

## RESPONSIBILITY AND SUSTAINABILITY REPORT

*“The Responsible and Sustainable Business Committee remains focused on ensuring the business is supporting Our People, Our Planet, Our Customers and Our Communities.”*



**ALISON HUTCHINSON**  
Chair of the Responsible and Sustainable Business Committee

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# A responsible and sustainable business

As the largest upholstery business in the UK, we are conscious that we have the opportunity, and the privilege, to lead in many areas, including sustainability, inclusion, and diversity, as well as supporting the customers and communities in which we live and work.

The role of the Responsible and Sustainable Business Committee (‘RSC’) is to provide support and governance, ensuring we are driving change whilst creating value. The four pillars – Our People, Our Planet, Our Customers and Our Communities – ensure we are looking at every aspect of our business impact, and taking steps to make it a positive impact where we can.

This year, we built on the successful launch of our Everyone Welcome strategy in 2022, by focusing on creating a team which reflects the diverse society we live in while providing support through leading wellbeing programmes on menopause and mental health. We have always invested heavily in training for our teams, and we are particularly proud of the launch of our Driver School, training Class 2 drivers to address a critical skills gap in the UK and unlock new career paths for over 120 people so far. Ensuring we are creating a fair and equal workforce, where everyone is welcome, will continue to be a core area of focus in the year ahead.

Collaboration and engagement are at the heart of our Planet pillar. We regularly hear from our suppliers that we are leading the sustainable agenda in the industry. The Sofa Cycle framework, though only three years old, has proved to be a strong blueprint. Our new Sustainable Sourcing Policy embodies our supportive approach, ensuring we add value where we can through greater transparency and third-party certification. In fact, we have developed our Science-based Net Zero strategy with engagement at the core, as we know partnership is the only way we will achieve our ambition of Net Zero by 2040.

We are particularly proud of the giant leaps we made on product innovation this year, laying foundations for our circular ambitions with the award-winning cushions for the Grand Designs ranges at DFS and the launch of the fully circular Gaia range at Sofology. In the year ahead we will continue our collaborative approach, by supporting our own manufacturing partners with their own Net Zero strategies and collaborating with our raw material suppliers to develop solutions for a circular economy.

Our customer service and quality teams worked tirelessly to surprise and delight our customers with outstanding service over the past 12 months. This effort is reflected in our strong Trustpilot and established customer NPS scores. Looking forward, we are concentrating on driving awareness of our volunteering initiatives and providing support to colleagues to give back to our communities, particularly through our partnerships such as Home-Start.

As leaders within our sector, we are committed to ensuring this business acts responsibly and sustainably. We have achieved so much already, as illustrated in the case studies shared in this report and we are looking forward to the year ahead.

**ALISON HUTCHINSON**  
Chair of the Responsible and Sustainable Business Committee  
Senior Non-Executive Director

## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### Our Pillars and Highlights

#### Our People

We believe attracting, developing, and retaining colleagues from a variety of backgrounds with the right skill sets and mindset is crucial to the success of the business.

#### Our Planet

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

#### Our Customers

We ensure we act ethically and transparently while supporting our customers in making sustainable choices.

#### Our Communities

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

#### UNDERSTANDING OUR PEOPLE



more than

>99%

response rates on protected characteristics survey

#### BUILDING A HEALTH & SAFETY CULTURE

Reduced accidents by

20%

in the past year

#### DELIVERING EMISSION REDUCTION

FY23 total carbon footprint

387

kt CO<sub>2</sub>e



#### SUSTAINABLE SOURCING



80%

of all upholstery body fabrics now OEKO-TEX STeP certified

#### INNOVATIVE AND AWARD-WINNING PRODUCT DESIGN

Launched fully circular sofa range and award-winning recyclable seat cushions

#### NEW CHARITY PARTNERSHIP

Home-Start partnership providing support direct to our communities

#### SUPPORTING OUR CUSTOMERS

Sofology established customer NPS score improvement from

-30 to +20

#### INVESTING IN OUR PEOPLE











129

participants in our Driving School programme with 69 graduates

# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## Our ESG Targets

Our Targets

Our Planet		Sustainable sourcing	Sustainably sourced timber (certified FSC & PEFC) used in all products	December 2025	↑	Upholstery <div><div></div></div> 27%
						Home <div><div></div></div> 53%
		Sustainable sourcing	All leather used on upholstery sourced from supply chains with LWG certification	December 2024	↑	FY23 <div><div></div></div> 51%
		Sustainable sourcing	OEKO-TEX STeP certification for upholstery ranges for cotton, viscose and polyester	July 2022, 2023 and 2024 respectively	↑	Cotton <div><div></div></div> 87%
						Viscose <div><div></div></div> 78%
						Polyester <div><div></div></div> 81%
		Sustainable sourcing	Cotton textiles sourced through suppliers with Better Cotton membership (BCI) by July 2024	July 2024	↑	FY23 <div><div></div></div> 40%
		Sustainable sourcing	Bromide-free FR treatment across all fabrics	December 2025	↑	FY23 <div><div></div></div> 47%
	Sustainable sourcing	Zero polystyrene in product packaging	December 2024	↑	Upholstery <div><div></div></div> 100%	
					Home <div><div></div></div> 3%	
	Carbon reduction	Reduce scope 1 CO <sub>2</sub> e emissions by a minimum of 10% (baseline FY18/19 – 16,873 t CO <sub>2</sub> e)	December 2023	↑	FY23 <div><div></div></div> 9.1%	
					15,297 t CO <sub>2</sub> e	
	Carbon reduction	Science-based targets approved by SBTi	July 2024	↑	FY22 <div><div></div></div> FY24	
Our People		Inclusion and Diversity	50% of employees engaged in data collection of protected characteristics to set more specific diversity targets	December 2023	✓	Responded <div><div></div></div> 64%
		Inclusion and Diversity	A minimum 50% showroom management will be female	December 2024	↑	FY23 <div><div></div></div> 33:67
					Female Male	
Our Community		Charity	15% of our non-operational colleagues will support community-based organisations through paid volunteering by June 2023	June 2023	✗	FY23 <div><div></div></div> 40 days
		Charity	Gift £650,000 to charities through fundraising and donations	June 2023	✓	FY23 <div><div></div></div> £660,000

### Key

✓ Achieved

↑ In progress

×

Missed



Responsible sourcing certified materials



Policy available (human rights, timber etc)



Externally assured



Bonus target

Please refer to our Basis of Reporting document for a full explanation for these targets and their methodologies [dfscorporate.co.uk/esg/responsible-and-sustainable-business](https://dfscorporate.co.uk/esg/responsible-and-sustainable-business). Where data is shared by supplier partners, which is difficult to verify, it is reported in good faith. All information provided represents end of financial year (FY23) figures unless otherwise stated.



## OUR PEOPLE

# Our commitment to our team

### Strategy summary

Our core values 'Aim High, Be Real and Think Customer' are at the heart of how we operate as a business and as a team. We take pride in fostering an environment in which colleagues feel welcome, free to be themselves and thrive. We believe that attracting, nurturing and retaining colleagues with the skill sets, attitudes and motivation, from a variety of backgrounds is critical to the success of the business.

At DFS Group we pride ourselves on cultivating an open environment for our colleagues in which everyone feels welcome and is encouraged to share their thoughts, ideas and opinions, as well as their involvement in how we improve as a business. To attract, retain and develop our colleagues to their full potential, we need to promote an inclusive and diverse workforce across all areas of the business, provide equal opportunities and treat all colleagues fairly and with respect. We invest in our people, providing opportunities for personal and professional development so that everyone can fulfil their potential.

### KEY FIGURES

20%

Reduction in accidents following H&S awareness campaign

64%

Colleagues shared protected characteristics data to support diversity and inclusion

24,000

Non-mandatory training modules completed





## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### Inclusion

Understanding our employee population and how we can best support them, particularly in their skills and development, is critical to our success. Our Inclusion agenda has been constantly evolving to maintain momentum and stay relevant, responding to the energy of our people.

In March 2023, we conducted our first in-house colleague engagement survey called Your Say, which included capturing colleague demographic data. Over 64% of colleagues completed the survey, and of those >99% provided their protected characteristics. This level of response rate allows us to be confident in the data that's been provided. Key findings of this exercise.

- 29% of colleagues identify as Black, Asian and minority ethnic (BAME), this compares with 20.5% from the 2021 Census in England and Wales.
- 8% of our colleagues are from the LGBTQIA+ community (the latest Census data collected a 3.2% return of LGBTQIA+ people).

Alongside our well-established LGBTQIA+ network, our Disability Inclusion, Black Heritage and Women's Networks were launched in FY23. We view these spaces as a launchpad for change from the perspective of a collective voice, whilst also providing colleagues from marginalised groups with a safe space to connect with like-minded people, helping to create a sense of community and belonging for everyone.

Our Inclusion Council is made up of voluntary members across the Group, representing minority communities, who work together with our brand leads and Executive Sponsors. This forum enables open and honest conversation about where we are culturally and inspires future activity.

Creating a balanced gender mix in our store leadership is a continued area of focus; currently 26% of store leaders in DFS and 44% of store leaders in Sofology are female. This brings the total female leadership in our stores to 33% across DFS Group. In the year ahead we'll continue to focus on shaping our teams in line with our values.

### Training

We believe we have the best people on our team and to ensure they evolve with the business; we invest heavily in continued education.

Our Learning Management System has been accessed by 6,000 colleagues during the year, with 22,600 mandatory learning module completions, and 24,000 non-mandatory modules completed.

Over 100 leaders attended our Inclusive Leaders programme, to ensure our Everyone Welcome approach is being led from the top. Additionally, our middle managers attended programmes within our Leadership Academies – amassing nearly 2,000 hours learning in total.

### Employee wellbeing

Our wellbeing priority is to enable every colleague to proactively live happy and healthy lives. We strive to help colleagues to feel confident to have conversations about their wellbeing and access tailored support.

We launched a Winter Wise campaign which focused on supporting colleagues through a tough macro-environment, and provided extra support over the Christmas period with a Thank You voucher. In March 2023, we launched a discounted Health Cash Plan scheme with Westfield Health, giving colleagues access to a 24/7 private GP line and the ability to reclaim certain health costs such as dentistry and physiotherapy.

We also have mental health first aiders across the business providing accessible support. In 2023 we trained an additional ten volunteers bringing the Group total to 78.

To ensure our employees can find the work-life balance that suits them, we introduced a Holiday Buying (salary sacrifice) scheme giving colleagues the opportunity to buy up to one week's extra holiday to use within the holiday year.

### Health and safety campaign

Reducing our accident rate was a high priority for the business in FY23. The Health and Safety (H&S) Team created a campaign focused on raising awareness, encouraging conversations, and providing visuals and engagement materials to help with the on-boarding of the teams across all areas of the business. Primarily, every employee needs to understand what they can and should do to reduce the risk of injury and build a more proactive safety culture.

We launched a safety culture campaign across the DFS Group in the financial year with the overall aim to reduce the number of significant incidents. This included leadership training with conversation guides, safety training requirements for all visitors and H&S branding including tone of voice for conversation guides and animations for training.

The Be Safe Taking Care campaign is now used in all communication and learning materials and has delivered a 20% reduction in accidents. Preventive observation reporting has significantly increased delivering a proactive approach to health and safety.

In FY23 the team were awarded High Commended at the SHE awards for The Best Health and Safety Project for their rollout of a Vehicle Key Control Project across all The Sofa Delivery Company distribution centres

**Our Learning Management System has been accessed by**

**6,000**  
colleagues during the year

**22,600**  
mandatory learning modules completed

**Number of leaders who attended our Inclusive Leaders programme**

**100+**

### CASE STUDY

## Our Driver School

The ongoing shortage across the UK of HGV drivers is well documented, especially of 7.5 tonnes delivery drivers, a key business critical role for our logistic platform, The Sofa Delivery Company.

To react to the skills gap, caused in part through the government's removal of the 7.5t driving licence 'Acquired Rights', we decided to develop our own licence acquisition programme, with the objective of securing a pipeline of the 7.5t drivers to meet the needs of the business as we deliver against our strategy.

Our Driving School programme reaches further than the driving element of the role. It sets trainees up successfully as furniture installation experts, meeting our customers' expectations and delivering the moments that matter for our customers.

The programme has been running for over 12 months now and is a great option to offer to our warehouse teams to progress their careers within the Sofa Delivery Company. As well as delivering significant value and results for the organisation, it works particularly well where we have had volume recruitment needs.

In FY23 we have seen 129 trainees, of which 69 have graduated and another 60 are currently in progress. Additionally, the turnover rate amongst graduates is much lower than the industry average, just 7% versus 20% which demonstrates the success of the approach in meeting this big skills gap.



OUR PLANET

# Our roadmap to the future



## Strategy summary

Our environmental strategy, the Sofa Cycle, launched in 2019, illustrates our ambition to become a circular business. It also provides a framework to ensure we are tackling our environmental impact at every area of the value chain and product life-cycle. Defined in the three key pillars of sustainable sourcing, carbon reduction and circularity, we have developed a roadmap to reduce our impact and ensure we achieve our Net Zero ambition by 2040.

Our approach became clearer this year with some fantastic innovations from our manufacturing partners and smart reduction initiatives across our operations. Supplier engagement proved ever more critical to us, a cornerstone in our Net Zero strategy and SBTi plans.

## KEY FIGURES

Our total carbon footprint scope 1,2 (market-based) and scope 3 is

**387kt CO<sub>2</sub>e**

Reduced scope 1 & 2 emission intensity by 26% to FY18/19 baseline

**26%**

Of all textiles are OEKO-TEX STeP certified

**Over 80%**

Over 70% of upholstery suppliers are FSC certified

**70%**





## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### Better sourcing

In FY23 we introduced a new Sustainable Sourcing Policy to ensure our manufacturing partners and extended value chain are all clear about our ambition and expectations from them, not only from ethical sourcing but also material sourcing to reduce their environmental impact. The document outlines the principles behind our sourcing policies and sets standards for suppliers.

The policy will continue to be updated as we meet targets and set new targets such as requiring bromide-free fire retardants (FR) by 2025 and sourcing Better Cotton to ensure better water management and labour practices.

### Timber

The Ukraine conflict continued to create disruption in the timber markets, limiting availability resulting in inflation. Hence, we took the decision to expand the scope of our timber certification requirement for all timber products by 2025 to include PEFC (Programme for the Endorsement of Forest Certification) as well as FSC (Forest Stewardship Council). At present, 70% of all upholstery manufacturers are FSC certified.

### Leather

Our leather certification target is to ensure all our leather is sourced from Leather Working Group (LWG) certified supply chains. Our due diligence through Track Record Global traces the leather hides back to farm or slaughterhouse to ensure they are sourced outside the Amazon biome.

The relationship between the slaughterhouse and wet blue/curer is critical to our traceability efforts so we widened the scope of our certification ambitions to include these in the target. This also aligns to LWG's new traceability requirement within the certification protocol which only extends to the wet blue level.

As members of the LWG Traceability Group we took the opportunity to partner with WWF on deforestation and conversion policy and implementation review along with nine other leading retailers. The programme focused on creating aligned and effective policies and plans which drive collective change and widen the conservation areas to include other biomes across South America. This project is ongoing and will be completed by the end of 2023.

### Textiles

Our ambition to ensure OEKO-TEX STeP certification across all our materials by June 2024 is making excellent progress, with over 80% of all body-upholstery fabrics now certified.

The OEKO-TEX STeP certification is a holistic on-site audit of textile mills to ensure responsible sourcing of materials, handling of chemicals and waste, ethical labour practices and environmental stewardship. No suppliers in the value chain held certification when the target was launched.

Cotton continues to be an area of concern in the textile industry due to labour and environmental impacts. In FY23 DFS Group introduced a new target for Better Cotton sourcing to ensure all material is fully traceable and sourced responsibly.

### Chemicals and waste

In FY23 we launched a new target of bromide-free FR to be used on all upholstery ranges by 2025. FR is currently a legal requirement of all domestic upholstery in the UK and has historically used intensive chemicals, including Deca BDE, a persistent organic pollutant which was banned in 2019. The bromide-free target is aimed to enable recycling of upholstery fabrics which will not be possible with bromide-treated material.

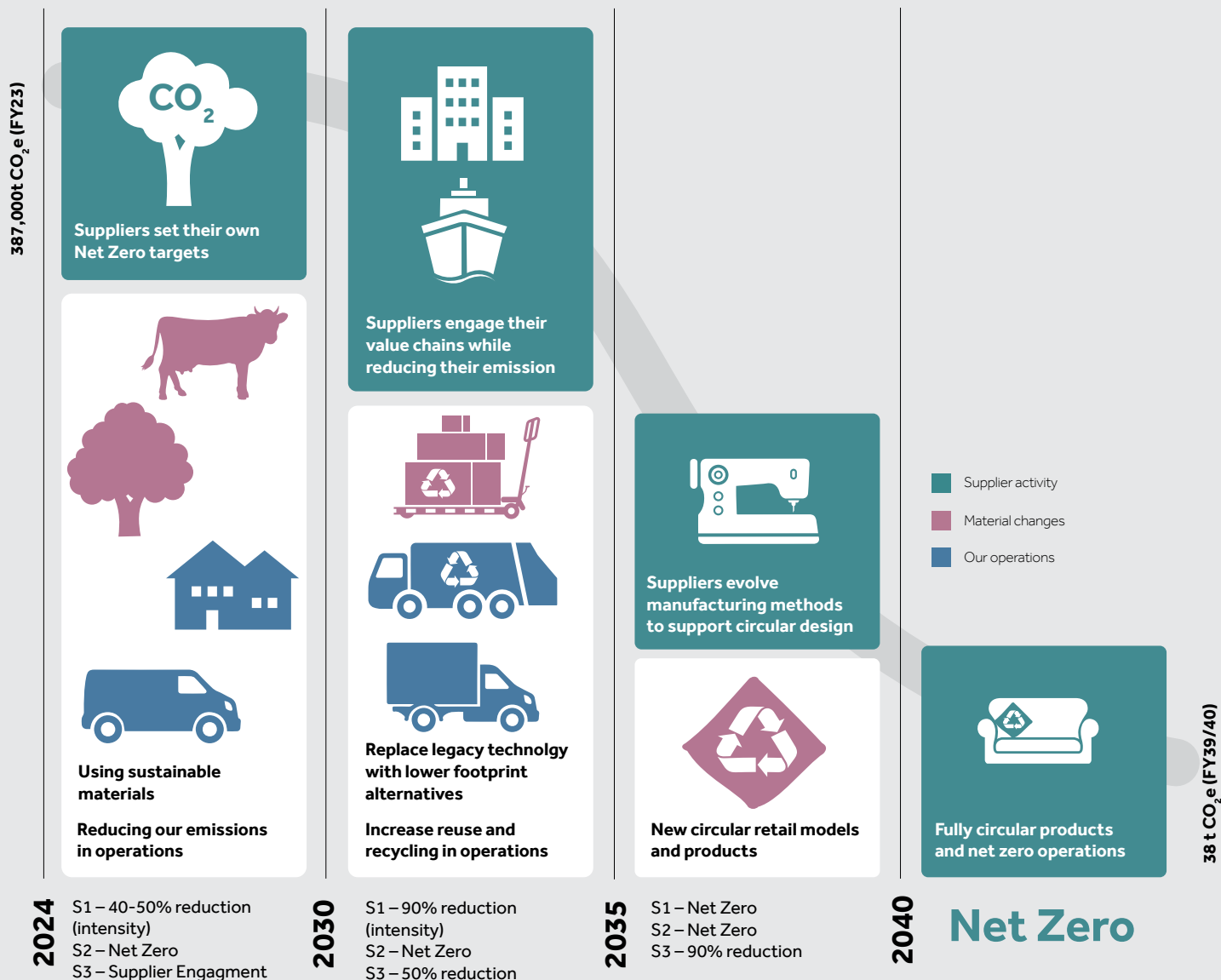
The new bromide-free treatment process is far more laborious, requiring significant testing on each fabric type and colourway to ensure the treatments do not affect the performance of the fabric.

New legislation came into effect in 2023, barring all upholstery from landfill due to the historical use of Deca BDE. Any upholstery reaching the end-of-life must now be incinerated to ensure the FR chemicals do not contaminate the environment. Our ongoing partnership with Clearabee easily enabled customers to ensure their old sofas were collected and disposed of responsibly with 83,993 items collected in FY23.



# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## NET ZERO PATHWAY



### Our Net Zero strategy

Our ambition to reach Net Zero by 2040 is aligned to the Climate Action Roadmap. However we use the definition of Net Zero – 90% absolute reduction in emissions across all three GHG scopes compared to baseline year FY23 and the residual or unabatable emissions offset through carbon credits.

Over the past year, we have developed a plan to achieve our Net Zero ambition from many different angles and come to a clear conclusion. We will only reach Net Zero by 2040 by becoming a circular business.

We have divided this into three key themes and in three key phases.

### PHASE 1 – FY24-29

First we are tackling areas within our control such as modifying our own operations to lower emission technologies and specifying lower emission materials. But with 95% of our emissions in our supply chain, we need to engage our manufacturing and upstream transportation partners to look at their own footprint.

### PHASE 2 – FY30-34

In the second phase we will encourage our suppliers to introduce their own operational reductions while engaging their value chains in Net Zero planning. Internally we will continue to roll out our reductions through material changes and implement the last of the low carbon technology for our delivery fleet. We will also ensure we have built infrastructure to support reverse logistics for a circular business.

### PHASE 3 – FY35-39

The final phase is to ensure all our suppliers are engineering their designs to enable circularity, either as finished products or components of products. Our business model will evolve to support customers in the circular economy.

Much of this plan relies on innovation and development of new technologies and infrastructure, particularly in our logistics, materials and manufacturing methods. We now have clarity on what we need to do in the short-term to ensure we deliver our long-term ambition.



## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### Scope 1 & 2 progress

As we continue to reduce our carbon footprint on scope 1 emissions we are replacing gas heating with electric heating, in the form of infra-red panels and Heating Ventilation and Air Conditioning (HVAC) systems, which consume more electricity. Though we use 100% renewably sourced electricity, there is currently a limited supply and it is subject to increasing costs.

To tackle this problem in FY23 we tested infrared panels across the estate, including in distribution centres where heating at scale is difficult to achieve with HVAC alone. Additionally, we installed building management systems which help centrally control temperatures at site level and implemented an energy management and monitoring portal to identify high consuming sites using their energy profiles which resulted in a 13% reduction in energy consumption year-on-year. These results were achieved despite increased operational hours from five days to seven days in The Sofa Delivery Company and adding a new manufacturing site to the property portfolio.

The Sofa Delivery Company completed their strategic operational changes in FY23 with the consolidation of the Customer Delivery Centres and embedding a postcode optimisation project, to ensure every journey is as efficient as possible. The team have also trialled several lower emission vehicles in order to build our Net Zero strategy. Electric cars, vans and 3.5 tonne vehicles will be prioritised to deliver near-term reductions, but the efficiency and infrastructure to support electric or hybrid 7.5 tonne and HGV vehicles is in its nascent development to commit to a specific technology at this time.

### Scope 3 progress and plan

In FY23 our target was to create a credible carbon reduction roadmap to submit to the Science-Based Targets Initiative (SBTI).

Each member of the Leadership Team sponsors the development of our decarbonisation strategy for at least one category. Working collaboratively across the Group, we developed a strategic approach for each aspect of our footprint. The initiatives varied in scale and scope, from a clear timetable for investment in low-carbon technologies to plans for a salary sacrifice

scheme to support employees adopting electric vehicles to reduce our emissions from our employees' commute (launch date to be confirmed).

We determined that it would only be possible to tackle our largest contributing areas, product and transport, by ensuring our suppliers are on the journey with us and equally committed to our Net Zero ambition. As such we have set a Supplier Engagement target for our scope 3 emissions category 1 (Purchased goods and services) and 4 (Upstream transportation and distribution).

Our Supplier Impact Assessment conducted in FY23 illustrated low understanding of the climate change emergency amongst our suppliers, with few having calculated their footprint or set a net zero ambition.

Our carbon target in FY24 is to secure a commitment from suppliers who contribute at least 20% of total scope 3 emissions (30% of emissions required for SBTI submission), to create their own science-based targets (excluding internal manufacturing). We will use the next 12 months to build solid foundations of understanding of what is needed and how we can collectively tackle our environmental impact together.



# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## Scope 1 and 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 (SECR).

	FY23 MWh	FY22 MWh	% increase/ (decrease)
Electricity	27,006	28,930	(6.65)
Natural gas	18,717	23,405	(20.03)
Diesel and kerosene	41,304	42,774	(3.44)
Petrol	5,698	3,164	80.09
Electric vehicles*	256	–	–
Propane*	200	–	–
<b>Total energy consumption</b>	<b>93,181</b>	<b>98,273</b>	<b>(5.18)</b>

\* To enhance the quality and coverage of our energy reporting, we have incorporated the electricity consumption data from our electric vehicle fleet and propane consumption data this year.

	Absolute emissions (tCO <sub>2</sub> e)						Emission intensity (tCO <sub>2</sub> e/£m gross sales)					
	FY23	FY22	% Increase/ (decrease)	FY21	FY20	FY19	Notes	FY23	FY22	% Increase/ (decrease)	FY21	FY20
Scope 1 emissions	15,297	16,215	(5.7)	18,058	17,462	16,873	1	10.7	10.9	(1.58)	13.0	18.6
Scope 2 emissions							1					
Market based	104	223	(53.5)	1,697	5,195	6,189	2	0.1	0.1	(51.45)	1.2	5.6
Location based	5,684	5,828	(2.5)	5,797	5,195	6,189		4.0	3.9	1.75	4.2	5.6
Total scope 1+2 MB	15,401	16,438	(6.3)	19,755	22,657	23,062		10.8	11.0	(2.1)	14.2	24.2
Gross sales (£m)								1,423.6	1,487.7		1,388.7	935.0

### Footnotes

- Scope 1 and 2 GHG emissions and intensity data was subject to external independent limited assurance by DNV for the year ended 30 June 2023. DNV's assurance report is available on our corporate website at [dfsreporting.co.uk](https://dfsreporting.co.uk).
- We have increased our renewable energy contract to cover 99% of our electricity consumption, and increase from 96% from last year. Additionally, we have completed the closure of our European operations which were completed in October 22, which also contributes to the reduction in market-based emissions.

We engaged Normative.io to support our carbon accounting in FY23 (previously Planetyl). Their methodology strictly adheres to the GHG protocol and enables us to continually build and refine our carbon model. We used primary data to calculate our scope 1 and 2 GHG emissions and a combination of activity data (e.g. waste, commuting) and spend-based data (e.g. water) for scope 3.

## Scope 3 emissions\*

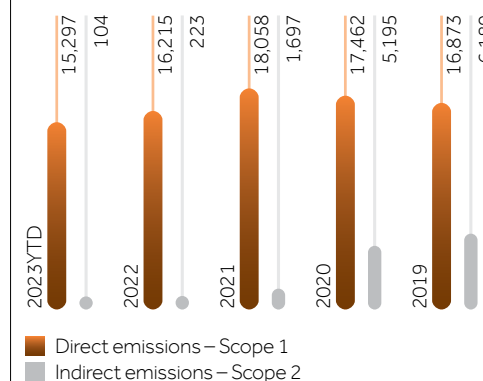
	Absolute emissions (kt CO <sub>2</sub> e)						Emission intensity (kt CO <sub>2</sub> e/Ebn gross sales)					
	FY23	FY22	% Increase/ (decrease)	FY21	FY20	FY19	FY23	FY22	% Increase/ (decrease)	FY21	FY20	FY19
3.01 – Purchased goods and services	320.0	321.1	(0.34)	309.2	215.8	284.8	224.8	217.6	3.30	222.6	230.8	244.5
3.02 – Capital goods	3.7	17.4	(78.78)	15.1	10.3	8.2	2.6	11.7	(77.83)	10.9	11	7
3.03 – Fuel and energy related activities	5.2	4.0	29.42	4.2	4.0	3.9	3.6	2.7	35.25	3.0	4	3
3.04 – Upstream transportation and distribution	36.7	74.6	(50.74)	58.5	33.2	36.7	25.8	50.1	(48.53)	42.1	36	32
3.05 – Waste generate in operation	0.3	1.4	(81.57)	1.3	0.9	1.3	0.2	0.9	(80.74)	0.9	1	1
3.06 – Business travel	0.5	1.2	(60.56)	0.8	1.3	1.3	0.3	0.8	(58.78)	0.6	1	1
3.07 – Employee commuting	4.8	4.7	3.00	4.1	4.5	5.4	3.4	3.2	7.63	3.0	4.8	4.6
3.08 – Upstream leased assets	0.6	4.0	(85.37)	3.2	3.1	2.5	0.4	2.7	(84.71)	2.3	3.3	2.1
3.11 – Use of sold products	0.0	0.6	(97.80)	0.7	0.5	0.7	0.0	0.4	(97.70)	0.5	0.5	0.6
3.12 – End of life treatment of sold products	0.1	10.2	(98.78)	9.7	7.1	9.0	0.1	6.9	(98.73)	7.0	7.6	7.7
Total scope 3 emissions	371.9	439.2	(15.32)	406.8	280.7	353.8	261.2	297.0	(11.51)	292.9	300.0	303.5

## Our Carbon Methodology

DFS conducts greenhouse gas accounting and reporting in accordance with the Greenhouse Gas Protocol (GHGP). To refine our data for this financial reporting year, we engaged Normative, who employed a different carbon calculation methodologies and emission factor databases to Planetyl (FY19 – FY22).

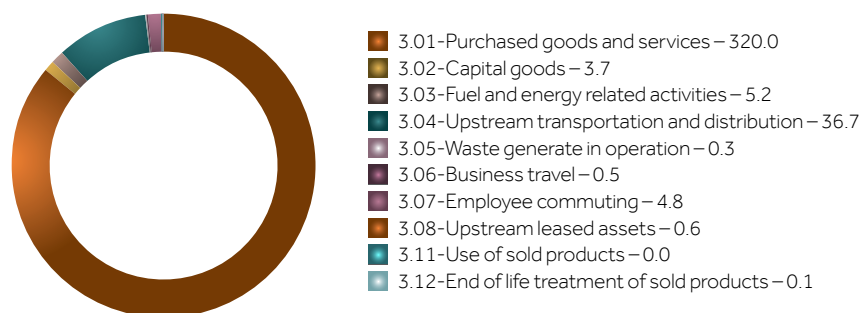
We improved the accuracy of our calculations through increased supplier data, including material, waste and energy consumption and utilised a hybrid methodology of spend and activity data which resulted in a net decrease of 15% on our overall footprint. We will continue to adjust our methodologies as per the requirements of the Greenhouse Gas Protocol and The Science Based Targets Initiative and work with our suppliers to improve data quality.

## Scope 1 & 2 emissions



## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### 2023 scope 3 emissions by category (kt CO<sub>2</sub>e)



\* Where data is shared by supplier partners, which is difficult to verify, it is reported in good faith. All information provided represents end of financial year (FY23) figures unless otherwise stated.

### A Circular Business

Circularity is a critical aspect of our Net Zero strategy. Without reuse of materials, it will be almost impossible to reduce our carbon footprint to Net Zero. Traditional manufacturing techniques and current materials make circularity almost unachievable, due to material contamination and degradation.

In FY23 both DFS and Sofology developed important, innovative first steps to fully circular product ranges with the launch of the Gaia range in Sofology and an award-winning sprung seat solution for the Grand Designs range at DFS.

### CASE STUDY

## Award-winning product innovation

Customers have always appreciated a choice of seat interior, typically either a fully fibre or fully foam seat. The former is a relaxed look, with high comfort and better environmental credentials, but typically much higher maintenance while foam provides a more tailored appearance, retaining comfort and requiring minimal maintenance but with greater environmental impact.

The ambition was to create a seat which could offer the positive attributes of foam with recycling capabilities at the end of life – without compromising on comfort.

Inspired by the technology widely used within the mattress industry, we worked with our manufacturing partner to create a custom-made pocket sprung component, encased within a compressed recycled fibre block, using recycled and recyclable components.

Not only have sales increased by 40% on orders of the Grand designs Lambourne range, but FIRA, the Furniture Industry Research Association awarded the seat cushion a Gold award for innovation.

<https://www.dfs.co.uk/content/grand-designs>



### CASE STUDY

## Our first circular product range

The Gaia range from Sofology, launched in November 2022 and is a truly innovative approach to manufacturing upholstery, created with circularity in mind.

The traditional upholstery method requires a layered approach, using staples to fix the layers of foam, fabric and fibre to the timber frame, making reverse engineering a sofa almost impossible. This compromises any possibility of extracting the raw materials at the end-of-life for circularity.

The Gaia is the first of its kind, with patent-pending innovation. The Gaia employs a loose cover design which appears like a fixed cover, using a unique combination of materials and design engineering.

The Gaia range has been designed for a customer to dismantle easily, including removing and replacing covers and seat cushions and as well as screws and velcro (adhered with a water-based glue), ensuring each material can easily be separated and recycled.

The materials used throughout Gaia are also the lowest impact options available today such as recycled polyester fibre with inherent FR (Fire retardants) ensuring there is no chemical leaching into other materials, recycled fibre and plastic struts, bio-based foam and FSC-certified timber. Recycling some of these materials is possible today, and by extending the long-life cycle of upholstery by replacing components as needed and reconfiguring the modular design to suit lifestyle choices, the Gaia range is a strong first step towards creating a circular business model, the key to the final stage of our Net Zero strategy.

The Gaia range is available in every Sofology store and was proudly launched in partnership with George Clarke, architect and TV presenter with whom we have co-created a number of ranges.







## OUR CUSTOMERS

# Our customers, our commitment

### Strategy summary

Customers are at the heart of our business, in our core values, how we shape our operations and, in many ways, how we measure our success. Their feedback helps define our priorities, both today and in the future.

We know customers value trust and we work hard to nurture that or rebuild it where we need to. We monitor our quality and customer metrics very closely to ensure we can address issues quickly. Our Net Promoter Score improved during FY23 across both brands, particularly in Sofology.

### Quality

DFS is extremely proud to have been awarded the British Standards Institute Kitemark standard for a sixth consecutive year, and we are still the only retailer and manufacturer to hold this accreditation across all our upholstery products. The Kitemark standard involves intensive audits across all our upholstery supplying partners conducted by BSI each year, and includes the factories, machinery, health and safety, manufacturing, compliance, quality and internal audit processes.

We place as much value on a great quality service as we do on great quality products. Voluntary ratings and requests for feedback are not always easy to source from customers, who tend to be more vocal when things aren't running smoothly. Our continued 'Excellent' scores on Trustpilot reflect the outstanding work of our quality and customer care teams.

### KEY FIGURES

# 50 points

established customer NPS score

DFS is awarded the BSI Kitemark award for a sixth consecutive year



Rating on Trustpilot for both brands

# 'Excellent'



## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

Ensuring we surprise and delight our customers, especially when things don't go quite right, is a challenge. Our Trustpilot scores – DFS with 4.8 and Sofology at 4.7 – are a testament to our perseverance and Think Customer values.

### Ethical business

#### Code of Conduct

As part of our belief in being a responsible business, we ensure that all employees undertake a Code of Conduct refresher session each year as part of their mandatory training.

The Code of Conduct outlines our policies and expectations of employees on a number of topics including bribery and corruption, conflicts of interest and data protection.

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 and ensuring we have effective systems to counter the risk of bribery and corruption.

#### Data protection policy and cyber security

Protecting our customer information depends upon the continued availability and integrity of our IT systems, and the risk of cyber attacks is ever increasing. Cyber has been identified as a principal risk, see page 31 for further details on the procedures and system in place to mitigate the risk

The Group takes all steps necessary to comply with the principals as set out in the GDPR and DPA 2018 and Data Protection Policy.

### CASE STUDY

## *Sofology customer service*

Customer feedback is essential when it comes to making the right decisions on our product range, so after four months of a customer living with the sofa, we send a survey to ask what they think. We call this established customer NPS.

Customers are much more likely to respond to our survey if something has gone wrong, particularly if they had been waiting for some time for a solution to a technical issue. We knew our focus needed to be on dramatically improving the time it takes to get the customer loving their sofa again, as well as improving or removing products that are not good enough.

The solution wasn't about 'doing things faster', but a combination of retraining our contact centre colleagues to have more informative conversations, to identify the problem and deliver a first-contact resolution.

We worked with our manufacturing partners to significantly reduce the number of parts that arrive outside lead time, improved our stock holding of component parts and made sure our own technicians are available in the right areas at the right times. We also set up a clearer product feedback loop to help make data-driven decisions on products. All of these positive steps have helped to reduce the number of customers in the journey by 60% in just seven months, resulting in the NPS score going from -30 to +20 year-on-year.

We still have not seen the full benefits from the progress we have made, but we have laid the foundations for a more streamlined journey for our customers, so they get a resolution that will help them feel at home on a sofa they love now, and in the future.





## OUR COMMUNITIES

# Our commitment to helping everyone thrive

### Strategy summary

We recognise the vital role large organisations can play in supporting the communities in which we live and work and we are committed to helping each community thrive. Our commitment is to invest not only financial capital through our Giving Back initiative but also human capital in time and skills. We are also acutely aware of our duty to protect those more vulnerable, across the UK and our wider value chain by continuing to drive awareness and exercise due diligence to eradicate modern slavery.

We launched our Giving Back programme in 2021, in which we have committed to raise and donate up to 1% of our profit before tax every year, give every colleague one day's paid volunteering and donate up to 1% of our products (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.

We missed our volunteering target, in part due to the demand for focus on business challenges.

### KEY FIGURES

Number of logistics managers who were provided with modern slavery training

>60

GNFR suppliers risk assessed for forced labour in their operations and value chain

250

Donated to charity in FY23

£660,000





## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

In FY24, we are focusing our efforts on creating more opportunities and structure to ensure colleagues engage in volunteering. We have found focusing on projects within the communities colleagues live ensures they see how they can have an impact which leads to better engagement and outcomes for all.

DFS has continued to partner with BBC Children in Need and donated over £660,000 in FY23. All DFS sites, including stores, factories and delivery centres are partnered with a BBC Children In Need funded project within 10 miles of their location. Sofology launched a new charity partnership in FY23 with Home-Start.

### Modern slavery

We have always been committed to ensuring that we demonstrate the value of people, in all aspects of our value chain, they are at the heart of our business. This includes ensuring that our supplier partners, in every part of the business, are aligned to our values.

In addition to our continued manufacturing partner ethical audits, in 2022 we conducted a desktop audit of our top 250 GNFR (Goods Not For Resale) supplier partners in higher risk sectors. This covered not only their own labour policies and procedures but what they required from their own suppliers with regards to modern slavery audits and policies. Many suppliers were not legally required to address these risks under UK law due to scale but chose to put in place policies and frameworks. Where suppliers were deemed to be high risk, they were offered individual support to address areas of concern.

We also provided further training for our teams. A cohort of legal, quality and compliance and sustainability team members completed a six-week training programme with Ardea International, to ensure we have resources internally to support our wider value chain. And in The Sofa Delivery Company, deemed to be a higher risk category with freelance logistics and warehouse staff, all managers (over 60 people) took part in a modern slavery awareness session tailored to scenarios that occur in logistics. Follow up collateral was distributed to all CDCs.

*DFS Group is a values driven business with people at the heart of everything we do. How we engage our teams, work with our suppliers, support our communities and lead our industry through change, always stems from our values – Think Customer, Aim High and Be Real. The challenges we face, particularly to address the escalating climate crisis, will rely on the passion and perseverance of our teams and partners, but we're confident we can achieve our ambitions, working together.*

### CHARITY CASE STUDY

## Our Home-Start Partnership

In January 2023, Sofology established a brand new national partnership with Home-Start to help struggling children and families receive support during difficult times. Given the challenging economic circumstances at the moment, the support that Home-Start provides is more vital than ever in assisting these families to ensure that they have support if and when they need it.

To support Home-Start, Sofology will donate sofas to Home-Start outreach centres, which coordinate the 10,000 specially trained volunteers that support 44,000 children and 22,000 families annually. What's more, colleagues across the UK will take part in various fundraising activities to help give Home-Start the vital financial support they need.

We're passionate about helping to create a real sense of feeling at home – but we also look to make a real difference to those who live in our local communities. Our partnership with Home-Start feels like the perfect fit to enable us to do this. The vital work they do with children and families across the UK is more important than ever, given the cost of living crisis and the rising costs of energy.

In just 6 months Sofology have raised £41,000 through customer donations, gifted 72 sofas to families and completed a renovation for one of the Home-Start Hubs in Trafford, creating a room for families for drop in sessions.



## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### TCFD

*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. As climate reporting continues to evolve along with the pressing nature of climate change issues, so does our performance and strategic reporting. To further align with the TCFD framework, we have completed our climate scenario analysis, as described in the Strategy section below.*

#### Compliance Statement

We have complied with the Financial Conduct Authority listing rule LR9.8.6R by including climate-related financial disclosures consistent with all the TCFD recommendations and the recommended disclosures. In preparing these disclosures, we have considered [Section C and E of the TCFD Annex](#). Implementing the recommendations of the TCFD.

#### Our progress in FY23

1. Climate change topics discussed regularly by the Board, including at its Strategy Day in April 2023.
2. Developed Net Zero transition plan aligned to SBTi. The plan was approved by the RSC in June 2023.
3. Completed scenario analysis for transition and physical risks facing our operation and strategic partners in December 2022.
4. Integrated scenario analysis into our Corporate Risk Management Framework.
5. Improve our scope 3 carbon modelling by increasing supplier engagement. We encouraged our suppliers to develop their own Net Zero strategy aligned to Science-Based Targets.
6. Develop scope 1 emissions reduction plan with detailed investment requirements.

#### Area of focus in FY24

1. Continue to engage our suppliers to develop their own Net Zero strategy aligned to Science-Based Targets.
2. Develop our own strategy and policy on deforestation and biodiversity.
3. Continue to integrate climate risk consideration into our business strategy.
4. Update our materiality assessment to inform ongoing strategic planning.
5. Establish and agree targets for scope 1 and recycled materials, which are integrated into Group Leadership Team's LTIP.

# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## Governance

### Ga) Board oversight of climate-related risks and opportunities

The Board recognises the importance of addressing climate change risks and opportunities in supporting the Group's long-term success. We have a clear governance structure in place for climate change and sustainability related matters, see page 60 for the structure and composition.

The overall responsibility to oversee the progress against our climate-related goals and targets lies with the Board. In doing so, the Board has appointed the RSC to oversee the delivery of our pledges to support Planet, People, Customers and Community and our journey to Net Zero. The Committee's terms of reference are published on the Company's corporate website<sup>1</sup>.

The committee meets three times a year to:

- Review the Group's sustainability strategy, governance and performance against agreed targets and objectives.
- Oversee the implementation of the Group's sustainability strategy, as well as stakeholder engagement activities.
- Review and approve all Group policies relating to our four key areas of focus: Our Planet, Our People, Our Customers and Our Community.

Climate change is a prominent agenda in the RSC and Board meeting, as it is a key area in our strategic plan. The Committee Chair reports formally to the Board on its proceedings after each meeting.

In April 2023, the Board and Leadership Team held a two day strategy session which featured a dedicated session on climate change risks and impacts. This ensured subsequent discussions on manufacturing strategy and home category expansions factored the issues and considerations raised in the climate session.

Climate-related risk is monitored by the Audit Committee and the Board through regular meetings. The Audit Committee also provides assurance on non-financial metrics. In FY23, they have conducted an internal audit of environmental data and methodologies.

### Gb) Role of management in assessing and managing climate-related risks and opportunities.

In performing its remit, RSC receives regular reports from the Sustainability Steering Committee and Group Leadership Team. Senior management forms part of these forums to ensure they influence and monitor the progress of the climate change objectives. Responsibilities include updating the RSC on climate change and sustainability developments. As well as driving the overall strategy of the business and the day-to-day management of its climate-related risks and opportunities of the business. See page 60 for details of their responsibilities and meeting frequency.

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

- Internally through regular updates from the brand level ESG Committees and sustainability working groups, who ensure a clear voice for matters to be raised and escalated effectively and help to identify areas for improvement, such as the implications of the scenario analysis result to our operation
- Externally through input from sustainability experts, such as James Cameron<sup>2</sup>, to ensure our sustainability strategy is relevant and abreast of the continually changing reporting and regulatory landscape.
- Collaborate with the industry bodies and non profit organisations, such as FSC, Leather Working Group, Circular Change Council, Undaunted (Formerly CCCI/Imperial College) to advocate for circularity, deforestation, and decarbonisation across industry.

### Looking ahead

As climate-related considerations become more central to our business, we expect them to become 'business as usual' in our strategic and financial planning. Climate-related risks may have an impact on our revenue, therefore we have made provisions in our

three-year plan contingency fund. Furthermore, we have considered climate change impact in our viability test, as set out on page 36.

## Strategy

### Sa&b) climate-related risks and opportunities over short, medium, and long term and its impact to our businesses, strategy, and financial planning.

Climate change will continue to present risks and opportunities for our business in the short, medium, and long term. To understand this impact, we conducted a quantitative and qualitative scenario analysis exercise in December 2022 with the support of Willis Tower Watson.

We define the short, medium and long-term horizon as follows:

Horizon	Years	Rationale
Short	1-3	Aligned with our business strategy and financial forecasting.
Medium	3-10	Aligned to the strategic plan timeframe.
Long	10-30	Aligned with our Net-Zero ambition by 2040

We assessed our risk and opportunity exposure in two scenarios. The assumptions were gathered from the following sources:

- **Intergovernmental Panel on Climate Change (IPCC)** – Shared Pathways (SSP) scenarios of projected global changes are used to derive GHG emissions scenarios associated with different worlds and forecasts on physical climate implications of GHG concentrations.
- **International Energy Agency (IEA) scenarios** – focus on the consequences of different energy policy and investment choices. The Net Zero 2050 Scenario (1.5°C) explores what is needed to ensure global emissions reach net zero by 2050.
- **NGFS (Network for Greening the Financial System) scenarios** – which explore a different set of assumptions for how climate policy, emissions, and temperatures evolve. The Net Zero 2050 limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net zero CO<sub>2</sub> emissions around 2050. The NGFS also

considers disorderly scenarios, which explore higher transition risk due to policies being delayed or divergent across countries and sectors.

### Low Carbon World scenario (1.5°C)

The scenario assumes that there will be policies and technology supporting circular economies; material efficiency strategies and policies promoting production and use of alternative fuels and technologies such as hydrogen, biogas, biomethane and Carbon Capture Utilisation and Storage across sectors. Hence, global net zero CO<sub>2</sub> emissions will be reached around 2050. We assess our transition risk through this scenario.

### Hot House World scenario (4°C)

The scenario assumes current policies promoting sustainability are removed, there is no carbon pricing and there is increasing adoption of resource and energy intensive lifestyles around the world. As a result, economies fail to transition to a low carbon world and the physical impacts of climate change become increasingly severe.

Through this exercise, we identified ten material climate risks and opportunities. Table 1 summarises the transition risks and opportunities.

### Sc) Resilience of strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario

Our response to the risk and opportunities identified in the scenario analysis exercise are detailed in Table 1. We are also committed to reducing our GHG emissions within our supply chain to Net Zero by 2040. Please see page 46 for details of our climate change strategy. This gives us with the with the resilience to mitigate and adapt to climate change issues as they evolve.

Our long-term approach to deliver our Net Zero ambition is built upon the Sofa Cycle strategy. We aim to mitigate the environmental impact of each aspect of the product life cycle – from sustainable sourcing through to end-of-life – by developing a circular business model. See page 49 for more detail.

1. <https://www.dfscorporate.co.uk/media/55600/Terms-of-reference-RSC-Committee-pdf> (dfscorporate.co.uk)  
2. James Cameron is an independent advisor and award-winning authority for climate change.



## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### Risk Management

#### Ra) Processes for identifying and assessing climate-related risks

Our materiality assessment in 2022 identified scope 3 emissions, deforestation and biodiversity, and material use as important topics for the business and our stakeholders. Further climate-related risks were identified and assessed through the scenario analysis exercise in FY23. We involved various internal stakeholders in the process, and representatives of our wider value chain were consulted on the outcome. We applied a percentage of profit before tax as a benchmark in considering the materiality of the impact of climate change risks and opportunity.

The exercise considered a shift in our stakeholders' values toward more sustainable products and services, existing and emerging regulatory requirements, and technology transition, which is reflected in the five risk types described in table 1.

#### Rb&c) processes for managing climate-related risks and the integration with our overall risk management framework

Both materiality assessment and scenario analysis were used to inform our climate risk register which we continue to update through our day-to-day operations and regular reviews of our materiality assessments and scenario analysis.

The process for managing climate-related risks has been integrated into our Group's risk management framework. Climate risk identification was informed by both our materiality assessment and scenario analysis. Material climate risks are embedded into the Group's risk register and assessed based on the risk management framework which is determined by the scale of impact (% of PBT) and likelihood and also takes into account the controls in place to mitigate the risks. As part of the risk management process, we assess the risks described in Table 1 periodically (quarterly or bi-annually, depending on the risk rating). The result of the risk assessment at the end of FY23 is indicated in the risk rating column.

Climate change is included in our principal risks (ESG risk). As such, a member of the Group Leadership Team (Group Sustainability Director) owns the risk. Oversight responsibility of principal risks lies with the Board.

We continuously monitor the risk factors and the effectiveness of the controls assigned to the risk. Taking these into account, we have rated climate change as medium risk, which means that the risk, controls likelihood and impact are assessed on a quarterly basis.

See page 28 for a detailed process on managing climate-related risks, including how the decisions to mitigate, transfer, accept, or control the risks are taken.

### Metrics and Targets

#### Ma) Metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process

As the result of the scenario analysis, we have identified a number of metrics used to monitor our climate-risks as described in Table 1 (column Indicators). We continuously quantify and measure those metrics internally.

We consider scope 1 and 2 intensity metrics as our cross-industry metrics, to track our progress in achieving our Net Zero Ambition. Additionally, we are also tracking our scope 3 in our carbon footprint. The performance of these metrics and its trend over time is available on page 48.

Our Net Zero Ambition is a strategic priority. The target for its achievement forms a part of the group bonus. See Directors' remuneration report page 78 to 99 for details.

#### Mb) Scope 1, scope 2, and, scope 3 greenhouse gas (GHG) emissions

Please see page 48.

#### Mc) Targets used to manage climate related risks, opportunities and performance

We regard supply chain impacts of materials and reducing carbon footprint as key strategic issues, and they are aligned with the British Retail Consortium's Climate Action Roadmap. We have chosen a set of climate-metrics to assess our impact, and they are intrinsic to our Group target. See our Planet Target on page 41 for details. Some of the sustainable sourcing and carbon reduction targets were included on our sustainably-linked revolving credit facility, externally assured March 23.



# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## Risk type:

P Policy and legal
 T Technology
 M Market
 R Reputation
 Ph Physical

## Scenarios:

→ Transition risks – 1.5°
 ⚙️ Physical risks – 4°

## Risk rating:

🔴 High
 🟡 Medium
 🟢 Low

Table 1: Summary of our climate risks and opportunities

### Short term risk and opportunities

#	Risk	Risk/opportunities description	Indicator	Risk rating	Our response
1	<b>Mandates and regulation on our products</b> Risk type: <span>P</span> <span>→</span>	Increasing regulatory pressure regarding the sustainability of materials used in the manufacturing of our products which may lead to increasing production cost. This includes the possibility of introduction of carbon footprint labelling, plastic tax or bans on single use plastics and zero net deforestation policies.	Production cost	🟡	<p>We regularly review and update our Sustainable Sourcing Policy (three times a year) to keep current with our regulatory obligations. For example, we are aware of the new UK Persistent Organic Pollutants (POPs) regulation that requires old sofas to be incinerated. We are working with our own operation and suppliers to respond to the required changes.</p> <p>Furthermore, we align our supplier contracts with the supplier requirements within the Sustainable Sourcing Policy.</p>
2	<b>Carbon pricing</b> Risk type: <span>P</span> <span>→</span> <span>⚙️</span>	Carbon pricing already exists in some of the jurisdictions that we operate in. Under both scenarios, pricing of GHG emissions is expected to increase, which could impact our direct operating costs.	Direct operating cost	🟢	As the climate-related risks may have an impact on our revenue, we have made provision in our three-year plan contingency fund.
3	<b>Climate change litigation</b> Risk type: <span>P</span> <span>R</span> <span>→</span>	Climate-related litigation claims could be brought against DFS by investors, insurers, shareholders, and public interest organisations. Reasons for claims could include failure to adapt to climate change, greenwashing for overstating positive environmental impacts and understating risks and insufficient disclosure on material financial risks.	Compliance cost/non-direct operating cost Brand value	🟡	<p>We continuously monitor the legislative landscape to ensure that we are compliant with the relevant disclosure requirements.</p> <p>This year, we have further improved our TCFD reporting to be consistent with the 11 TCFD recommendations. We are aware that the sustainability reporting landscape is a fast-evolving space. We intend to adopt the upcoming standards, framework, and regulation into our sustainability reporting approach, such as:</p> <ul style="list-style-type: none"> <li>– Taskforce on Nature-related Financial Disclosure (TNFD)</li> <li>– IFRS S1 and IFRS S2</li> <li>– Transition Plan Taskforce (TPT)</li> </ul>

## RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

### Risk type:

P Policy and legal
 T Technology
 M Market
 R Reputation
 Ph Physical

### Scenarios:

→ Transition risks – 1.5°
 ⚙️ Physical risks – 4°

### Risk rating:

● High
 ● Medium
 ● Low

#	Risk	Risk/opportunities description	Indicator	Risk rating	Our response
4	<b>Building code requirements</b> Risk type: <span>P</span> <span>→</span>	<p>More stringent building codes and guidelines leads to increasing maintenance costs associated with upgrading stores, distribution centres and manufacturing sites.</p> <p>In the UK, all new buildings are expected to have an EPC rating of B by 2030. DFS leases its sites, and it is uncertain how the regulation could impact lease renewal costs.</p>	Maintenance Cost/ capex/opex	<span>●</span>	<p>We have considered the cost to meet building code requirements into our capex/opex. We will continue to invest in our estates to be energy efficient.</p> <p>Furthermore, we ensure that the buildings that we lease meet building code standards. This is integrated in our standard practice for new or continuing lease negotiation.</p>
5	<b>Investment Risk</b> Risk type: <span>R</span> <span>→</span>	<p>Failure to meet publicly stated sustainability targets or failure to meet disclosure requirements poses a risk to our business as customers and investors increasingly expect high levels of sustainability performance from organisations.</p> <p>On the other hand, meeting our sustainability targets potentially opens the opportunity to access lower cost capital, such as sustainability-linked loans.</p>	Cost of capital	<span>●</span>	We incentivise teams and leadership as part of the employee bonus scheme to meet the publicly stated targets which are derived from our sustainability strategic objectives.

### Medium to long term risk and opportunities

#	Risk	Risk/opportunities description	Indicator	Our response
1	<b>Transition to lower emission technology and maintaining a circular system.</b> Risk type: <span>T</span> <span>→</span>	<p>In line with our Net Zero ambition and our Sofa Cycle strategy, we need to transition our technological capability to support this ambition, which will require increased capex and opex.</p> <p>The technology transition cost would include:</p> <ul style="list-style-type: none"> <li>– Upgrading manufacturing sites and stores.</li> <li>– Switching to or supplying infrastructure for electric HGV vehicles and sourcing lower emission utilities – particularly for processing recycled materials.</li> <li>– Investing in technology to improve the lifecycle of products.</li> </ul>	<p>Capex to increase energy efficiency</p> <p>Capex to increase recycling capability.</p> <p>Capex/opex for transitioning to electric vehicle fleet.</p>	<p><span>●</span></p> <p>We have developed integrated strategic planning to ensure the introduction of low-carbon technology within our property, manufacturing and logistics aligned to our Net Zero trajectory.</p> <p>This year we have piloted several energy efficiency initiatives, such as:</p> <ul style="list-style-type: none"> <li>– Trialled infrared panels for heating large spaces, such as distribution centres.</li> <li>– Installed central building management system to monitor and control energy use across our properties.</li> </ul> <p>See page 49 for detailed case studies.</p>
2	<b>Increased cost of raw materials</b> Risk type: <span>M</span> <span>→</span>	As our suppliers bear the effect of carbon pricing and other sustainability-driven impacts, they could pass on the cost to us, hence increasing our cost of raw materials.	Production cost	<p><span>●</span></p> <p>Phased and adapted pricing and margin structure to accommodate cost changes.</p>



# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## Risk type:

P Policy and legal
 T Technology
 M Market
 R Reputation
 Ph Physical

## Scenarios:

→ Transition risks – 1.5°
 ⚙️ Physical risks – 4°

## Risk rating:

● High
 ● Medium
 ● Low

#	Risk	Risk/opportunities description	Indicator	Risk rating	Our response
3	<b>Shift in customer values</b> Risk type: <span>M</span> <span>→</span>	<p>Our customers may increasingly prefer sustainable product options with lower embedded emissions. Failure to meet these shifting values could cause our retail customers to switch to alternative products or competitors.</p> <p>On the other hand, being ahead of competitors could create an opportunity to widen the customer base, increase revenues, profits and market share.</p>	Revenue	<span>●</span>	<p>Linked product development with the evolving customer mindset and purchasing criteria.</p> <p>We are currently testing and learning about our customer appetite. In FY23 both DFS and Sofology developed an important, innovative first step to fully circular product ranges with the launch of the Gaia, whilst DFS created an award-winning sprung seat solution for the Grand Designs range. See the case study on page 49 for detail.</p>
4	<b>Cost of capital</b> Risk type: <span>M</span> <span>→</span>	As credit ratings begin to incorporate climate change considerations, there is a risk that the cost and availability of capital would increase/decrease.	Cost of capital	<span>●</span>	We support ESG inquiries and disclosures to third-party (e.g., CDP) and credit rating agencies (e.g. MSCI, ISS ESG Corporate Rating).
5	<b>Physical risk</b> Risk type: <span>Ph</span> <span>⚙️</span>	Damage or loss of value to our facilities due to climate hazards. The climate hazards considered in our scenario analysis are heat stress, flooding, drought, fire weather, and windstorm.	Asset value located in an area of material climate hazard intensity.	<span>●</span>	All our own facilities are located in the UK, which is not exposed to as many climate hazards as other countries. Therefore, the overall risk to our facility is considered low to moderate within the short to medium-term horizon. Our own facilities including manufacturing and distribution are leased with an average of five years remaining, they are unlikely to see long-term climate changes in 2050 unless renewed.
5	<b>Physical risk</b> Risk type: <span>Ph</span> <span>⚙️</span>	Disruption in our supply chain due to climate hazards damaging our suppliers' facilities. The climate hazards considered in our scenario analysis are: heat stress, flooding, drought, fire weather, and windstorm.	% of supply from supplier facilities that are in high-risk areas.	<span>●</span>	<p>Our supplier facilities are spread across the UK, Europe, and Asia. The overall exposure of drought, fire weather and windstorm to our suppliers' facilities is moderate, whilst the exposure of flooding is considered very high in Asia. We have incorporated this finding into the strategic review of our manufacturing partners.</p> <p>Considering the importance of water supply to our textile and leather supply chains, we are aware of the critical issue of water scarcity. We intend to review and address how we can support our suppliers on this issue.</p>

# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## SUSTAINABILITY GOVERNANCE 2023



# RESPONSIBILITY AND SUSTAINABILITY REPORT CONTINUED

## TCFD CONSISTENCY INDEX

Pillar	Recommended disclosures	Location within this report
<b>Governance</b>	(a) Board oversight of climate-related risks and opportunities	Page 60
	(b) Role of management in assessing and managing climate related risks and opportunities	Page 60
<b>Strategy</b>	(a) Climate-related risks and opportunities	Pages 55 and 57
	(b) Impact on the organisation's business, strategy and financial planning	Pages 55 and 57
	(c) Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Pages 55, 44 and 46
<b>Risk Management</b>	(a) Processes for identifying and assessing climate-related risks	Page 56
	(b) Risk management process	Pages 56 and 28
	(c) Integration into overall risk management	Pages 56 and 28
<b>Metrics and Targets</b>	(a) Metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process	Pages 56 and 48
	(b) Scope 1, scope 2, and, scope 3 GHG emissions	Pages 56 and 48
	(c) Targets used to manage climate related risks, opportunities and performance	Pages 56 and 41

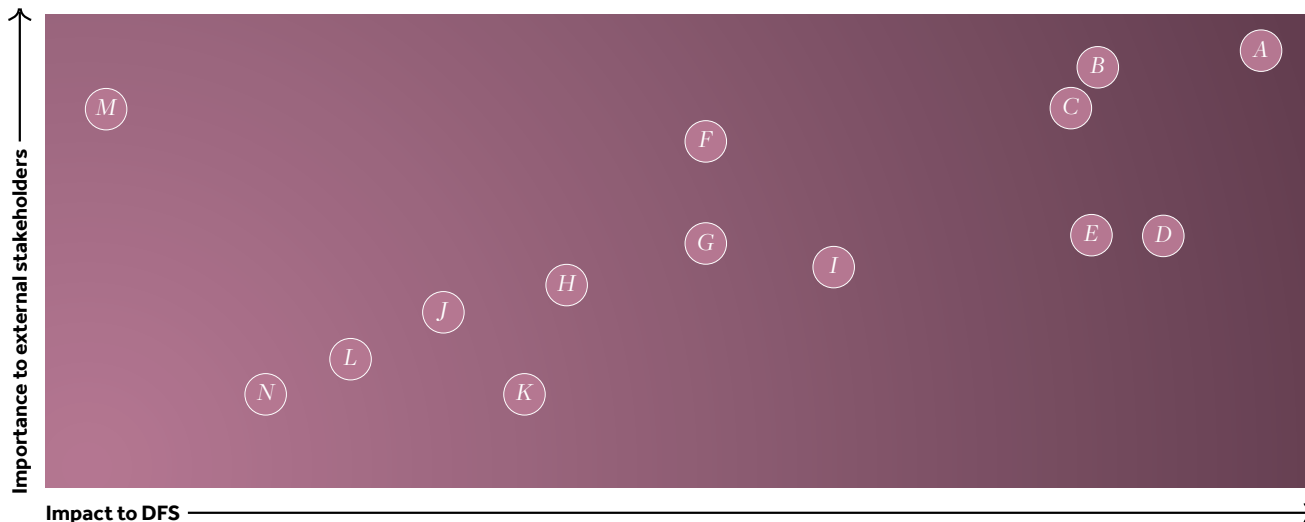
This strategic report was approved by the Board on 21 September 2023. On behalf of the Board.

**TIM STACEY**  
Chief Executive Officer

**JOHN FALLON**  
Chief Financial Officer

## MATERIALITY ASSESSMENT

The materiality assessment involved in-depth meetings with stakeholders from across the various Group operating functions, brands and with senior management as well as incorporating the views of external stakeholders. The results identified several high priority issues including greenhouse gas ('GHG') emissions, deforestation and biodiversity, customer satisfaction and product quality, sustainable sourcing, and material usage.



Area	Definition
<b>A GHG emissions (scope 1, 2, 3)</b>	The amount of GHG produced by the activities and operations of DFS and of the movement of resources in the supply chain.
<b>B Deforestation &amp; biodiversity</b>	Protection and restoration of the forests which have been impacted by the wood use in products and production of leather.
<b>C Customer satisfaction &amp; product quality</b>	The measurement used to determine how satisfied customers are with its products and service.
<b>D Material usage</b>	As resources continue to deplete, companies will be challenged to increase the efficiency in which they use materials in their products and to ensure reuse where possible.
<b>E A circular approach</b>	As resources continue to deplete, developing alternative approaches to manage waste and resources will become ever more important. The circular economy has emerged as a way of thinking to design out waste and pollution, keep products and materials in use, with the ultimate goal of regenerating natural systems.
<b>F Sustainable sourcing</b>	Selecting and working with suppliers to obtain the materials, products, and services DFS requires that are socially and environmentally responsible, while still being economically sound.
<b>G Supply chain traceability &amp; transparency</b>	The reporting and disclosure around upstream operations both internally and externally. There is an increasing expectation from stakeholders for companies to be transparent in their use of suppliers.

Area	Definition
<b>H Inclusion &amp; diversity</b>	Creating an inclusive environment where everyone is welcome, ensuring employees are treated with the respect and have equal opportunities.
<b>I Data protection and cyber risk</b>	Ensuring current regulations on GDPR and the protection of customer data are followed, while continuing to review procedures and systems to reduce the risk and exposure to potential cyber attacks.
<b>J Colleague engagement</b>	Creating a working environment where all colleagues of DFS care about their work, the goals, values and performance of the Group and enhancing colleague wellbeing.
<b>K Talent &amp; development</b>	Ensuring procedures are in place to attract talent and facilitate the continuous development of colleagues' knowledge to create a more skilled and accomplished workforce.
<b>L Health, safety &amp; wellbeing</b>	Programmes, guidelines and procedures in place to protect the safety, welfare and health of any person engaged in work or employment.
<b>M Plastics, packaging &amp; waste</b>	Limiting the waste created in DFS operations, including plastics and packaging, and increasing efficiency of recycling and reuse to minimise environmental impact.
<b>N Community engagement &amp; investment</b>	Investments, charitable donations and volunteering in activities with the aim of bringing about an improvement in quality of life for the local residents.