the Company acquired and issued 3,000,000 ordinary shares to the Employee Benefit Trust (2021: 3,000,000) of which 824,009 were subsequently used during the period (2021: 1,135,013). At 26 June 2022 the Employee Benefit Trust held 4,040,978 of the Company's ordinary shares (2021: 1,864,987).

Financial history

		FY22	FY21 Restated[4]	FY20	FY19[3] 52 weeks	FY19[2] 48 weeks	FY18[1]
		IFRS 16			IAS 17		
Gross sales	£m	**1,474.6**	1,359.4	935.0	1,287.2	1,165.0	1,125.6
Revenue	£m	**1,149.8**	1,060.2	724.5	996.2	901.0	870.5
Underlying EBITDA	£m	**175.9**	224.0	61.9	90.2	65.1	76.1
Underlying (loss)/profit before tax excluding brand amortisation	£m	**60.3**	109.2	(63.1)	50.2	28.2	38.3
Profit/(loss) before tax from continuing operations	£m	**58.5**	102.6	(81.2)	43.6	22.4	25.8
Basic earnings per share from continuing operations	p	**17.3**	35.8	(31.4)	16.5	8.6	8.9
Ordinary dividends per share	p	**7.4**	7.5	–	11.2	11.2	11.2
Special dividends per share	p	**10.0**	–	–	–	–	–
Purchase of own shares	£m	**4.4**	–	1.1	–	–	–
Total shareholder return	%	**-37.9**	+71.4	-32.5	+31.9	+31.5	+1.9%

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.
4. Restated to exclude operations becoming discontinued in FY22.

Shareholder information

Contacts

Chief Executive Officer
Tim Stacey

Chief Financial Officer
Mike Schmidt

Group Company Secretary & General Counsel
Elizabeth McDonald
Companysecretary@dfs.co.uk

Investor relations
Investor.relations@dfs.co.uk

Corporate website
www.dfscorporate.co.uk

Registered office
DFS Furniture plc
1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
DN6 7NA

Corporate advisors:
Auditor
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Remuneration advisor
Willis Towers Watson
51 Lime Street
London, England EC3M 7DQ

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 helpline: 0371 384 2030.
Overseas holders should contact
+44 (0)121 415 7047.

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

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

For institutional investor enquiries, please contact:
Tulchan Group
85 Fleet Street
London EC4Y 1AE
+44 (0)20 7353 4200

Annual General Meeting 2022
This year's AGM will be held at 2:30pm on 4 November 2022 at DFS Group Support Centre, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA

Financial calendar

FY22 full year results	15 September 2022
Annual General Meeting	4 November 2022

Report and Accounts
Registered number 7236769
26 June 2022
Company No. 07236769

Notes

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