DFS Furniture plc

Annual Report & Accounts 2021

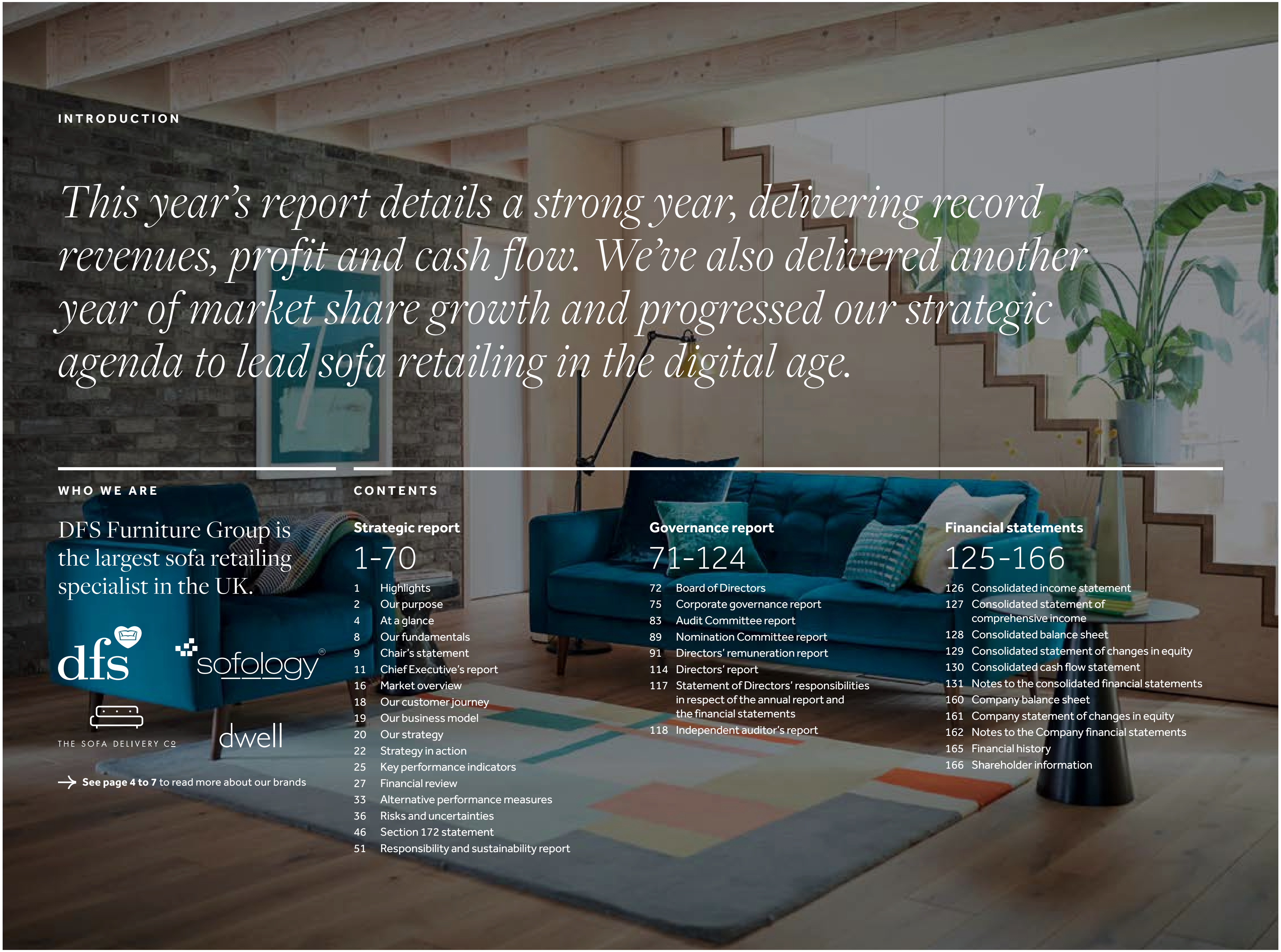
A closer look

dfs

sofology

THE SOFA DELIVERY Co

dwell



INTRODUCTION

This year's report details a strong year, delivering record revenues, profit and cash flow. We've also delivered another year of market share growth and progressed our strategic agenda to lead sofa retailing in the digital age.

WHO WE ARE

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

dfs sofology THE SOFA DELIVERY CO dwell

See page 4 to 7 to read more about our brands

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Highlights

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

FINANCIAL HIGHLIGHTS

FY21 and FY20 are both prepared under IFRS 16. FY19 was prepared under IAS 17.

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. Definitions and reconciliations of these alternative performance measures can be found on pages 33 to 35.

Group revenue

£1,067.7m

FY21	£1,067.7m
FY20	£724.5m
FY19*	£996.2m

Post purchase NPS[2]

86.4%

FY21	86.4%
FY20	85.7%
FY19	84.2%

Profit/(loss) before tax

£99.2m

FY21	£99.2m
FY20	£(81.2)m
FY19*	£43.6m

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

£105.8m

FY21	£105.8m
FY20	£(63.1)
FY19*	£50.2m

Established customer NPS[2]

30.7%

FY21	30.7%
FY20	42.9%
FY19	33.0%

Earnings per share

34.5p

FY21	34.5p
FY20	(31.4p)
FY19*	16.5p

Underlying earnings per share[1]

36.0p

FY21	36.0p
FY20	(24.3)p
FY19*	18.4p

1. Refer to pages 33 to 35 for APM definitions.
2. Net Promoter Scores for the DFS brand.

* 52 weeks pro-forma.

OPERATIONAL AND STRATEGIC HIGHLIGHTS

- Progressed our strategic agenda, responding rapidly to the fast-changing operating and trading environment.
- Gained market share through our integrated retail model, demonstrating the strength of our business model and our ability to attract customers through digital and physical retail channels at scale.
- Delivery of £9m of incremental efficiency savings in the year across our property and marketing platforms.
- Opened five new Sofology showrooms in FY21 with eight openings planned in FY22, driving additional upholstery market share gain through a proven approach.
- Integration of Dwell into the DFS brand operating structure increasing efficiency and creating a competitive fulfillment solution for DFS's extended homeware offer.
- Launched 15 upholstered bed ranges through our DFS brand, with positive early results, and strengthened our beds commercial partnerships, driving the opportunity to gain share in the £5bn+ bed and non-upholstery living room market.
- Significant ESG progress since the launch of our new strategy in September 2020, with progress across all target areas and a good consumer response to our newly launched sustainable ranges including our partnership with Grand Designs. Formation of Responsible and Sustainable Business Committee to ensure Board oversight of ESG strategy.

Our purpose driven approach

OUR PURPOSE

Our Group purpose is to bring great design and comfort into every living room, in an affordable, responsible and sustainable manner. Our customers and our people are at the heart of everything we do, reflected in our three core values.

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.

OUR STRATEGY FOR GROWTH

Our aim is to lead sofa retailing in the digital age.

We intend to strengthen our market position, lead from the front and embrace the challenges and opportunities of the digital age.

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

Build the platforms
Build platforms to enable profitable Group growth

Unlock new growth
Unlock and deliver new profitable growth

See page 20 for more information on our strategy

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.

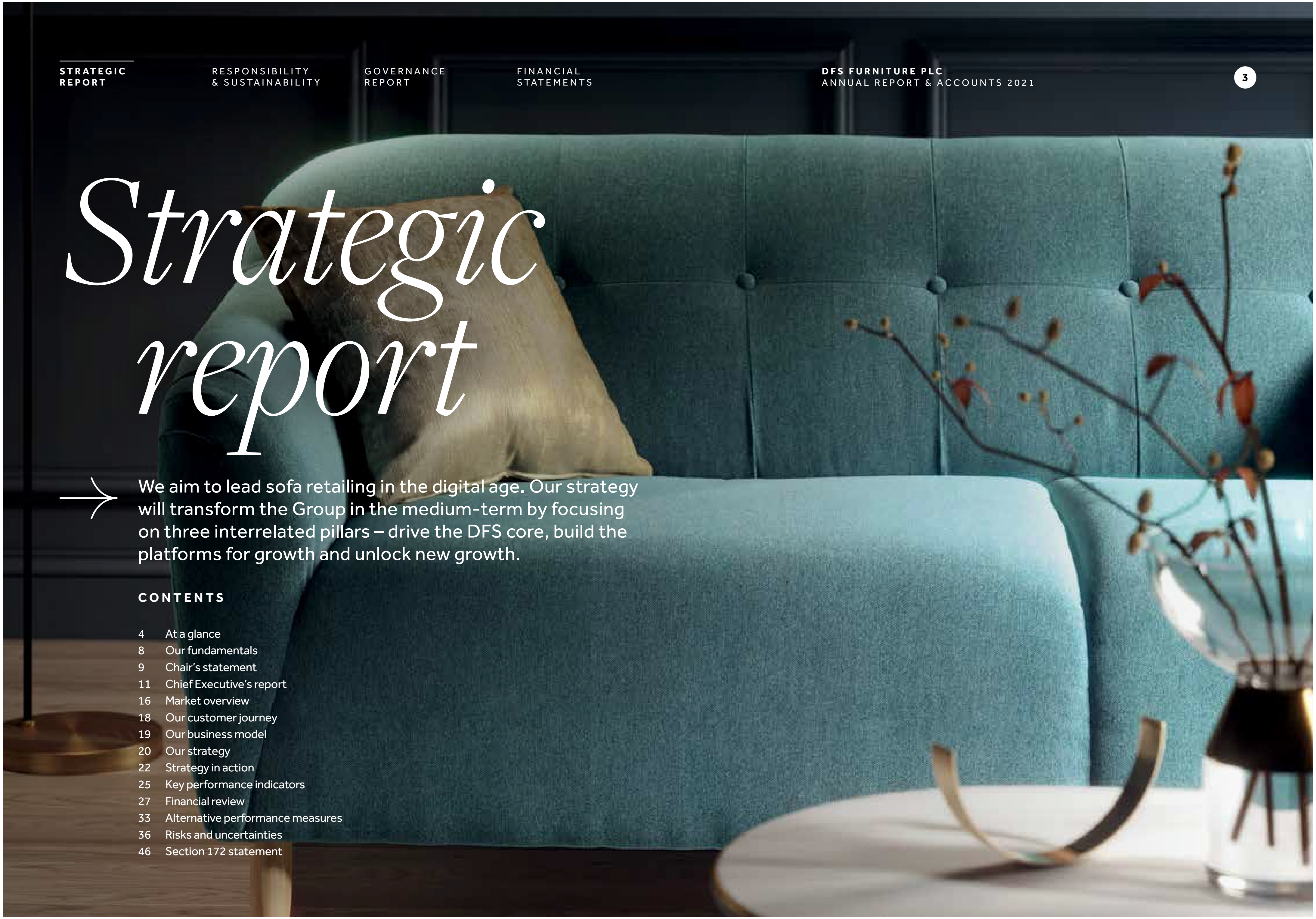
See page 51 for more information on responsibility and sustainability at DFS

OUR STAKEHOLDERS

Committed to building a sustainable business model for:

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

See page 46 for more information on how we consider and engage with our stakeholders



Strategic report

We aim to lead sofa retailing in the digital age. Our strategy will transform the Group in the medium-term by focusing on three interrelated pillars – drive the DFS core, build the platforms for growth and unlock new growth.

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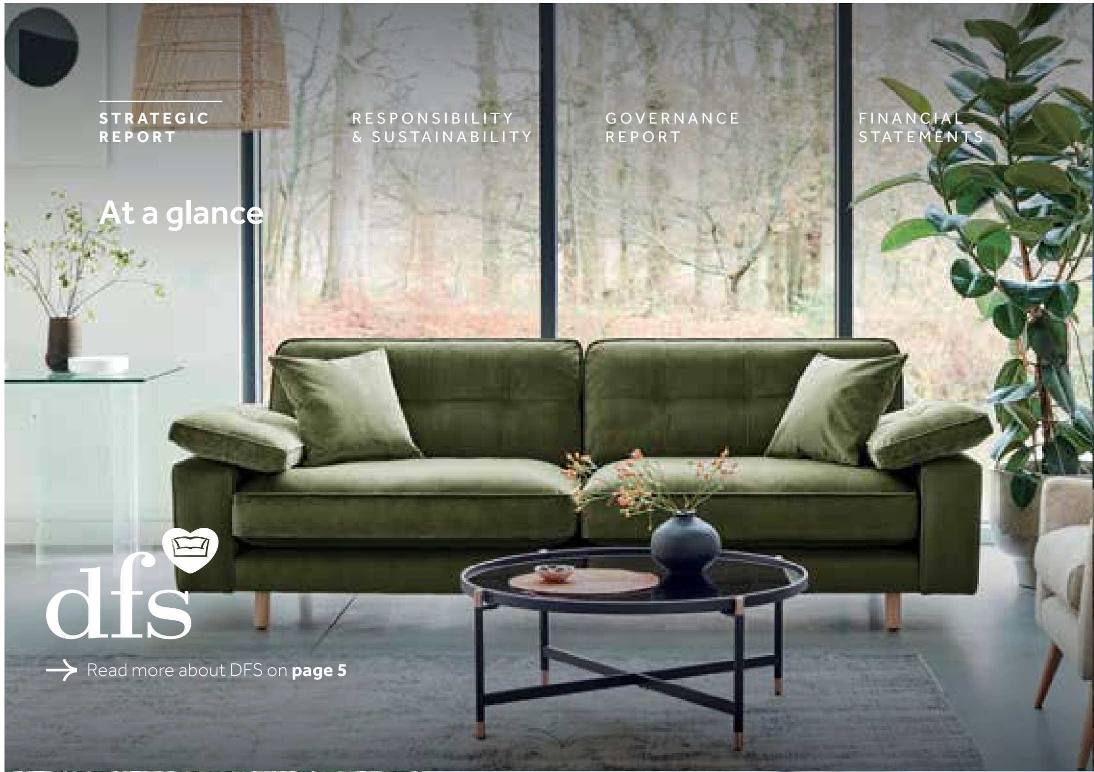
At a glance



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 7**

dwell

Read more about Dwell on **page 7**

At a glance continued

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

- 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, eight across the Netherlands and Spain 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 2.7m unique visitors each month in the 12 months to June 2021.
- Sofa orders are fulfilled on a made to order basis.

FY21 NUMBER OF SHOWROOMS

126

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

Brand revenue (including Dwell)

£848.0m

FY21	£848.0m
FY20	£566.5m
FY19[1]	£762.6m

1. 52 weeks pro forma.

OTHER SHOWROOMS

SPAIN

2

NETHERLANDS

6

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 50 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.

Brand revenue

£214.6m

FY21	£214.6m
FY20	£181.7m
FY19[1]	£205.9m

1. 52 weeks pro forma.

FY21 NUMBER OF SHOWROOMS
50

FY20 NUMBER OF SHOWROOMS
45

At a glance continued

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

UK CUSTOMER DELIVERY CENTRES
30

dwell

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

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.

Clear market leader

With over a third 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.

→ See more in our market overview on **page 16**

Integrated retail business

We believe that our combination of digital and physical channels 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.

→ See more in our business model on **page 19**

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.

→ See more in our responsibility and sustainability report on **page 51**

Homeware market growth

The UK homeware market is currently benefiting from a shift of consumer spending to the home and away from travel, leisure & fashion. We believe the resilient homeware market should fuel the fundamentals of our business model.

→ See more in our market growth on **page 16**

Sustainable growth

We believe these fundamental attractions of our business model above, as well as the homeware market tailwind, 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 20**

Chair's statement

Focused on the future

> "We remain committed to developing the Group to deliver on the expectations of our customers"
>
> **IAN DURANT**
> NON-EXECUTIVE CHAIR

IN BRIEF

- A resilient and agile response to the Covid-19 pandemic, allowing the Group to benefit from strong demand in our market.
- Record financial results, with Group revenue exceeding £1 billion for FY21.
- Creation of The Sofa Delivery Company to improve customer experience and deliver on our strategic plans.
- Further new store openings for Sofology.
- High levels of customer demand provide opportunities and challenges for the year ahead.
- Restart of dividends with 7.5 pence per share recommended.

OVERVIEW

The year to 27 June 2021 is the second year affected by the far-reaching consequences of the Covid-19 pandemic. In facing the multi-faceted challenges this has thrown up, our 5,000 colleagues have demonstrated high levels of resilience, tenacity, and loyalty in maintaining the momentum of recovery. Learning from the experience of the first UK lockdown and taking an agile approach in the face of ever changing lockdown restrictions and international supply chain disruption, the Group kept its manufacturing and supply chain operational and safe throughout the year. Online sales increased year on year by 184% benefiting from the investments in technology to improve the online experience for our customers, and our showroom colleagues provided additional support to customers wishing to purchase over the telephone.

From the outset of the pandemic a priority has been to look after our people. During the year I am pleased to say that despite many of our showrooms being closed for up to 21 weeks of the year the Group did not furlough any colleagues, and instead introduced a 'Coronavirus Absence Pay Scheme'. The aim of the scheme, which paid colleagues 80% of their pay, was to ensure that our colleagues had the peace of mind that they would be supported if they were absent from work because they were ill with the virus or could not work for other Covid-related reasons.

STRATEGIC PROGRESS

We have continued to progress the implementation of the Group's strategy and refine its priorities in response to changing market conditions and opportunities. This has included aspiring to ESG leadership in our sector and planning improvements to the effectiveness and scalability of our UK manufacturing.

Chair's statement continued

A number of initiatives have been launched to develop the product ranges and the integrated retailer proposition of our two larger brands, which have led to an increase of c.2%pts in the Group's market share.

Sofology, which targets a different customer demographic to DFS, is continuing to perform well. The brand is now gaining national coverage after opening five showrooms in the year and with a strong pipeline in place is in a good position to take advantage of the growth in the home furnishings market.

Progress has also been made with the creation of our new Group final mile logistics operation; The Sofa Delivery Company which will significantly improve the UK logistics capability for both our brands. Over a thousand of our colleagues within DFS and Sofology joined the new business, with the aim of improving the customer experience and reducing both our operating costs and our carbon footprint.

FINANCIAL RESULTS

Showrooms were closed for a significant portion of the year, but the periods when they were open saw exceptional levels of demand and similarly our online channels had a busy year. This has enabled suppliers and internal manufacturing operations to operate at high production levels and for the business to deliver an elevated volume of orders to our customers. Consequently, the Group has achieved a record level of revenue and profits. Total group revenue exceeded £1bn for the first time, generating underlying profit before tax and brand amortisation[1] of £105.8m. Reported profit before tax was £99.2m, giving rise to earnings per share of 34.5 pence.

Looking forward the Group has started the year with strong trading momentum, supported by a higher than normal order bank entering the current financial year and a continued enthusiasm amongst customers for enhancing the comfort of their homes. This means the Group now holds relatively higher levels of visibility on customer demand for FY22 and alters the principal driver of our overall financial performance in the new financial year to maximising our supply chain throughput, and mitigating any operating and raw material cost inflation or other Covid-19 disruption experienced.

The operating conditions in the new financial year are currently demanding and whilst the high levels of demand are welcome, they do present substantial operational challenges for our supply chain and manufacturing teams to overcome. Further, despite the roll out of the UK vaccination programme we may still have to change our ways of working to adapt to the continued impact of Covid-19. I am however confident that, given the way in which the Group has addressed all of the challenges of the last year, we are positioned to respond, with well-established leadership and appropriate structures in place to manage these risks.

OUR PURPOSE, OUR VALUES, AND OUR PEOPLE

The Group, the outright market leader in its sector in the UK, has a distinctive culture. There is a great sense of pride, loyalty, and commitment from our colleagues across the Group. Our purpose, built on our values of "Think Customer, Be Real and Aim High", is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner. That our people live our values has been evident from their continued dedication and enthusiasm over the past year as they have worked hard to support our customers and each other through the challenges brought by the pandemic.

We are aware that the pandemic has had a serious impact on people's health and wellbeing. Over the year the Group has invested in resources to support our colleagues through the pandemic. This includes a new sick-pay scheme, increasing the number of mental health first aiders and working with partners to launch digital tools to help us understand how our colleagues are feeling and to help them try to deal with any health issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

Over the last year the Group has made good progress against our initial ESG targets. Our strategy is to leverage our influence and scale as market leader to offer sustainable and ethical products, to drive a more circular product lifecycle and to act in a responsible manner with our customers, suppliers, and wider stakeholders.

Significant effort has been made in improving the traceability of the raw materials used in our products and obtaining third party certification and verification that our suppliers meet our sustainable sourcing requirements. This has initially focused on timber and leather, and we have now published new targets covering the fabrics we use. Both Sofology and DFS have introduced sustainable sofas during the year. For example, the DFS 'Grand Designs' range uses fabric made from recycled polyester yarns, with sustainably sourced timber and sustainable sofa cushions made using 50% recycled plastic from Plastic Bank, globally recognised as one of the leading solutions to reduce ocean plastic.

The Group has also committed to the BRC Climate Action Roadmap to be net zero by 2040 and we are in the process of securing a specialist advisor to help us understand our Scope 3 emissions and establish science-based targets to allow us to achieve our net zero ambitions.

During the year the Group's Leadership Team has developed our Inclusivity and Diversity strategy. The mission is to make DFS a place where "Everyone is Welcome" and whose ethnic make-up reflects the society in which we operate our business.

We believe this approach to sustainability and to responsible business is expected by our colleagues, our customers and our wider stakeholders and indeed embedding sustainability into everything we do is a key priority for the future. To support our progress and ensure that continuing appropriate focus is given, the Board has now decided to establish a Responsible and Sustainable Business Committee to directly address these topics, with the committee's terms of reference available on our corporate website.

THE BOARD

In late June 2021 we welcomed Loraine Martins to the Board as a Non-Executive Director. Loraine is already fully engaged within the business and brings a wealth of experience in inclusivity, diversity and health and safety to the Group. Further information about our Board and our engagement with stakeholders is set out on pages 72 and 46 respectively.

DIVIDEND

Last year the Board took the decision not to recommend the payment of a dividend in order to support the Group's financial resilience. We do however recognise that dividends are an important element of the investment case for our shareholders, as stated in our Capital and Distribution policy, and we have the intention of steadily growing our dividends over time in line with our cash generation and prospects, while prioritising the Group's long-term financial health. As set out in greater detail in the CFO's report, this year, as a result of our strong financial performance I am pleased to confirm we will be recommending a final FY21 dividend of 7.5p per share.

LOOKING AHEAD

As the UK's leading upholstery retailer and manufacturer, the Board is confident that our expertise in designing new and innovative products, our brand heritage, vertical integration, and financial strength, places the Group in a relatively strong position over the long term. We remain committed to developing the Group to deliver on the expectation of our customers, drive shareholder returns, have a positive impact on society and to provide an inclusive and rewarding place for our colleagues to work.

Ian Durant

Chair of the Board
23 September 2021

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report

"Delivering this growth would not have been possible without our loyal colleagues – they all deserve a huge thank you for their commitment and resilience during the year, as well as their unwavering application of our Group core values, 'Think Customer', 'Be Real' and 'Aim High', as we have sought to meet unprecedented customer demand."

TIM STACEY
CHIEF EXECUTIVE OFFICER

IN BRIEF

- Progressed our strategic agenda, responding rapidly to the fast-changing operating and trading environment.
- Gained market share through our integrated retail model, demonstrating the strength of our business model and our ability to attract customers through digital and physical retail channels at scale.
- Significant ESG progress since launch of new strategy in September 2020, with progress across all target areas and a good consumer response to our newly launched sustainable ranges including our partnership with Grand Designs. Formation of Responsible and Sustainable Business Committee to ensure Board oversight of ESG strategy.
- As we enter a new financial year, the Group is very well positioned to build on its market leadership position in sofa retailing and to target further growth as we invest to strengthen our business platforms and extend our retail proposition into adjacent product categories.

Values-led leadership

Our 'Be Real' core value is about accepting each other for who we are and respecting each other as part of one big family. Embracing diversity and inclusion is therefore a key focus for the Group. We've been listening, learning and educating ourselves about different races, genders, abilities, sexual orientations, religions and nationalities, with the aim of being a Group where "everyone is welcome".

Chief Executive's report continued

OVERVIEW

I am pleased to report a strong recovery in FY21 following a challenging FY20 which was impacted by the early stages of the Covid-19 pandemic. The Group delivered record sales and profit and further extended our market leadership. This performance reflects the benefit of our own historical investments in our online capability, showroom estate and business platforms, a favourable environment for consumer spending on homeware products as well as pent-up demand at the start of the financial year.

Delivering this growth would not have been possible without our loyal colleagues and they all deserve a huge thank you for their commitment and resilience during the year, as well as their unwavering application of our Group core values 'Think Customer', 'Be Real' and 'Aim High', as we have sought to meet unprecedented customer demand.

I would also like to thank all our customers for their continued loyalty and patience in relation to extended lead times as we dealt with exceptional levels of demand and faced disruption to our supply chains. Reflecting shareholders' support during the peak of the pandemic in the spring of 2020, I am also pleased that we are able to repay their commitment to the Group with a year of strong profits, a positive outlook, a strengthened balance sheet and a return to dividend payments.

While furniture and homewares markets have grown strongly, our market share also continues to grow, at least in line with the 2%+ rate that we experienced in the first half of FY21, based on our own proprietary data developed with Barclaycard. I believe that these gains are due to the fundamental attractions of our Group, which I set out in our interim results: the Group's market leadership position, which drives multiple economies of scale; our 'channel agnostic' integrated retail model, which allows us to meet fast changing customer shopping habits; and our sustainable business approach, both in terms of our impact on the environment and preserving our long-term success as a Group. With these strong foundations in place, we believe our strong operating performance will continue and we are set to grow further into the medium term.

FINANCIAL RESULTS

Revenue rose 47.4% on the previous year, or 49.6% on a comparable basis (excluding Sofa Workshop, which was sold in September 2020), however our FY20 revenues and profits were severely impacted by the pause in deliveries for the majority of the final quarter to comply with Covid-19 restrictions. A more representative, pre-pandemic comparator period is therefore the pro-forma 52 week period ended 30 June 2019[1] ("Pro-forma FY19"). Against this period, FY21 revenue increased by 7.2% (+9.7% excluding Sofa Workshop). This performance reflects market share gains as well as the ongoing benefit of a shift in consumer spending to home-related categories.

Underlying profit before tax and brand amortisation[1] rose to £105.8m compared to a loss of £63.1m in FY20 and an IAS17 profit of £50.2m in the pre-pandemic Pro-forma FY19. Reported profit before tax was £99.2m compared to a loss of £81.2m in FY20. Driven by strong trading alongside a favourable movement in working capital, net bank debt[1] reduced by £138.7m in the period to £19.0m. Adjusting for the working capital position, which we expect to unwind, our year end leverage ended the year within our targeted 0.5-1.0x range. Reflecting our robust underlying cash generation, significantly reduced financial leverage and our positive start to FY22, we recommend a final dividend of 7.5p per share.

As detailed in our June pre-close statement, the Group recognises revenue at the point of delivery to customers and therefore the strong order intake seen in the final quarter of FY21 will benefit revenues and profits in FY22. We address current year prospects in more detail in the Financial Review.

OPERATIONAL UPDATE

One of our fundamental advantages is our increasingly integrated sales model. Our integrated retail ambition puts the customer at the centre of our business and aims to deliver a customer journey that is consistent across all our sales channels. The strength of our digital infrastructure and the Group's integrated approach proved invaluable as we have adapted to the rapidly-changing retail environment. Our digital platforms allowed us to rapidly redeploy showroom colleagues into online sales and customer service roles during those periods when our showrooms were closed.

Due to restrictions around showroom openings in the year, the strength of our online sales was a clear highlight of our integrated approach, and a key point of differentiation versus our specialist competitors. Gross sales[1] via our online channel increased by 184% compared with a year earlier and in lockdown periods our market share gains were particularly elevated.

Our strong profit delivery was achieved despite a number of operational challenges in the year, principally disruption due to the Covid-19 pandemic and external supply chain factors. Our management of Covid-19 benefited from our learnings in the previous financial year, as we were once again required to close and reopen showrooms at different times according to national restrictions, often at short notice. The safety and wellbeing of our customers and colleagues remained our priority throughout. Colleagues have been regularly reminded to adhere to our health and safety "Golden Rules", which remained in place throughout the financial year.

Performance throughout the year was particularly affected by shipping disruption from the Far East and raw materials supply issues relating primarily to foam availability in Europe. We have also faced internal and external manufacturing capacity and delivery constraints and cost inflation due to high levels of demand for our products.

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report continued

As we stated in our interim results, in relation to Brexit, limited disruption has been experienced to date and we continue to believe that the Group is well placed in its key markets following the UK's departure from the EU.

REVIEW OF STRATEGIC PROGRESS

The aim of our strategy is to lead sofa retailing in the digital age. The strategy is centred on three interrelated pillars (Drive DFS Core, Build The Platforms and Unlock New Growth) across which we identified initiatives to drive £40m of incremental pre-tax profit as originally set out in 2018.

We are pleased with our strategic progress, particularly in relation to the strength of our digital infrastructure during the pandemic and the growth and integration of the Sofology acquisition. While our FY21 PBT and current FY22 PBT guidance indicates that we are well down the road in relation to our original profit targets, we still see significant growth potential across the Group. We provide a progress update on the individual pillars below.

DRIVE THE CORE

The DFS brand is the largest and most profitable in the Group, accounting for c.80% of Group revenue and brand contribution[1] in the last financial year. The key priority of this strategic pillar is to drive the growth of the DFS brand across all our channels. Key initiatives in the year centred on delivering further enhancements to our seamless customer journey, developing new innovative products and making improvements to our showroom estate and customer service provision.

Our integrated retail investment programme encompasses a range of initiatives including: continuous enhancements to our website with a focus on imagery, page load speeds and checkout; further investment in text chat to deliver an improved customer experience; shared baskets in place to support the customer journey across website and showrooms; improvements to our resourcing and reward models, driving greater efficiency and conversion; and the development of a consistent approach to refreshing our showroom format. Reflecting the strength of our websites, we have begun to focus our efforts on pursuing a range of opportunities to grow our total addressable market by targeting incremental product sales from items, such as beds and homewares, that we are not able to range extensively in our showrooms.

Attractive, exclusive products are a key point of differentiation versus our competitors and we continually refine our use of data and insights to improve our customer targeting, range management and new product development. This allows us to maximise the customer appeal of our product portfolio, ensure there are no gaps in the key style groups, promptly replace any underperformers and increasingly embed sustainability in our ranges.

A product launch highlight in the first half of the financial year was our aspirational 'Halo Luxe' luxury leather range with its own product-led TV advertising campaign. In the second half we introduced our new partnership with 'Grand Designs' for a new range of sofas combining design integrity and a sustainability ethos. We've also expanded our bed offer, featuring exclusive ranges from our brand partners Joules and French Connection, as we target incremental growth from this sizeable market opportunity. Finally, reflecting DFS's status as Team GB's official Olympics homeware partner, we launched the new limited edition Yuttari range to both honour and help provide relaxation for our elite Team GB athletes on their journey to Tokyo.

We're constantly seeking to improve our customer proposition and develop new innovative services to engage customers. Consistent surges in demand as we reopened our showrooms following various national government lockdowns highlight just how much customers appreciate our well-invested showrooms. We believe the combination of digital and physical is the right long-term approach to address consumers within the sofa market.

We continued to invest in showrooms in the year, scheduling works during lockdowns where possible to minimise disruption on trading. We are undertaking a programme to update our showrooms, which includes space optimisation of Dwell and former Sofa Workshop space, relocation of the administrative area, and an improved layout for customers. These changes typically result in a significant increase in upholstery bays boosting productivity. In FY21 we completed 16 refurbishments and plan an additional 16 in the current year. Our online appointment booking service remains popular with customers and we continue to evaluate our live 'video in store' proposition.

Customer service helps drive our brand reputation and therefore remains a key area of focus, particularly given the twin challenges of the pandemic and supply chain disruption. I highly value our customer service, delivery and repair teams who continue to work incredibly hard on behalf of our customers. We track customer satisfaction by monitoring Net Promoter Scores ("NPS") at various stages of the customer journey. Our post purchase NPS score for the DFS brand remains around its all-time high at 86.4% (FY20 85.7%). In contrast, our established customer satisfaction score declined year-on-year to 30.7% (FY20 42.1%), reflecting the volatile supply chain environment. Based on a survey sent to customers four months after delivery, this June figure captures those customers most impacted by delivery delays caused by disruption to shipping as a result of Covid-19 and raw material supply. We are working very hard to mitigate these factors outside our control and are in the process of centralising our customer service activities to deliver improved service levels from a more efficient and flexible Group-wide platform.

While we've achieved significant progress in the year, we are only two years into our strategy and seeing no shortage of opportunities to extend the market leadership of our core DFS brand.

BUILD THE PLATFORMS

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

In recent results presentations we've highlighted the attractive characteristics of platform-led retailers, which include greater commercial, operational and technical resilience, delivery of valuable customer data and insights and increased scale and reach.

In FY21 our focus was on achieving ongoing cost savings and efficiency targets across our showroom property estate, driving a range of marketing efficiency improvements, and continuing our plans to develop the best two-man sofa delivery company in the UK.

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report continued

We continue to make good progress securing property savings, through a combination of rent reductions on leases approaching renewal and downsizing some showrooms. Last year we secured a further £1.3m of annualised savings, bringing the total annualised saving since the program began to £5.6m. We are confident of achieving the £6-8m targeted annual savings by FY23 as previously communicated. We expect to achieve further savings in the medium term as leases expire beyond FY23.

Turning to logistics, we have delivered another year of progress in our objective of building a leading Group-wide logistics platform, The Sofa Delivery Company. Our aim is to improve efficiency, including improved customer service and a more flexible working environment for colleagues whilst also reducing the Group's environmental impact.

Our development plans are on track as we target annualised savings of at least £3m from the end of the current financial year. We are currently integrating our logistics IT systems across the Group, a key enabler for multi-brand order fulfilment, and will complete roll-out of our delivery vehicle routing and inventory management systems across all vehicles in the re-branded fleet by the end of FY22.

Following the completion of our colleague consultation process and the creation of an independent logistics subsidiary, the Sofa Delivery Company is now able to offer Group-wide extended hours delivery to customers seven days a week, increasingly important given customers' busy lifestyles.

Our ongoing marketing transformation programme continues to move ahead at pace. Alongside our focus on data and insights to drive our omnichannel marketing investment, we have recently reviewed our DFS retail brand activities which has resulted in the appointment of a new communications agency, to help support and drive the next phase in our DFS retail brand marketing. Additionally, we are currently reviewing our marketing production and automation capabilities in an effort to secure further efficiencies across our key customer communications channels. Finally, we are leveraging our marketing capabilities across the group, enabling our Sofology marketing colleagues to adopt and adapt our Group econometric modelling platform to help inform their marketing and channel mix investment strategy.

UNLOCK NEW GROWTH

Our third strategic pillar is to 'Unlock New Growth' from commercial initiatives beyond our core DFS brand. Our main priority in the last financial year has been to accelerate the roll-out of the Sofology showroom estate to support its development into a leading nationwide sofa retail brand. This pillar also covers growth opportunities derived from our Dwell homewares brand and our overseas showrooms in Spain and the Netherlands.

SOFOLOGY

We are making good progress in our plans to develop our Sofology brand into a nationwide business. Despite headwinds of shipping delays and foam disruption, Sofology delivered sales and brand contribution[1] growth of c.4% and 20% respectively compared with the pro-forma FY19 pre-pandemic year.

Following a pause in planned openings in FY20 as we assessed the impact of the pandemic on the property market, we opened five showrooms in FY21, with new outlets in Hove, Stockport, Swindon, Cambridge and Maidstone, to give a total of 50 UK showrooms. In the current year we anticipate opening a further eight showrooms.

Sofology has a reputation for fun, style and sustainability, and we're committed to retaining the brand's aspirational appeal in a Group context. Following on from our successful Owen Wilson campaign, Sofology's latest advertising sees Helena Bonham Carter encouraging customers to 'bring imagination to life' in the way they make their homes.

New product launches in the year included the Pioneer 'eco' sofa in the first half, featuring zero foam, 100% recyclable springs, sustainably sourced timber, fabric made from recycled yarns plus a 20-year guarantee. Just before the year end, Sofology introduced 'Loop', a flexible, sustainable upholstery rental service, whereby customers can select a stylish, fully recyclable sofa on a 6-18 month rental plan with options to renew as required. At the end of the customer agreement, each part of the sofa can be repurposed or recycled, ensuring nothing goes to landfill. We have also recently introduced three exclusive sofa ranges from the Paloma Faith Home range, including the aptly named Rock N Roll model.

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%.

DWELL AND INTERNATIONAL

As detailed in last year's results, we restructured Dwell's operations to enable its wide range of attractive products to be sold more seamlessly to DFS customers, as well as online.

Dwell's integration into the DFS brand operating structure resulted in the elimination of the operating losses incurred in the previous year and a more efficient real estate footprint as we integrated Dwell's offer into the DFS showrooms and progressed the closure of Dwell's remaining standalone retail outlets. Dwell's sourcing expertise and supplier relationships are also contributing to the development of DFS's extended homeware offer.

With a total addressable market of c.£5bn, we see the beds and non-upholstery living room market as a particularly attractive growth opportunity for the Group. We are able to leverage many of the Group's assets, including manufacturing capability for upholstered furniture, web and logistics platforms, marketing expertise and brand partnerships to develop a truly compelling bedroom offering. Sales of beds through our online channels were particularly strong in the year and we continue to develop our showroom proposition in selected key locations.

We continue to review our growth options for our international business, which includes six showrooms in the Netherlands and two in Spain.

INVESTOR EVENT

Reflecting upon the operational volumes currently in the business and our focus on looking after our customers and colleagues to drive long-term value creation, the Group has decided to defer the investor event planned for November 2021 until Spring 2022. This event will provide investors with a detailed update on the development of our various platforms alongside an opportunity to view the latest evolution of our DFS and Sofology growth strategies. We also look forward to providing more details on our manufacturing investment, as well as our plans to grow our sales of living room furniture and beds.

1. Refer to pages 33 to 35 for APM definitions.

Chief Executive's report continued

ESG

We remain guided by our Group purpose, which is to bring great design and comfort into every living room, in an affordable, responsible and sustainable manner. FY21 has been a year of progress on a range of fronts for our key stakeholders, as detailed below.

Whilst the achievement of our record financial results is undoubtedly a highlight, this performance would not have been possible without the strength, resilience and spirit of our people. The Group has a unique culture underpinned by our core 'family' values of 'Think Customer', 'Aim High' and 'Be Real'. Rising to challenges at work and at home, our colleagues have enabled the Group to emerge from the pandemic much stronger than when we entered. On behalf of the management team and the Board, I would like to thank all our colleagues for their sterling efforts in the year.

We launched our ESG strategy in September 2020, with a strong focus on the Environment based on our "Sofa Cycle" approach and have made solid progress against our Phase 1 targets in the last 12 months. One of the highlights of the financial year was our first ESG Supplier Conference in March, which is available on our Group corporate website. As well as featuring contributions from 'thought leaders' such as CDP Co-Founder and environmental expert James Cameron, the Conference set out our intent to work with our suppliers to innovate and develop new ways of making our products and our business even more sustainable and transparent. In June 2021, the Group undertook a formal materiality assessment, supported by a third party expert, in order to identify and prioritise all of the Group's sustainability risks and opportunities.

Given ESG is a rapidly advancing subject, with increasing Board time dedicated to it, the Group has established a Responsible and Sustainable Business Board Sub-Committee, which will meet at least three times per year. Responsibility Champions have been appointed at all levels of the business, ESG Working Groups established for each brand and external expert partners are in place to support us. We have recently introduced our Phase 2 ESG targets, which include an increased focus on Social criteria and incorporate our work on diversity and inclusion.

ENVIRONMENTAL

Sustainability is a key element of our business model, and having launched our ESG Strategy in September 2020, we've come a long way in a short amount of time and are excited about the opportunities ahead. With the Group's 'Sofa Cycle' based on the circular economy concept, sustainability is increasingly embedded across the Group.

A key focus in FY21 was on our finished products and the resources used in manufacturing them. We have driven positive change, particularly in relation to the sustainable sourcing of some key materials in our sofas. Phase 2 targets expand our focus to cover textiles and material certifications.

SOCIAL

The wellbeing of our colleagues has remained a top priority during the last financial year. We continued to follow various government rules and regulations in our various markets during the period and regularly reminded our employees to observe our five Covid-19 'Golden Rules' to keep colleagues and customers safe. As we anticipate a hopeful return to more 'normal' lives, we've been surveying all our employees on their ideal working conditions as well as providing extensive wellbeing support. During the summer we've also been refurbishing our Group Support Centre and Sofology head office in preparation for a more flexible hybrid working approach.

Our 'Be Real' core value is about accepting each other for who we are and respecting each other as part of one big family. Embracing diversity and inclusion is therefore a key focus for the Group. We've been listening, learning and educating ourselves about different races, genders, abilities, sexual orientations, religions and nationalities, with the aim of being a Group where "everyone is welcome." For example, in the second half of FY21 we celebrated the range of international languages spoken across the Group, International Women's Day and Pride month. With our 'Everyone Welcome' ambition in focus, I'd like to issue a warm welcome to our newly appointed Non-Executive Director, Loraine Martins OBE, FRSA. Loraine brings tremendous experience of supporting employers to develop equality, diversity and inclusion in the workplace.

GOVERNANCE

The Group continues to be rated highly by external assessors for the strength of its governance, maintaining 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.

CURRENT TRADING

As detailed in our year end trading statement, strong customer demand in the final quarter of FY21 was already expected to underpin revenues and profits in the first half of FY22. Order intake has also remained strong in the current financial year to date, well ahead of our previous scenario of +7% growth on FY19, resulting in an order bank that continues to grow and which in absolute terms is very significantly ahead of normal levels. This order intake provides significant resilience, and confidence in our outlook. However the constraining factor on our reported short-term financial performance will be our pace of conversion of the order bank which depends on both our supplier partner manufacturing capacity and also the capacity of our proprietary logistics operations. We believe the Group is well placed to achieve the medium scenario of our range of FY22 profit outcomes identified back in June.

We already have increased output capacity significantly in FY21. We continue to strengthen our operations, increasing warehouse capacity and resourcing levels, to meet customer demand. Notwithstanding this, it should be recognised that the short-term operational environment continues to be exceptionally uncertain and difficult, given well-reported logistics disruption, cost inflation pressures and unplanned Covid-19 absences.

We believe that we have the right plans in place to mitigate these impacts, underpinned by our scale, operating experience and long-standing relationships, and we are focused on delivering good customer service, protecting our colleagues and creating long-term value.

CONCLUSION AND OUTLOOK

Our record profits delivery in the last financial year is a fitting tribute to all the hard work of our colleagues and testament to the resilience and flexibility of our integrated business model. Despite numerous operational challenges during the pandemic I'm proud that we have remained focused on our strategic agenda to lead sofa retailing in the digital age and are on track to achieve the incremental £40m of profit benefits set out in 2018. We also see further growth opportunities into the medium-term derived from extending the reach of our retail brands and optimising our operating platforms.

As we enter a new financial year, the Group is very well positioned to build on its market leadership position in sofa retailing and to target further growth as we invest to strengthen our business platforms and extend our retail proposition into adjacent product categories.

We emerge from the pandemic stronger than ever. This strength is underpinned by our fantastic teams who have worked with dedication, care and enthusiasm despite the many and varied challenges we have faced. I want to personally thank every single colleague for their unwavering support and look forward with huge optimism, fuelled by the position the business is now in and most importantly the spirit, commitment and loyalty of our people.

Tim Stacey

Chief Executive Officer
23 September 2021

Market overview

We are the leading sofa retailer in the digital age

→ Our integrated retail business model enabled us to achieve further market share gains as the market recovered strongly year-on-year.

Large potential customer base
The DFS Group has a specialist focus on the retail upholstered furniture segment. According to GlobalData, the UK upholstery furniture market value is estimated to be c.£3.4bn (incl. VAT) in calendar 2021, a significant increase on the previous year's pandemic-distorted £2.8bn. Using proprietary market data developed with Barclaycard, we estimate that our sofa market share increased by at least two percentage points in our last financial year, due to the performance of our online channels and also the exit of several competitors. Reflecting the growing strength of our Group-wide integrated retail platform, we have identified a clear opportunity to extend our offering into the beds and non-upholstery living room furniture market increasing our Total Addressable Market ("TAM") by approximately £5bn.

Clear leader in the segment
The Group, through its DFS, Sofology and Dwell brands, is the clear leader in the upholstered furniture market, and accounts for over a third of the market by value – approximately three times the size of our nearest competitor. 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. Physical store closures, as part of government measures to contain the spread of Covid-19, boosted revenue of our online platforms in the period.

However, very strong demand in our showrooms upon reopening illustrates that the majority of customers still prefer to visit physical outlets or shop a combination of stores and online. 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.

Steady growth over long-term periods
While the Covid-19 pandemic has led to unprecedented volatility in the last 18 months, the sofa market generally sees steady 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.

UK UPHOLSTERED FURNITURE MARKET

£3.4bn*

* GlobalData calendar 2021 estimate.

Market overview continued

Conditions in our core market have improved significantly compared with the previous financial year. Government actions to support employment and the housing market have benefited consumer confidence, and reduced discretionary spending on travel and leisure has led to a shift towards home-related categories.

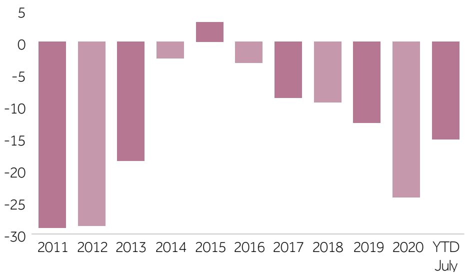
KEY MARKET DRIVERS

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 spring 2020, consumer confidence fell to near record lows due to economic and financial uncertainty around the pandemic. The measure has since recovered steadily to pre-pandemic levels, due to a combination of government economic stimulus, progress in the management of the pandemic and reduced Brexit uncertainty.

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. Transactions have recovered strongly since July 2020 as a result of temporary government measures to reduce stamp duty payable on residential property purchases. As at June 2021 year-to-date UK housing transactions are almost double those of 2020.

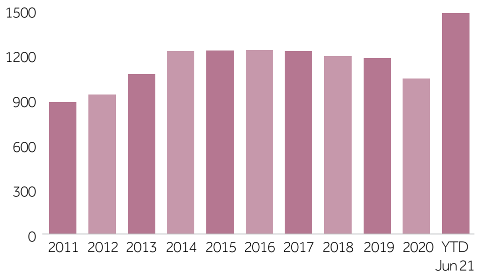
Consumer credit
Upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling. Consumer credit growth has slowed since the EU referendum, reflecting increased economic and political uncertainty. Since the beginning of the pandemic, UK consumers have been reducing debt, as government restrictions have reduced options for discretionary spending e.g. foreign travel and leisure. Certain sectors of the economy have benefited, however, with consumers spending relatively more on home improvements, including furniture and DIY.

Consumer confidence[1]



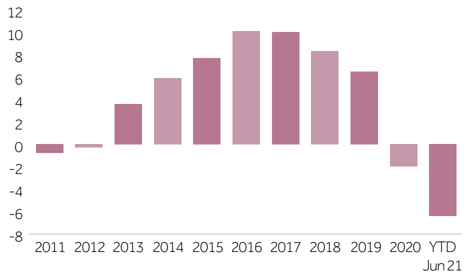
1. GfK UK Consumer Confidence average of individual scores for each year.

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.

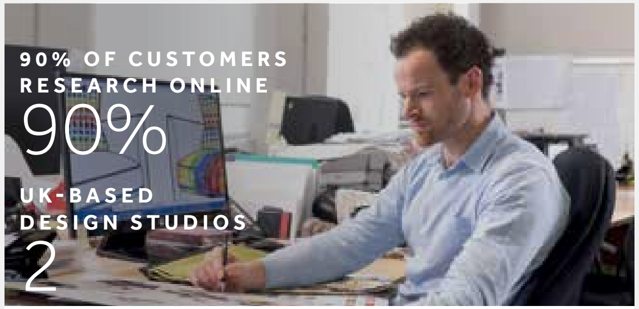
Net unsecured lending growth[3] (%)



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 Service

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

5 Innovative delivery options

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.

6 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 scale
We have a UK Group market share over three times that of our nearest competitor. As a standalone business, we estimate our online channel would be the fourth largest sofa retailer in the UK.

Complementary brands
Our complementary brands appeal to different customer segments.

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

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

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

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

WHAT WE DO

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

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

Manufacture
We manufacture around 20% of the Group's sofa orders in our own British factories, resulting in shorter lead times, superior quality control and greater oversight on sustainability.

Deliver and install
Our delivery network operates from customer distribution centres spread across the UK and Ireland using custom-built route-mapping technology to reduce lead times, 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
86.4%
DFS post purchase NPS

EMPLOYEES
40%
employees > five years' service

SUPPLIERS
36%
customer orders from British factories[1]

SHAREHOLDERS
£135m
cash distributed since flotation

COMMUNITY
£5.5m
raised since 2013 for BBC Children in Need through customer donations and fundraising initiatives

1. Includes third party manufacturing and internal manufacturing

Our strategy

Our strategy for growth

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

Our strategy continued

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

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

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 24 for more detail.

1 DRIVE DFS CORE

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

Omnichannel
Develop seamless customer journey across channels.

Focus for 2021/22
- Continue investment to create integrated customer journey
- Enhancements to our website to further optimise conversion

Product innovation
Enhance our unique and differentiated product offer.

Focus for 2021/22
- Further development of brand partnerships to attract new customers driving average order value and conversion
- Introduction of new supply partnerships to enhance breadth of offer

Customer proposition and service innovation
New services to engage customers.

Focus for 2021/22
- Continue investment in our showrooms' offer
- Embed the new centralised customer contact centre

2 BUILD THE PLATFORMS

Build platforms to enable profitable Group growth

Cost efficiency & property cost reduction
Reduce our relative cost base.

Focus for 2021/22
- Continue progress towards £6-8m annualised property cost savings by FY23

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

Focus for 2021/22
- Complete Group-wide The Sofa Delivery Company integration project to deliver £3+ savings for FY23
- Integrate new consolidation centre into Group logistics network

Marketing investment
Data and insight driven efficiency and effectiveness across the Group.

Focus for 2021/22
- Continued focus on channel mix optimisation, with increasing emphasis and investment in digital
- Early exploration regarding adoption of marketing automation platform to help drive further efficiency & effectiveness

3 UNLOCK NEW GROWTH

Unlock and deliver new profitable growth

Sofology
Develop a nationwide business.

Focus for 2021/22
- Opening eight new showrooms in key locations to reach 58 showrooms, on way to 65-70 target

Dwell
Strengthen the brand through digital and right space.

Focus for 2021/22
- Optimise sales through targeted marketing and newly re-platformed website
- Leverage infrastructure to expand other Group brands' offer into adjacent markets

International: Netherlands
Break-even and beyond on current model.

Focus for 2021/22
- Continue to optimise the existing showroom estate

Strategy in action

01

Drive DFS core

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

Recent investments in our digital infrastructure have proved invaluable during the pandemic but consistent surges in demand as our outlets reopened after lockdown highlight how much customers appreciate our well-invested showrooms to consult with our experienced colleagues, view the products with their own eyes, and perform the all-important sit-test.

We believe the combination of physical and digital in our integrated retail model is the best long-term approach to serve the sofa market.

The first pillar of our strategy is to 'drive the core' DFS brand across all our retail channels, through continuous investment in our seamless customer journey, product innovation and service proposition. The DFS brand is the largest and most profitable in the Group so consistent incremental gains can have a big impact on overall Group profitability.

Our record-breaking profit performance in the last financial year was a testament to our omnichannel approach. Investment in our integrated retail business model over the last few years enabled the brand to perform strongly online during periods when our showrooms were closed due to government restrictions, but equally, our showrooms were able to capture significant levels of pent-up demand once they were allowed to open. This consistent pattern of remarkable demand surges after all three UK Covid-19 lockdown periods highlights beyond any doubt that most customers love to test their sofas 'for real' before committing to a purchase. This is a big reason why we believe our well-invested, integrated retail business model differentiates us from the competition, allowing us to meet fast-changing consumer shopping habits, positioning us well for the future.

We are continuing to invest in our DFS brand showroom estate which occupies 126 predominantly prime retail locations in the UK and Europe. Our latest format relocates the central administrative area to a smaller-footprint, lower traffic area and consolidates former sub-brand space into one large open unit, improving the customer experience and increasing the number of sofa display bays from around 55 to around 70. The extra space allows us to showcase more of our innovative new product ranges including Grand Designs and Halo Luxe.

Our integrated retail infrastructure has allowed us to operate with greater agility during the pandemic. In FY21, rather than placing showroom colleagues on furlough during lockdown we chose to engage them in online customer support roles to provide specific product advice and detail on deliveries.

So after an extraordinary year, supported by the relentless commitment of our DFS colleagues, we believe that the brand is in better shape than ever to deliver further profitable market share growth into the medium-term.

Strategy in action continued

02

Build the platforms

Build platforms to enable profitable Group growth

The Sofa Delivery Company aims to 'deliver moments that matter' for our customers. Our Group-wide logistics platform is one of several key components of our Group infrastructure which support our retail brands and target a range of efficiency improvements including customer service enhancements, flexible working conditions for colleagues, cost savings and environmental impact reductions.

Our second strategic pillar is to 'build the platforms' in order to enable profitable growth across our retail brands and support future growth initiatives. The term 'platforms' covers a wide range of assets that support our retail activities, including our property portfolio, supply chain capability, marketing expertise and manufacturing infrastructure. Platform benefits include greater commercial, operational & technical resilience, delivery of valuable customer data & insights and increased scale and reach. In the last financial year our focus was on achieving ongoing cost savings and efficiency targets across our showroom estate, driving a range of marketing efficiency improvements, and continuing our plans to develop the most efficient two-man sofa delivery company in the UK.

We focus here on our progress towards our objective of building a leading Group-wide supply chain platform, The Sofa Delivery Company. Our current year roll-out plans are on track as we work towards achieving annualised savings of at least £3m by the end of financial year FY22. Our aim is to offer improved customer service and a more flexible working environment for colleagues, whilst also reducing the Group's environmental impact. A priority in the year was the completion of a range of IT projects that allow The Sofa Delivery Company to track and deliver customer orders as efficiently as possible for all our different retail brands. We've also been busy rolling out our unique branding and vehicle livery across our 30 customer delivery centres.

At the heart of the project is a desire to do the best for our colleagues and customers. The Sofa Delivery Company operates a '4 days on, 4 days off' work scheduling model aimed at providing an attractive work-life balance for our drivers. In a competitive market for large vehicle drivers, the Group is committed to being an attractive employer in the logistics industry, offering competitive rewards and attractive working conditions. This arrangement enables the Group to offer extended hours delivery to our customers seven days a week, virtually all year round, increasingly important given customers' busy lifestyles.

The Sofa Delivery Company also plays an important role in achieving the Group's environmental targets. Using advanced systems to provide delivery across all the Group's brands allows us to optimise delivery routes, minimise miles driven and put fewer vehicles on the road. As the most frequent visitors to customers' homes, our delivery colleagues are also at the forefront of our waste and recycling efforts in relation to unwanted sofas and packaging materials.

While The Sofa Delivery Company is well on track to achieving its project goals in the next year to 18 months, our 'build the platforms' strategy has much further to run as we target a range of improvements, including medium-term plans to increase our manufacturing efficiency.

Strategy in action continued

03

Unlock new growth

Unlock and deliver new profitable growth

With revenue of £214.6m and a brand contribution[1] of £57.2m in the last financial year, Sofology is well on its way to justifying its acquisition. We still see plenty of potential growth however, as we develop the brand into a national chain, seize new product development opportunities and integrate the business into our group-wide platforms.

Our third strategic pillar is to 'unlock new growth' from commercial initiatives beyond our core DFS brand. Our main priority in the last financial year has been to accelerate the roll-out of the Sofology showroom estate to support its development into a successful nationwide sofa retail brand. Alongside this we're broadening the reach of our Dwell homeware brand through digital, wholesale and retail space optimisation initiatives.

Finally, we continue to evaluate medium-term options for the development of our small international DFS brand business.

Sofology was set up in north-west England and is well established in the north but we see an attractive opportunity to expand its presence on some of the more successful retail parks in the south of England. Following a pause in openings in FY20 as we assessed the impact of the pandemic on the property market, we opened five showrooms in FY21, including new outlets in Hove, Cambridge and Maidstone, to give a total of 50 UK showrooms. In the current year we anticipate opening a further eight showrooms, taking us well towards our medium-term target.

Sofology has a reputation for style and sustainability and we're committed to retaining the brand's unique and inspiring personality in a Group context. Following on from our successful Owen Wilson campaign, Sofology's latest campaign sees Helena Bonham Carter encouraging customers to 'bring imagination to life' in the way they make their homes. A wide range of new product initiatives, including our Loop flexible, sustainable sofa rental model and our recently launched Paloma Faith Home sofas continue to capture customers' attention.

Sofology's profitability will benefit from greater integration into our Group platforms. Key initiatives in the year included Sofology's integration into The Sofa Delivery Company logistics platform and targeted efficiencies in Group-wide shared services.

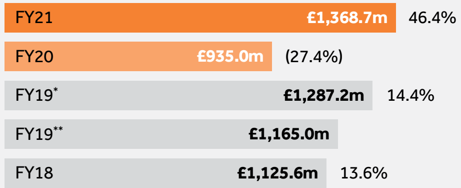
While FY21 was a stellar year for Sofology, we see further growth to come as we work through our record customer order bank and open more new showrooms. We continue to see the opportunity to grow the Sofology brand to 65-70 outlets in the medium-term, targeting revenue of c.£300m at a pre-tax profit margin of 5-7%.

1. Refer to pages 33 to 35 for APM definitions.

Key performance indicators – Financial

Gross Sales

£1,368.7m



Description

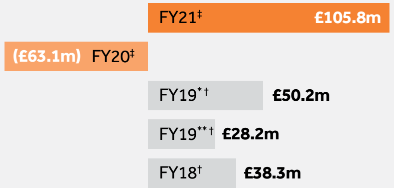
Gross sales represents the total amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Performance

Increase in sales as a result of market share gains, a shift in consumer spending to the home and delivering to customers throughout the period (note FY20 impacted by a pause in deliveries for the majority of the final quarter to comply with Covid-19 restrictions).

Underlying profit/(loss) before tax excluding brand amortisation

£105.8m



Description

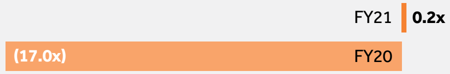
Profit before tax adjusted for non-underlying items and amortisation associated with acquired brands.

Performance

Increase driven by the higher gross sales.

Leverage

0.2x



Description

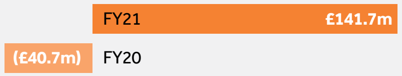
The ratio of period end net bank debt to cash EBITDA for the previous twelve months.

Performance

Increase driven by reduced net bank debt and positive cash EBITDA (negative cash EBITDA in FY20).

Underlying free cash flow to equity holders

£141.7m



Description

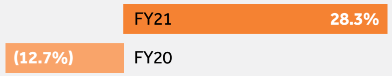
Underlying free cash flow to equity holders is the change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.

Performance

Increase driven by the higher underlying profit and a working capital inflow as a result of increased trading levels.

Underlying return on capital employed

28.3%



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.

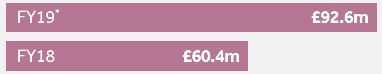
Performance

Increase driven by the underlying profit in the period (FY20 loss) and a lower level of capital employed.

FY18 AND FY19 HISTORICAL KPIs (PRE IMPLEMENTATION OF IFRS16)

The Group implemented IFRS16 in FY20 and after a year of transition 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



Gearing

Lease adjusted ROCE

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.

1. Refer to pages 33 to 35 for APM definitions.

Key performance indicators – Non-financial

Net Promoter Score (%) – Post purchase customer satisfaction

86.4%

FY21	86.4%
FY20	85.7%
FY19	84.2%
FY18	84.9%

Description

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

Performance

Small year on year increase in very strong overall level.

Suppliers – Avg days to pay

30.6 days

FY21	30.6
FY20	27.7

Description

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

Performance

The small increase reflects the changing mix of suppliers and associated payment terms.

Sofology UK stores

50

FY21	50
FY20	45
FY19	42
FY18	41

Description

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

Performance

5 additional stores opened in FY21 (Cambridge, Maidstone, Hove, Stockport, Swindon).

Net Promoter Score (%) – Established customer satisfaction

30.7%

FY21	30.7%
FY20	42.9%
FY19	33.0%
FY18	35.8%

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 as a result of Covid-19 and raw material supply.

Suppliers – % paid on time

71.8%

FY21	71.8%
FY20	59.0%

Description

Percentage of supplier invoices paid within agreed terms.

Performance

Recovery from covid-impacted final quarter of FY20.

Financial review

We continue to operate in a market with high levels of demand, and are trading well and generating strong cash flows.

IN BRIEF

- Record revenues and profits achieved in challenging conditions
- Strong cash flows have significantly reduced leverage
- Well positioned for FY22 and high levels of demand continue
- Proposal to recommence dividends

"The Group is in a strong position having gained market share, holding a significant order bank and having strengthened our balance sheet. Whilst the operating environment will likely remain challenging, we are confident in our ability to deliver our strategy, achieve our previously disclosed ambition to sustainably grow our profits and thereby provide strong returns to our shareholders."

MIKE SCHMIDT
CHIEF FINANCIAL OFFICER

Financial review continued

OVERVIEW

The Group has achieved record levels of revenues, profit and cash flow in FY21 which has significantly strengthened our financial position across the course of the year. With market share gains made through the year, a high opening order bank, strong demand experienced to date in FY22 and good strategic progress we have a positive outlook, despite the potentially challenging and changeable, Covid-impacted operating environment.

The strong financial performance in the FY21 year was driven by a number of factors:

Firstly, we started the year with a high order book that enabled us to manufacture and deliver orders at a relatively high and consistent level to our customers through the summer and autumn. The size of the order book has also strengthened our cash position, with customers typically placing a cash deposit with us at the time of order.

Secondly, there were elevated levels of consumer demand throughout the year driven by market share gains and a sustained increase in consumer interest in spending in home categories, reflecting both growth in remote working and also reduced leisure and travel spend. Our investment in our integrated retail model positioned us well to capture this demand during lockdown periods as well as when restrictions eased.

Thirdly, as our various sales channels utilise the same fulfillment operations we were able to keep our internal manufacturing, external finished goods suppliers and our final mile logistics operations working efficiently through the majority of the year. This enabled us to maintain elevated levels of customer deliveries whilst keeping our cost base well controlled.

While we incurred additional costs given the disruption of up to 21 weeks of showroom closures in the year, increased colleague sickness levels and the introduction of self-isolation and operating costs to support necessary changes to working and retail environments, these costs were offset through the suspension of UK retail business rates. Given the growth in profits due to our trading performance we therefore chose not to draw upon either the Coronavirus Job Retention Scheme or other Covid-19 support grants in FY21 (prior year details are presented in note 3 to the financial statements).

Our revenue growth in FY21 was however constrained by sector-wide pressures on supply chains from raw materials availability, container shipping delays (including the effects of disruption in the Suez Canal) and Covid-19 disruption of factory production, particularly in the final quarter of the year. Consequently, the high demand experienced in the second half and in the new financial year to date has resulted in an order bank at the end of the year even greater than the elevated order bank that we started with, providing resilience for FY22.

Our made to order model has enabled us to deliver revenue growth without investing in stock and our negative working capital model and strong profitability has enabled us to significantly de-lever. Having fully repaid the HMRC VAT liabilities that were deferred from the previous financial year, net bank debt[1] reduced by £138.7m over the year to £19.0m and our reported leverage[1] was 0.2x. This position does reflect a transitory working capital benefit of £70m which will reverse over time as the order book normalises (and related customer deposits held reduce) and landlord payments agreed to be deferred from FY20 are fully repaid.

In December 2020 we entered into a new three-year agreement, with two one year extension options for a £225m senior revolving credit facility with our existing syndicate of seven banks all continuing their involvement, but at different proportional levels of participation. In order to align our financing with our ESG sustainability ambitions we agreed to have the option to link the interest rate to the achievement of sustainability related targets. I'm pleased to confirm that we have now done this with targets covering sustainable sourcing practices for wood and leather, greenhouse gas emissions and diversity in our workforce.

Given our current financial position, confidence in our enhanced market leading position and anticipated future cash generation the Board are recommending to shareholders that dividends are restarted with a final FY21 dividend of 7.5p per share.

In what has obviously been challenging conditions for our teams to work in given the pandemic, compounded by unprecedented levels of demand to fulfil throughout our operations I'd like to take this opportunity to thank our colleagues for their effort and perseverance in helping us achieve this record financial performance.

BASIS OF PREPARATION

Following the reorganisation of our Dwell business over the summer 2020 period we have this year presented the Dwell and DFS brand segments as one segment to reflect how these brands are now managed.

As communicated in our FY20 annual report, we sold the Sofa Workshop business in September 2020. In order to aid comparison of continuing operating segments, the table below includes a subtotal excluding Sofa Workshop.

Brand contribution[1], which is reported before property or administrative expenses, remains our preferred measure of segment profitability.

As FY20 was significantly impacted by Covid-19 related government guidance preventing us from delivering orders (and therefore recognising revenue) we have 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, revenue, gross margin and brand contribution that follows focuses on comparing the results for this financial year to the pro-forma FY19 period.

* 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 35 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.

1. Refer to pages 33 to 35 for APM definitions.

Financial review continued

Audited 52 weeks ended 27 June 2021 – IFRS 16

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**1,093.2**	**269.2**	**1,362.4**	**6.3**	**1,368.7**	**–**	**1,368.7**
Revenue	**848.0**	**214.6**	**1,062.6**	**5.1**	**1,067.7**	**–**	**1,067.7**
Cost of Sales	(363.4)	(101.8)	(465.2)	(1.3)	(466.5)	–	(466.5)
Gross Profit	**484.6**	**112.8**	**597.4**	**3.8**	**601.2**	**–**	**601.2**
Selling & Distribution costs	(244.4)	(55.6)	(300.0)	(0.5)	(300.5)	–	(300.5)
Brand Contribution	**240.2**	**57.2**	**297.4**	**3.3**	**300.7**	**–**	**300.7**
Property Costs					(2.9)	–	(2.9)
Administrative Expenses					(75.2)	(2.1)	(77.3)
EBITDA[1]					**222.6**	**(2.1)**	**220.5**
Depreciation, amortisation and impairments excluding brand amortisation					(83.9)	–	(83.9)
Operating Profit					**138.7**	**(2.1)**	**136.6**
Interest					(32.9)	(3.1)	(36.0)
PBT pre brand amortisation[1]					**105.8**	**(5.2)**	**100.6**
Brand amortisation					(1.4)	–	(1.4)
PBT					**104.4**	**(5.2)**	**99.2**

Audited 52 weeks ended 28 June 2020 – IFRS 16

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**735.3**	**181.7**	**917.0**	**18.0**	**935.0**	**–**	**935.0**
Revenue	**566.5**	**143.7**	**710.2**	**14.3**	**724.5**	**–**	**724.5**
Cost of Sales	(227.5)	(72.3)	(299.8)	(7.6)	(307.4)	(3.1)	(310.5)
Gross Profit	**339.0**	**71.4**	**410.4**	**6.7**	**417.1**	**(3.1)**	**414.0**
Selling & Distribution costs	(205.3)	(47.8)	(253.1)	(7.2)	(260.3)	(2.1)	(262.4)
Brand Contribution	**133.7**	**23.6**	**157.3**	**(0.5)**	**156.8**	**(5.2)**	**151.6**
Property Costs					(27.2)	–	(27.2)
Administrative Expenses					(67.7)	(0.2)	(67.9)
EBITDA[1]					**61.9**	**(5.4)**	**56.5**
Depreciation, amortisation and impairments excluding brand amortisation					(87.5)	(11.2)	(98.7)
Operating Profit					**(25.6)**	**(16.6)**	**(42.2)**
Interest					(37.5)	–	(37.5)
PBT pre brand amortisation[1]					**(63.1)**	**(16.6)**	**(79.7)**
Brand amortisation					(1.5)	–	(1.5)
PBT					**(64.6)**	**(16.6)**	**(81.2)**

1. Refer to pages 33 to 35 for APM definitions.

Financial review continued

Unaudited pro-forma 52 weeks ended 30 June 2019 – IAS 17

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**992.1**	**260.7**	**1,252.8**	**34.4**	**1,287.2**	**–**	**1,287.2**
Revenue	**762.6**	**205.9**	**968.5**	**27.7**	**996.2**	**–**	**996.2**
Cost of Sales	(306.6)	(101.5)	(408.1)	(13.5)	(421.6)	–	(421.6)
Gross Profit	**456.0**	**104.4**	**560.4**	**14.2**	**574.6**	**–**	**574.6**
Selling & Distribution costs	(248.3)	(56.7)	(305.0)	(9.4)	(314.4)	–	(314.4)
Brand Contribution	**207.7**	**47.7**	**255.4**	**4.8**	**260.2**	**–**	**260.2**
Property Costs					(107.5)	–	(107.5)
Administrative Expenses					(62.5)	(5.1)	(67.6)
EBITDA[1]					**90.2**	**(5.1)**	**85.1**
Depreciation, amortisation and impairments excluding brand amortisation					(29.3)	–	(29.3)
Operating Profit					**60.9**	**(5.1)**	**55.8**
Interest					(10.7)	–	(10.7)
PBT pre brand amortisation[1]					**50.2**	**(5.1)**	**45.1**
Brand amortisation					(1.5)	–	(1.5)
PBT					**48.7**	**(5.1)**	**43.6**

1. Refer to pages 33 to 35 for APM definitions.

SALES AND REVENUE

Gross sales[1] increased 6.3% to £1,368.7m compared to the pro-forma FY19 period (up 8.7% excluding the disposed Sofa Workshop operation). The drivers of this growth and the consequent changes in revenues are as described in the overview section above. Both Sofology and DFS achieved high order intake growth significantly above gross sales[1] and revenue growth rates relative to the pro-forma FY19 period. However, the DFS brand was better able than Sofology to grow the rate of delivery of manufactured goods in the year, and given the strength of the dfs.co.uk online website traded particularly well in the lockdown period thereby achieving a 10.2% growth in delivered gross sales[1], with Sofology delivering 3.2% gross sales[1] growth. Given the current size of Sofology's order book and the growing use of Group manufacturing relationships, we expect strong delivered gross sales growth from Sofology in FY22.

Revenue, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products increased at a slightly higher rate than gross sales[1], up 7.2% (or 9.7% excluding Sofa Workshop) driven by a higher proportion of cash purchases resulting in lower interest free credit costs.

GROSS PROFIT

Gross profit increased 4.6% to £601.2m compared to the pro-forma FY19 period (up 6.6% excluding Sofa Workshop).

Gross profit as a percentage of revenue decreased from 57.7% in the pro-forma FY19 period to 56.3%. This was principally due to a mix effect with our internal manufacturing operation, which captures an incremental manufacturing cash margin and predominantly serves the DFS brand. Although operating at full capacity in the first half of the year, the overall greater sales volumes in FY21 meant that internal manufacturing represented a lower proportion of the total value of goods sold.

Financial review continued

This effect was exacerbated in the second half of the year due to some Covid-19 related disruption resulting in below-capacity production levels. Adjusting for this mix effect, despite facing raw materials and shipping cost inflation, underlying retail gross margin was broadly flat year-on-year due to growth in average order value. Sofology gross margin increased 1.9%pts from the pro-forma FY19 period to FY21, reflecting the brand had no internal manufacturing mix impact and also less of an increase in the web channel mix (which typically has a lower gross margin).

While we have already seen and anticipate further inflation in global shipping costs and raw materials, these factors are industry-wide and are not expected to cause a deterioration of sustainable gross profit margins.

We source around one quarter of the finished goods that we sell from the Far East, and we pay for these in US dollars. We continue to manage the risk from adverse US dollar exchange rate movements for our annual spend of c.$180m-$190m, by hedging our US dollar purchases to maintain 18 months cover by value. Our hedged rate for FY21 was 6 cents lower (adverse) than the rates secured for FY20 and pro-forma FY19 period. Our hedged rate for FY22 is 3 cents higher (favourable) to the average rate secured for FY21. Each one cent movement in the dollar to sterling exchange rate impacts profits by approximately £1m, however these impacts will be felt by all industry participants who we anticipate will act to protect profitability in the case of adverse rate movements and remain 'price competitive' in the case of favourable movements.

SELLING & DISTRIBUTION COSTS AND BRAND CONTRIBUTION[1]

Underlying[1] selling and distribution costs decreased by £13.9m compared to the pro-forma FY19 period. Excluding Sofa Workshop, the reduction in costs of £5.0m was driven by increased effectiveness in our marketing approach through improved targeting.

This was partially offset by the higher sales volumes driving the variable costs in our delivery network and wage commission models, and Covid-19 related costs such as PPE.

Underlying brand contribution[1] of £300.7m for the year represents an increase of £40.5m relative to the pro-forma FY19 period (an increase of £42.0m including Sofa Workshop) reflecting the higher revenues.

Due to the impact of preparing our pro-forma FY19 period under IAS 17 and subsequent periods under IFRS 16, we now compare the following costs in FY21 with those incurred in FY20.

PROPERTY COSTS AND ADMINISTRATIVE EXPENSES

Property costs represent business rates and a small amount of rental charges where we occupy premises on a 'hold-over' basis (where the lease has expired) or for short-term leases under a year long. Property costs decreased £24.3m year-on-year due to the suspension of UK business rates for the majority of our showroom estate for the full financial year and the final quarter of the previous financial year.

Underlying[1] administrative expenses of £75.2m increased by £7.5m year-on-year due to performance recognition payments across the business, investment to support our ongoing strategy, including better use of data to target marketing, and some Covid-19 related additional operating costs. As noted in our interim results, we also recognised a one-off increase in our payment protection insurance provision in connection with historical sales transactions.

DEPRECIATION, AMORTISATION AND INTEREST

Total depreciation and amortisation charges of £85.3m were £14.9m lower than FY20 predominantly due to non-underlying impairment charges recognised last year in connection with the disposal of Sofa Workshop.

Underlying[1] depreciation and amortisation charges (excluding brand amortisation) reduced by £3.6m year-on-year primarily due to lower IFRS 16 charges on our right of use property assets as a result of savings secured on existing leases and from the assignment of leases following the disposal of Sofa Workshop. These savings are partially offset by the impact of entering leases for new Sofology showrooms.

Underlying[1] interest charges decreased £4.6m year-on-year due to lower utilisation of our revolving credit facility and lower IFRS 16 interest charges. Total interest of £36.0m included £3.1m of non-underlying refinancing costs as noted below.

PROFIT BEFORE TAX

Underlying[1] PBT excluding brand amortisation[1] of £105.8m compares to a prior year loss, impacted by Covid, of £63.1m.

A total of £5.2m of non-underlying costs were incurred in FY21 in relation to the loss on disposal of Sofa Workshop (including legal fees and other related costs), costs associated with the refinancing of the Group's revolving credit facility and redundancy costs associated with a change to the DFS brand administration function. Non-underlying costs in FY20 totalled £16.6m in relation to the restructuring of Sofa Workshop and Dwell brand and goodwill, brand name and property right of use asset impairments.

Reported PBT of £99.2m was £180.4m higher than FY20, and more than double the £43.6m for the pro-forma FY19 period.

Compared to the pro-forma FY19 period the increase in underlying profit before brand amortisation[1] of £55.6m was driven by the same factors as explained above. With a similar amount of non-underlying costs incurred in FY19 the reported profit growth was also £55.6m.

NON-UNDERLYING ITEMS

FY20	£m	FY21	£m
Brand, goodwill, fixed asset and right of use asset impairments	(11.2)	Refinancing costs	(3.1)
Stock write-down to net realisable value	(3.1)	DFS admin team restructuring	(1.4)
Restructuring	(1.3)	Residual Sofa Workshop asset write-off and disposal costs	(0.7)
Total	**(16.6)**	**Total**	**(5.2)**

TAX

The reported effective tax rate for FY21 is 10.7%. This is lower than the applicable UK Corporation Tax rate of 19.0% and is primarily due to change in tax rate used to calculate the Group's deferred tax balances and also the utilisation of some brought forward tax losses associated with one of our trading subsidiaries which were previously not recognised.

EARNINGS PER SHARE

Basic earnings per share for the Group was 34.5 pence based on a weighted average number of shares in issue for the year of 257.1m (FY20 a loss of 31.4 pence per share).

CAPITAL EXPENDITURE, CASH FLOW AND BALANCE SHEET

A strong trading performance combined with our negative working capital cycle has resulted in high levels of operating cash flow being generated in the year. This has enabled us to continue to invest to deliver our strategy.

We incurred £49.2m of cash capital expenditure in the year. This included £12.7m expenditure on the freehold acquisition of one of our leased showrooms.

1. Refer to pages 33 to 35 for APM definitions.

Financial review continued

Although this transaction secures in perpetuity a strong retail location, this was an opportunistic financial transaction that provides a favourable average c.13% annual return on investment through no longer incurring £16.2m of already committed future lease payments over the next c. 9 years. We do not currently expect that similar opportunities will arise in our lease estate, albeit we remain willing to increase investment levels where strong risk-adjusted returns are available and we have appropriate financial resources to fund that investment.

Excluding this freehold acquisition the cash capital expenditure of £36.5m was £13.1m above the relatively low level incurred in the previous year when investments were held back to mitigate the cash flow impact of the temporary pause in our operations. The increase in spend was driven by investment in six new showrooms, six part completed showrooms, a significantly higher number of refurbishments (utilising the lockdown periods) as well as an increased level of investment in technology to drive both operational efficiency and continual improvements to our web proposition. In addition, £2.9m of assets (predominantly delivery vehicles and company cars) were acquired under lease arrangements (FY20 £5.3m).

We expect to invest approximately £35m in cash and approximately £10m of finance leased assets in FY22 with a potential additional £12-15m on new manufacturing investment spread across FY22 and FY23.

Net bank debt[1] reduced by £138.7m to £19.0m in the period and our leverage (measured as net bank debt/last twelve month operating cash flows before tax and excluding working capital movements, less lease payments) fell to 0.2x (FY20 was significantly negative due to the losses incurred). Our refinanced £225m 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.

As we have highlighted previously, the DFS business model benefits from negative working capital, with payments received from customers upon delivery or through deposits ahead of delivery overall, while our suppliers are paid to agreed terms. Working capital balances are seasonal depending on recent trading activity, cost seasonality (particularly in advertising spend) and predictable patterns of payments on rents, tax payments and other recurring charges. We carry limited inventory, and balances at year end have remained relatively stable overall. The closing net bank debt[1] position at June 2021 benefits from higher levels of customer deposits associated with the elevated order bank. As the order bank normalises to more seasonal levels (which will be dependent on when the elevated demand levels start to reduce), deferred rent payments from the previous year are made and having now finalised the deferred consideration due to the previous Sofology shareholders at £4.7m there will be a c.£70m working capital outflow.

The Group's return on capital employed[1] for the period of 28.3% was significantly higher than the pre Covid-19 pro-forma FY19 16.6% return (calculated on a lease adjusted basis from IAS17 prepared financials) and driven by the higher profit.

LOOKING FORWARD

In our June trading statement we provided three scenarios illustrating the potential range of profit for our FY22 year. The low and medium scenarios illustrated differing levels of order intake relative to the pro-forma FY19 period. The medium scenario assumed a step up in manufacturing and delivery capacity relative to the pro-forma FY19 period and a third scenario illustrated that additional profit could be driven by a further increase in capacity and not additional order intake growth.

Pleasingly, order intake performance to date has been ahead of the high case scenario and we continue to focus on increasing manufacturing output and delivery throughput across our supply chain. However, Covid-19 related absences have impacted our operations and some of our suppliers. Compounded by raw material and shipping related disruption which are impacting the whole sector, the lead times on our made to order products continue to be longer than normal and we currently believe that the medium case reflects the most likely profit outcome, and delivering on this does still require an increase in weekly deliveries from currently achieved levels.

The sector is experiencing cost inflation across a number of categories including raw materials and logistics costs and we are needing to over-invest in operating resources such as warehouse space and colleague resourcing in order to mitigate the unpredictability of the operating environment. The Group has a track record of maintaining gross margins in periods of inflation and differing foreign exchange rates and we are taking actions to offset the current cost pressures. We have updated the scenarios provided in the June trading statement to reflect the higher revenues, largely driven by higher average order values, with profits unchanged:

Scenario:	**Low**	**Medium**	**High**
Order intake vs FY19 (excl Sofa Workshop)	11%	15%	15%+
Revenue (£m)	1,133	1,180	1,205
Revenue growth vs FY19 (excl Sofa Workshop)	17%	22%	24%
PBT (£m)	66	85	96

Subject to no sudden and material decline in order intake we expect to remain operating with an elevated order bank at the end of the FY22 period and consequently the strong order intake experienced to date will support financial performance in FY23.

We continue to target achieving revenue growth above upholstery market rates from LFL market share gain and showroom rollout and also to grow revenues in other home related categories, particularly the sizeable UK beds market. With an intention to have opened more than 20 new showrooms since 2019, and having evidence of sustained market share gain and AOV growth, our outlook for FY23 and beyond is to sustain base revenues of at least £1.15bn and achieve 7%+ PBT margins, with 75-80% of PBT converted to cash.

DIVIDENDS

In light of our strong financial position, significantly reduced leverage and considering the strong cash flows we continue to generate, the Board proposes to recommence dividends with a final dividend for FY21 of 7.5 pence per share in line with historical levels (FY19 7.5 pence per share). 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.

SUMMARY

The Group is in a strong position having gained market share, holding a significant order bank and having strengthened our balance sheet. We continue to operate in a market with high levels of demand, and are trading well and generating strong cash flows. Whilst the operating environment will likely remain challenging with inflationary pressure, supply chain disruption and Covid-19 related colleague absences to manage we are confident in our ability to deliver our strategy, achieve our previously disclosed ambition to sustainably grow our profits and thereby provide strong returns to our shareholders.

Mike Schmidt

Chief Financial Officer
23 September 2021

1. Refer to pages 33 to 35 for APM definitions.

Alternative performance measures

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

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

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. 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.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA [1]	Earnings before interest, taxation, depreciation and amortisation	A commonly used profit measure.
Non-underlying items	Certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA [1]	Earnings before interest, taxation, depreciation and amortisation, as adjusted for non-underlying items	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation PBT(A)	Profit before tax 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 as adjusted for non-underlying items.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
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) [2]	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) [2]	Underlying post tax profit 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.

1. Following the adoption of IFRS 16, EBITDA/Underlying EBITDA are less useful as performance measures and accordingly are no longer presented as Key Performance Indicators or Financial Highlights.
2. Definition updated following the adoption of IFRS 16.

Alternative performance measures continued

RECONCILIATIONS TO IFRS MEASURES

EBITDA	Note	**FY21 £m**	FY20 £m
Operating profit/(loss)	2	**135.2**	(43.7)
Depreciation	3	**77.4**	81.9
Amortisation	3	**7.9**	6.8
Impairments	3	**–**	11.5
EBITDA		**220.5**	56.5

Underlying EBITDA	Note	**FY21 £m**	FY20 £m
EBITDA		**220.5**	56.5
Non-underlying operating items	3	**2.1**	5.4
Underlying EBITDA		**222.6**	61.9

Underlying profit before tax and brand amortisation – PBT(A)	Note	**FY21 £m**	FY20 £m
Profit/(loss) before tax	2	**99.2**	(81.2)
Non-underlying items	3, 5	**5.2**	16.6
Amortisation of brand names	10	**1.4**	1.5
Underlying profit/(loss) before tax and brand amortisation		**105.8**	(63.1)

Net bank debt	**FY21 £m**	FY20 £m
Interest bearing loans and borrowings	**23.1**	218.7
Unamortised issue costs	**1.9**	1.3
Cash and cash equivalents (Including bank overdraft)	**(6.0)**	(62.3)
Net bank debt	**19.0**	157.7

Leverage	**FY21 £m**	FY20 £m
Net bank debt (A)	**19.0**	157.7
Net cash from operating activities before tax	**307.2**	61.8
Less:		
Movement in trade and other receivables	**(4.6)**	1.6
Movement in inventories	**2.2**	4.1
Movement in trade and other payables	**(81.4)**	(4.7)
Movement in provisions	**(3.3)**	(6.6)
Payment of lease liabilities	**(26.7)**	(29.2)
Payment of interest on leases	**(77.1)**	(36.3)
Cash EBITDA (B)	**116.3**	(9.3)
Leverage (A/B)	**0.2x**	(17.0)x

Alternative performance measures continued

Underlying return on capital employed	Note	**FY21 £m**	FY20 £m
PBT	2	**99.2**	(81.2)
Non-underlying operating items	3, 5	**5.2**	16.6
Pre-tax return		**104.4**	(64.6)
Effective tax rate		**10.70%**	17.10%
Tax adjusted return (A)		**93.2**	(53.6)
Property, plant and equipment	8	**91.6**	74.1
ROU assets	9	**345.1**	384.5
Computer software	10	**16.4**	11.8
		453.1	470.4
Inventories	14	**61.1**	58.9
Trade receivables	15	**9.3**	10.4
Prepayments	15	**7.2**	10.1
Accrued income	15	**0.4**	0.9
Other receivables	15	**0.2**	0.8
Payments received on account	16	**(117.7)**	(86.8)
Trade payables	16	**(83.9)**	(41.9)
Working capital		**(123.4)**	(47.6)
Total capital employed (B)		**329.7**	422.8
Underlying ROCE (A/B)		**28.3%**	(12.7%)

Underlying free cash flow to equity holders	**FY21 £m**	FY20 £m
Movement in net bank debt	**138.7**	7.5
Dividends	**–**	15.9
Acquisition related costs	**–**	–
Proceeds on issue of shares	**(0.3)**	(63.9)
Purchase of own shares	**0.3**	1.1
Proceeds from sale of own shares	**(1.1)**	(1.3)
Non-underlying cash items disclosed in cash flow statement	**4.1**	–
Underlying free cash flow to equity holders	**141.7**	(40.7)

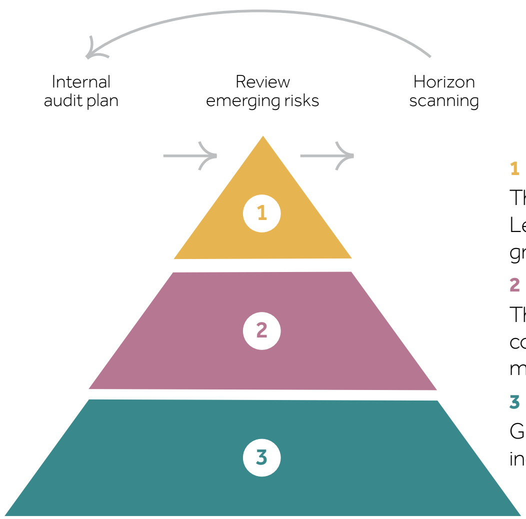
Risks and uncertainties

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 which is coordinated and analysed by the Group's Risk and Internal Audit function to facilitate triannual reviews of principal risks by the Directors, including identification of emerging risks arising and also horizon risks to be monitored. The graphic below details how responsibility for risk management is allocated across the Group.

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.



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.

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 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 and Compliance Committee, comprising senior management, meets monthly to review changes in the regulatory/legal landscape and the Group's key risks and concerns. Further detail on the Group's system of internal controls is covered in the Audit Committee report on pages 83 to 88.

The Group seeks to continuously develop its risk management processes and in the last year a particular focus of the Group Risk Team has been on growing engagement with our Group risk management platform into the day-to-day practice of all senior and middle management colleagues across each Group function. The Group Risk Team also communicates regularly with colleagues at all levels of the business, highlighting the benefits of effective risk management.

In order to support future long-term growth, the Group is currently assessing a number of external Risk Management Information Systems with a view to replacing the current in-house platform.

Additional specific risk-focused initiatives undertaken during the financial year included a full externally assessed cyber review, completed in June 2021, and a report on climate change delivered to the GLT. The Group Risk Team also provided regular updates on the Group's business continuity and resilience performance through the various Covid-19 lockdown and reopening phases, updating Business Continuity procedures as necessary.

In recognition of the Group's high standards of quality and integrity, vital to the success of internal audit and risk management, the Group's Audit & Risk function achieved first place in the 'Outstanding Team: Private Sector' category in the Chartered Institute of Internal Auditors ("CIIA") Audit & Risk 2021 awards.

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

COVID-19 PANDEMIC UPDATE

We reported extensively in the FY20 annual report on the Group's wide-ranging initiatives to manage the risks of the Covid-19 pandemic, which included a strategic and financial review resulting in a number of actions to increase financial resilience, alongside operational measures to contain the spread of the virus. In FY21, with the Group permitted to manufacture and deliver to customers throughout the period, our Covid-19 risk focus was on the health and safety of colleagues and customers while managing the various national showroom closure and reopening phases and conducting regular reviews of the effectiveness of our Covid-19 management procedures across our operations, updating Business Continuity plans as necessary.

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 was identified as a principal risk in our FY20 Annual report and is now embedded within the Group's risk management process. We launched our ESG strategy in September 2020, with a strong focus on the Environment based on our "Sofa Cycle" approach and have made solid progress against our Phase 1 targets in the last 12 months. In June 2021, the Group undertook a formal materiality assessment, supported by Ernst & Young Global Limited, in order to identify and prioritise all of the Group's sustainability risks and opportunities. The outcome of our materiality assessment and our progress on a wide range of ESG initiatives are covered in depth in our Responsibility and sustainability report on pages 51 to 70.

CHANGES TO PRINCIPAL RISKS IN THE YEAR

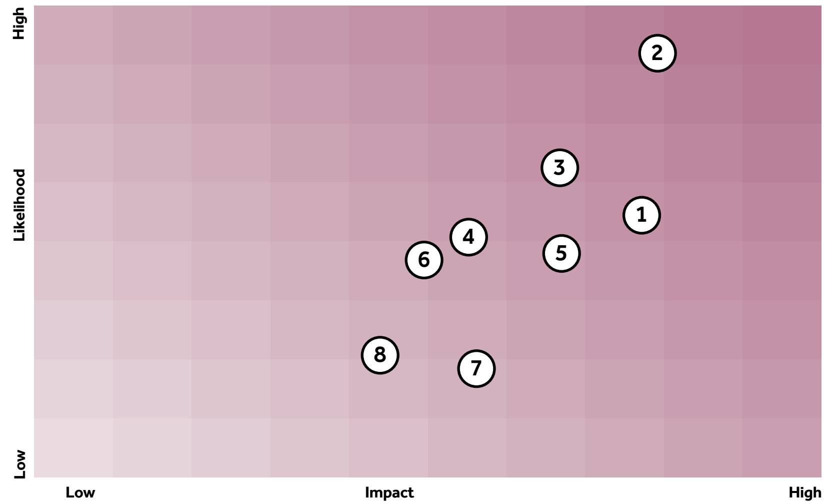
As part of our risk management process we have reviewed the Group's principal risks and made a number of changes to the list. We have introduced a new principal risk entitled 'Supply Chain and Manufacturing Resilience'. This new principal risk aggregates elements of several current strategic risks and reflects a range of factors including: strong recent demand for the Group's products; inconsistency in the cost and availability of raw materials and the cost and capacity of Far East shipping; the elevated level of the order book at both the beginning and end of the FY21 financial year; and the challenges in meeting this demand for both our external product supplier partners and our own internal manufacturing operations amid the ongoing pandemic. In contrast, following the agreement of the new trade relationship with the EU and an assessment of the consequences for the Group, we have removed Brexit from the list of principal risks.

In terms of movement in existing risks, we have increased the priority of the Consumer Proposition and Industry Competition principal risk in the period, to reflect the impact of the Covid-19 pandemic on the furniture retailing market structure, away from smaller independent specialist stores and high street department stores towards larger omnichannel or online furniture specialists and general merchandise retailers.

In recognition of the strong financial performance in FY21 and positive start to FY22, combined with an extension to the senior revolving credit facility, the Financial risk and liquidity principal risk has decreased in priority in comparison with the previous financial year end.

RISK HEAT MAP

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



Principal risks

1 Supply chain and manufacturing resilience (New)
2 Business continuity and resilience
3 Cyber
4 Consumer proposition and industry competition
5 Regulatory environment
6 ESG
7 Financial risk and liquidity
8 Transformation

See pages 38 to 40 for more on how risk is managed.

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase   Unchanged   Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Supply chain and manufacturing resilience Supply chain and manufacturing resilience constitutes a new principal risk and incorporates elements of existing strategic risks covering third party suppliers, delivery agents and the Group's own manufacturing operations. The Group's elevated order bank at the start of FY22 and ongoing Covid-19 disruption to employees, combined with further strong growth in customer orders due to favourable consumer trends as well as market share growth from the successful execution of the Group's growth strategy, could result in additional pressure on the Group's own manufacturing capability and those of our external raw material and finished product suppliers. The Group is also considering increased investment in order to modernise our own manufacturing operations, gain greater control over the end-to-end supply chain and support the future long-term growth of the Group. 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 bookings. 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 Covid-19 related impacts, unexpected price fluctuations and/or shortages of key raw materials products. Failure to meet customer or company expectations in relation to delivery dates or product proposition could lead to increased customer dissatisfaction 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.	1 2 3	The Group has established a new Sales & Operations Planning function to proactively manage the end to end supply chain across the Group. Each brand has conducted a review of its supplier strategies which have been updated as required. In order to manage uncertainty during a period of disruption to 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 is developing its investment plans to expand the capacity and increase the efficiency of its own domestic manufacturing operations in the medium-term. In the short-term, the Group plans to mitigate potential raw material supply disruptions by holding larger reserves of key raw materials products. **FY21 progress** – Identification of new principal risk and responsibility for its management allocated to Group COO – Establishment of new Sales & Operations Planning function; new supply chain mitigation initiatives – Development of medium-term investment plans to expand capacity	**New addition**

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase   Unchanged   Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Business continuity and resilience As illustrated by the Covid-19 pandemic, the Group faces the risk of disruption to its operations from a wide range of unpredictable domestic and international events. These risks can range from smaller localised disruptions impacting systems or operations at individual sites to major incidents affecting the whole Group for an extended period. Events and situations requiring the temporary closure of some or all of the Group's showrooms, websites, manufacturing teams and customer delivery operations may result in loss or delay of revenue and cash. The business may also incur additional costs, either directly or as a consequence of the disruption impacting operational efficiency. Introduced as a principal risk in the FY20 annual report, business continuity and resilience remains one of the significant risks facing the Group due to the wide-ranging and unpredictable nature of external events and their potential impact on the Group.	1 2 3	The Group maintains detailed business continuity plans to manage a range of potential disruptions. Continuity plans were invoked in FY20 in response to the Covid-19 pandemic and remained in place during FY21. The experience gained during periods of remote working during the pandemic has been built on in order to provide further agility and resilience for the future. Cyber risk is considered a distinct principal risk for the Group in its own right (see page 40). However, IT systems are also regularly reviewed in order to ensure that they are able to support the Group in the event of a disruption to operations. The Group maintains a comprehensive overview of its cost base and commitments and communicates regularly with key stakeholder groups including employees, investors, suppliers, landlords and regulators. This supports a cooperative and dynamic approach to managing cash and liquidity in the event of severe disruption to trading, as successfully demonstrated during FY20, when financial resilience was increased by a share placing, a temporary extension to the Group's banking facility and a temporary rescheduling of rent and supplier payments. The Group regularly reviews its capital requirements in order to provide sufficient flexibility and resilience to manage disruption to its operations. **FY21 progress** – Formal business continuity plans updated during the year – Development of a hybrid working model and supporting infrastructure to facilitate a combination of remote and on-site working – Continued monitoring of Group's Covid-19 safety procedures	Unchanged

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase | Unchanged | Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	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 risk of attacks is ever increasing. Increased levels of remote working during the Covid-19 pandemic have increased the Group's reliance on its IT infrastructure. The Group's IT infrastructure and websites are a key component of its 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 operational systems supporting supply chain, customer delivery, call-handling and the processing of financial transactions are essential to the delivery of a good customer experience. We also rely on a number of key systems to support timely reporting on operational performance. Delays or errors could result in increased costs or lost revenue. Reflecting the Group's increased reliance on IT infrastructure during the pandemic, including the continued success of the Group's online retail proposition, Cyber risk remains one of the Group's more significant principal risks.	1 2 3	Full IT security backup and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated. A full 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 incorporated into the FY22 plan. Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated, including through external audit, which is also reported to the Board. Third party penetration testing is carried out routinely to check the resilience of the Group's systems to cyber-attack. A colleague cyber awareness programme is also in place. The Group continues to make substantial investment in both website development and digital marketing to maintain its market-leading position. An established team of experienced staff in this field 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. **FY21 progress** – Full external review of the Group's cyber security conducted in June 2021 – Implementation of Alert Logic Security Operations Centre to proactively identify and neutralise cyber attacks – Mandatory Cyber Security Awareness training for relevant colleagues	Unchanged

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase   Unchanged   Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	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. 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 Covid-19 pandemic and resultant forced closures of physical retail space has led to a further increase in the propensity for customers to interact online, favouring larger omnichannel or online furniture specialists and general merchandise retailers. While management 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. 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 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 has performed well online and in its showrooms during the financial year, benefiting from management expertise and a long-term track record of investment in its integrated retail business model across the entire platform. We track our total and online market share performance using a variety of internal and external benchmarks. The Group's focus on customer care, quality and service is underpinned by our established use of Net Promoter Score ("NPS") at all touch points of the consumer journey. Colleagues across the business are directly incentivised on NPS scores to reinforce customer-focused behaviours. The Group has raised the importance of this principal risk in the financial year to reflect the structural changes in the furniture retailing market during the pandemic which have favoured larger integrated and online business models over more traditional furniture specialists. **FY21 progress** – Continued introduction of new ranges & partnerships to widen appeal (e.g. Boxit and Paloma Faith Home) – New ESG-led products have been launched with positive initial feedback across the Group (e.g. Grand Designs and Loop)	Increase

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	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 income from product aftercare insurance. Changes to the regulatory environment surrounding product warranty insurance could impact the sales of these products, which currently account for a mid-teens percentage share of Group gross profits. 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	Comprehensive training and monitoring programmes (including individual NPS, internal audits and mystery shoppers) are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Group Leadership Team Governance, Risk and Compliance Committee is in place supported by a number of sub-committees, which includes a committee focussing primarily on regulatory areas and conduct risks, and Health and Safety. The Committee monitors management information and reviews processes and procedures to ensure our customers are treated fairly. This includes rigorous oversight and escalation processes to maintain the status of limited permission to offer consumer finance granted by the FCA. The Committee also reviews the regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation. The CFO and the Director of Risk and Internal Audit attend these Committee meetings and are responsible for ensuring that relevant matters are also escalated to the Audit Committee for consideration. The Group continues to place significant focus on maintaining its compliance with data protection requirements and has a robust set of policies supported by annual data protection training for all employees. The Group has a compliance framework that ensures ongoing review and monitoring; a review of the Group's information security by external cyber-security professionals was completed in the year. The Group also regularly reviews customer satisfaction levels with these products, working hard on regulatory compliance and proactively seeking to ensure customers derive value from their policy. The Group continues to review the pricing and cover levels of the insurance products it offers to maintain and enhance the customer value proposition. **FY21 progress** – Compliance activities separated from audit/risk and integrated with legal to give 'three lines of defence' model – Enhanced coverage and simplified pricing of aftermarket product warranties – ICFR control assessments conducted with support from external advisors	Unchanged

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase
Unchanged
Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Environmental, Social and Governance Key stakeholders, including customers, employees, investors and regulators, as well as the media, are increasingly focused on the Group's policies and management regarding Environmental, Social and Governance ("ESG") risks. A failure to manage the business in accordance with high ESG standards could expose the Group, or its key third party suppliers, to adverse financial consequences, reputational damage, and difficulties in retaining or attracting employees. Failure to adapt to growing public interest in social and environmental concerns may deter customers or demotivate colleagues. As a UK premium listed company, the Group is required to make Task Force on Climate-related Financial Disclosures ("TCFD") disclosures in its FY22 annual report.	1 3	We have made significant progress on our ESG approach and reporting process since the Group launched its new ESG Strategy in September 2020. Our key focus last year was predominantly on sustainability and gender equality. We introduced a range of initiatives linked to 'The Sofa Cycle' Foundation framework and the Group's carbon footprint. The Group's Phase 1 targets included specific targets in relation to wood and leather sourcing, packaging, carbon reduction and increased female representation. During the year we have further developed our sustainability strategy introducing Phase 2 targets, extending and advancing our wood and leather targets and introducing targets for textiles. Additionally the Group has signed up to the BRC Climate Action Roadmap and its commitment to achieving net zero by 2040. In order to achieve this we will be working with a third party specialist to understand our Scope 3 emissions and set a carbon reduction strategy aligned to science-based targets. It is our aim to have these targets in place for our FY22 reporting cycle. We held our inaugural ESG Supplier Conference in Spring 2021 to set out our vision, mission and initial ESG requirements with our supplier base. We maintain long-standing, trusted relationships with our suppliers and we intend to bring our suppliers with us on our Sustainability journey. Track Record Global ("TRG") has been retained as our audit partner to help ensure we have transparency and traceability within our manufacturing supply chain. The scope of their work includes timber and leather due diligence and new audit protocols for Modern Slavery, in partnership with Ardea International. The Group has dedicated significant time and resources to developing its social strategy during the year. We launched our diversity and inclusion strategy in the second half of the year and have a number of initiatives to both educate our colleagues and drive change which has been led by our Inclusion Council. Our appointment to the Board of Loraine Martins OBE, an expert on inclusion, diversity and equality, will also help drive and challenge our thinking in these areas. The Group has developed a robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company, including (but not limited to) Board composition, Audit Committee structure, executive compensation and whistleblowing. With a significant and growing amount of Board time dedicated to ESG matters and recognising it is essential we have the appropriate structures in place to provide dedicated focus and governance, the Group has taken the decision to establish a Responsible and Sustainable Business Committee in FY22. We have also embedded both environmental and social elements into remuneration targets for management across the Group. To validate the focus of our ESG strategy in a developing landscape, we conducted a materiality assessment supported by a third party specialist. The topics considered have been ranked based on the relevance to the business and importance to stakeholders. We have aligned our disclosures with the United Nations Sustainable Development Goals ("UN SDGs") and have started to adopt the TCFD framework during the current year. **FY21 progress** – Responsible and Sustainable Business Committee established, ESG targets set for all Group Leadership Team members – ESG Supplier Conference in March 2021 set out expectations of manufacturing partners – Materiality assessment conducted	Decrease

Risks and uncertainties continued

Link to strategic pillar

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

Movement

Increase Unchanged Decrease

PRINCIPAL RISKS

Risk	Strategic link	Mitigation	Movement
Financial risk and liquidity A downturn in the macroeconomic environment, disruption to our international supply chain, or additional uncertainty arising from the Covid-19 pandemic, may impact the Group's ability to obtain debt or equity financing. Any temporary suspension of customer deliveries, as experienced in the second half of FY20 as part of measures to contain Covid-19, may increase working capital needs for the Group with delays slowing the realisation of revenues. An increase in interest rates could increase the Group's financing costs. The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas.	1 2 3	The Group aims to maintain good working relationships with all financial counterparties and engages proactively to ensure that counterparties fairly understand the financial performance and continue to support Group activities. The Group regularly reviews its financing arrangements to ensure it has adequate funds in place and financing costs are kept to a minimum. In December 2020, the Group entered into a new three-year agreement, with two one year extension options for a £225m senior revolving credit facility with its existing syndicate of banks all continuing their involvement, but at different proportional levels of participation. 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. The strong financial performance in FY21 and positive start to FY22 have also contributed to a reduction in financial risk. Underlying net debt and leverage is substantially reduced compared to the previous financial year end and underlying FY21 year end leverage is now within our targeted range of 0.5x to 1.0x cash EBITDA. **FY21 progress** – Refinancing of £225m revolving credit facility in December 2020 – Ongoing work on ESG standards and reporting will support access to the broadest range of funding sources – FY21 year end underlying leverage is now within our targeted range of 0.5x to 1.0x cash EBITDA	Decrease
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. The Group is executing a strategy to build its platforms to support the development of the Group's retail brands, which includes transformation projects at varying stages of maturity in logistics, information technology and manufacturing. A lack of sufficient management resources or excessive complexity in the various work streams could limit the Group's ability to maximise investment opportunities. The Group makes a number of investments and acquisitions in order to unlock new growth beyond the core DFS brand. In 2017, the Group acquired Sofology in order to grow the brand's UK market share, profitability and deliver synergies for the rest of the Group. While performance since acquisition has been very positive, work relating to the brand's expansion and integration into the Group structure continues and carries some risk. Early in FY21 the Group integrated Dwell's operations into DFS to reduce operating costs. The integration of Dwell into DFS may negatively impact overall sales of Dwell products. The Group continues to develop product range opportunities beyond its core sofa retailing operations. Failure to maximise these opportunities could lead to lower than expected overall revenue and profit performance. Continued diversion of management time and ongoing disruption to the economy as a result of the Covid-19 pandemic may affect the Group's ability to deliver anticipated benefits within the original time horizon.	1 2 3	Experienced senior management have been engaged in the design and delivery of the integration and transformation plans and regular updates are given to the Board. The Group has an executive directly responsible for transformation who oversees a team of project managers engaged to drive our processes. Risk assessments are completed for all critical workstreams and have been challenged through Board and Audit Committee discussions. The Group continues to target efficiency gains by increasingly sharing Group infrastructure including logistics, central support functions, and manufacturing facilities. **FY21 progress** – Successful delivery and roll out of key in-flight transformational projects – Governance over transformation continues to remain strong, with monthly GLT reviews and regular Group Board updates – New programmes in the resource and build phase	Unchanged

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 27 June 2021 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 36 to 44 of this Annual Report. Particular regard was paid to the potential ongoing impact of Covid-19 and the possibility of future lockdowns resulting in the temporary closure of retail showrooms.

The primary impact of those risks which could significantly affect the future viability of the Group is a decrease in customer orders, and associated reduction in revenue. The effect of this lost revenue on profit before tax and cash was applied to the base case model using an expected 'drop through' rate, based on expected gross margins and variability of costs. The analysis considered a range of severe but plausible scenarios impacting revenue and margin, a significant reduction in customer spending, and impacts on gross margin from inflationary cost pressures.

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, which is prepared on a prudent basis, assumes a modest year on year increase in customer orders for the remainder of FY22, resulting from a market share benefit arising from the recent withdrawal of competitors and the impact of the recent opening of a number of new showrooms. 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 two years of the forecast period as the current high order bank normalises.

Gross margin is based on that achieved in FY19 (used for comparison purposes due to the disruption due to Covid-19 on both FY20 and FY21), adjusted for known and expected changes to the Group's direct costs. Other costs and capital expenditure are based on FY21, adjusted for trading volumes and planned investments and benefits of 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. Where Covid-19 necessitates the temporary closure of retail showrooms, it has been assumed that these orders are still achieved through a combination of online orders and a peak of orders following reopening, and that as experienced in the most recent two national lockdowns customer deliveries can continue while showrooms are closed.

In developing the viability assessment it has been assumed that the Group's revolving credit facility will be replaced on or before its maturity in December 2023 (at which time the facility size will be £215.0m) with a comparable facility with the same covenants.

RESULTS

The range of severe but plausible scenarios included a market decline of 5% and a further two month Covid-19 related lockdown during the winter of 2021/22. The Group maintained both covenant compliance and sufficient liquidity in all these scenarios. Based upon this assessment the Directors have confirmed that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to June 2024.

Section 172 statement

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

OUR STAKEHOLDERS

We have set out some examples below of how the Directors have had regard to the matters in section 172(1)(a)–(f) when discharging their Section 172 duty and the effect on certain decisions taken by them during the year.

We have grouped our stakeholders into seven key categories. As a Board we look to balance the needs and views of all of our stakeholders, in the light of our purpose, values, culture, and strategy, to ensure all our decisions have a clear and consistent rationale. We do this through various engagement processes which help us to understand the views and needs of our stakeholder groups, and the long-term consequences of any decision made. Our stakeholders' interests are considered through direct engagement by Board members and reports and updates from members of the management team detailing the impact on stakeholders of key decisions.

The following provides an overview of the way in which the Board acted with regard to these groups when making key strategic decisions.

Our colleagues

See page 48

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 49

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 49

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 49

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 49

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

Our investors

See page 50

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 50

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.

Section 172 statement continued

CONSIDERING THE LONG-TERM IMPACT OF OUR DECISIONS

When considering an investment proposition, the Board considers the likely consequences of any decision making in the long-term. An example of this was the restructuring of our supply chain and the creation of The Sofa Delivery Company.

CASE STUDY

During FY21, the Board approved further long-term investment in The Sofa Delivery Company to improve the final mile logistics operation.

This brought together over 1,000 people and the supply chain infrastructure from our retail brands into a new business, with the aim of being a best-in-class final mile logistics business.

The Board's rationale behind the investment was to build on the existing Group model and benefit from the resulting synergies.

Specifically, the Board was aware that the decision would:

- Create shareholder value through cost savings and improved stock management;
- Provide greater control and resilience within the supply chain;
- Improve customer experience with 7 day a week delivery;
- Represent a change in working patterns for colleagues; and
- Provide the associated environmental benefits, with lower CO_2 emissions due to better utilisation of the Group's delivery vehicles.

Taking all stakeholder interests into account, the Board approved the proposal as it would most likely promote the success of the Company for the benefit of its members as a whole.

Section 172 statement continued

CONSIDERING OUR EMPLOYEES

Colleague engagement

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

Both the CEO and CFO worked for the Group as employees for several years, before joining the Board. They each remain actively involved in the Group's day to day operations. Their knowledge of the business and active style of engagement means our Executive Directors have an acute insight into the mood, culture, and views of our colleagues, which they then report on to the Board. There are a number of formal and informal workforce engagement mechanisms in place across the Group:

- Workplace, our online web-based platform for employees facilitates ongoing, meaningful conversations between managers and teams and has helped us support our employees through the pandemic through the Health and Wellbeing programme.
- Employees are kept informed of performance and strategy through regular online and where possible, in person presentations, from members of the Group Leadership Team.
- Employee engagement surveys are undertaken regularly through our on-line tool Peakon to help us to understand how our colleagues are feeling. Recent surveys have focused on employee engagement and inclusivity.
- The Designated Non-Executive Director, the Chairman, and other members of the Board attend meetings with our employees, including our Workplace Voice Forum, as well as visiting our showrooms, factories, offices, and warehouses.
- Our use of technology, using a cloud-based system G suite allows us to accommodate most meetings and communications remotely, this helps support flexible working and enabled our colleagues to stay in touch throughout the pandemic.
- The Group People Director provides regular briefings to the Board and Remuneration Committee on employee-related matters, including engagement activities, the results of employee opinion surveys, staff retention rates, diversity, numbers and nature of whistleblowing, disciplinary and grievance procedures, learning and development activity, pay and reward including gender pay gap and HR initiatives.

The Board considers that, taken together, these arrangements deliver an effective means of ensuring the Board stays alert to the views of our colleagues and wider workforce.

CASE STUDY

During the year, we refocused our attention on reinvigorating our approach to Inclusion and Diversity.

Led by our CEO and Group People Director with support from the Board we created our Group wide Inclusivity and Diversity strategy "Everyone Welcome". As part of this we created our Inclusion Council with colleagues from across the Group, who working together developed our strategy and launched a number of initiatives to both educate our colleagues and drive change.

Diversity and inclusion are a central consideration across our business and is regularly considered by the Board. Our aim is to recruit and retain a diverse and inclusive workforce representative of our customer demographic attracting the best talent to meet agreed targets over the next four years and beyond. Working with experts in the field the Group has developed a strategy to ensure that the specific areas of the business each have the right actions in place to ensure we can achieve our aims.

CASE STUDY

Restructuring of DFS retail administration.

The significant increase in customer contacts as a consequence of both the pandemic and increased business volumes highlighted the need to develop a centralised and flexible approach to DFS retail administration, which had historically been handled by colleagues based locally throughout our showroom network.

For customers this change meant a more consistent experience with fewer contacts and a better, simpler service with the ability to scale resource during busier times using the support of our experienced third party customer contact partner.

The ability to flex resource, and share best practice, results in operating efficiencies and associated cost savings, increasing value for shareholders.

The changes created opportunities for more than half of impacted colleagues to move to new roles either in the new customer service team or other parts of the business, including other store roles or with The Sofa Delivery Company. However, around 100 colleagues were supported in leaving the Group through a programme of voluntary and compulsory redundancy.

While a difficult decision to make, the Board was satisfied that the benefits to customer experience made it worthwhile and affected colleagues received strong levels of support and compensation.

Section 172 statement continued

CASE STUDY

During lockdown our teams refurbished 16 of our showrooms to provide customers with a better experience, enabling them to touch and feel a wider range of products in a more natural home environment to help them envisage how the products could work for them in their homes.

We also completed the review of our insurance product offered by our brands Sofacare & Sofashield. The changes to these products provide new benefits for all our customers, removing exclusions relating to accidental damage caused by pets and extending the warranty cover for interiors, exteriors and mechanisms. Additionally, we simplified the pricing of the insurance product, linking it directly to the value of the customer's furniture.

CONSIDERING OUR CUSTOMERS

As a large retail business, we are focused on the needs of our customers, whether that relates to the products we design or the services we offer. The sentiment of customers can be seen in the Company's underlying sales performance figures and Customer NPS scores.

The Board seek to understand our customers' requirements through a number of different mechanisms. The Executive Directors and management teams for each of the brands provide regular updates to the Board on their perceptions of consumer sentiment and the market view.

The interests of customers are considered in Board decisions relating to showroom portfolio changes; selection of product lines including our third-party brands; the availability of customer credit products; the development of our online platform; the selection and monitoring of suppliers to ensure quality and safety standards are met; and as discussed in the case study above our final mile operations.

CONSIDERING OUR SUPPLIERS

Throughout the year the Board was briefed on major contract renegotiations and the strategy regarding key suppliers and certain landlords of the Group's premises. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers. Throughout the pandemic and the uncertainty this brought, we and our suppliers have continued to mutually benefit from the strong relationships we have fostered.

CONSIDERING THE COMMUNITY

We operate showrooms, manufacturing operations, distribution centres and head offices across c.200 locations in the UK and Ireland as well as 6 in the Netherlands and 2 in Spain providing local employment to many communities.

The Board supported policies to encourage colleagues to volunteer their time and to give back to their local communities. Whilst the pandemic has restricted some of the volunteering activities of our colleagues, many of them have still participated in volunteering days either planting trees, working with the homeless, raising money for charity and making a difference to the communities where we live and work.

CONSIDERING THE ENVIRONMENT

The Board supports the Group's ESG strategy with a view to reducing any adverse impacts on the environment and supporting the communities that it touches. The Board's commitment to tackling environmental issues can be seen through the establishment of the Responsible and Sustainable Business Committee, chaired by Alison Hutchinson, the Senior Non-Executive Director.

CASE STUDY

Ethical trading and responsible sourcing

During the year, the Board approved the 2020 Modern Slavery Statement.

www.dfscorporate.co.uk/governance/policies.

All our Suppliers are required to sign up to our Supplier Code of Conduct and to confirm that they comply with the Modern Slavery Act. To help our suppliers gain a greater understanding of our requirements and the wider environmental and social issues around ethical trading and responsible sourcing, in March 2021 we hosted our first ESG Supplier Conference.

Section 172 statement continued

CONSIDERING OUR INVESTORS

The CEO and the CFO lead on engagement with shareholders in relation to business performance via virtual roadshows following major announcements. The Chair, Senior Independent Director and Remuneration Committee chair also have regular contact with shareholders in order to ensure that the Board is aware of their expectations in respect of governance. During the year we have engaged with investors on a range of topics, including:

- The structure and design of the new Remuneration Policy being proposed to shareholders at the AGM;
- The Group's ESG strategy;
- Company performance against its strategy; and
- Extension of our banking facilities.

The Board recognises the importance of shareholder returns and carefully considers the needs of its investors in recommending a final dividend to shareholders in line with the Company's dividend policy; see page 10 for more details.

CONSIDERING OUR REGULATORS

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 seek always to cooperate and engage constructively with the FCA and meet its standards. The Audit Committee exercises independent oversight over the regulated Finance business that includes updates on matters under discussion with the FCA.

DFS manages its tax affairs responsibly and proactively to comply with tax legislation. The Company's approach is to seek to build solid and constructive working relationships with all tax authorities.

During the year, the Board approved the Group's 2021 Tax Strategy to comply with Schedule 19, paragraph 16(2) of the UK Finance Act 2016 published at www.dfscorporate.co.uk/governance/policies.

This policy includes a requirement that the Company engages with HMRC constructively, honestly and in a timely and professional manner, and seeks to resolve disputed matters through active and transparent engagement. The CFO provides regular updates to the Board on tax matters.

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

The Group Financial Operations Director is responsible for managing the relationships with our banking syndicate, and for the Group's cash/debt management and financing activities. The CFO provides regular reports to the Board on these activities.

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 48 Responsibility and sustainability report – page 63 to 68	– Diversity & Inclusivity Policy* – Equal Opportunities Policy – Whistleblowing Policy* – Group Health and Safety Policy
Anti-corruption and anti-bribery matters	Responsibility and sustainability report – page 70	– Group Code of Conduct* – Anti- Bribery Policy* – Supplier Code of Practice Standards* – Whistleblowing Policy*
Respect for human rights	Section 172 Statement – Modern Slavery – page 49 Responsibility and sustainability report – page 57	– Modern Slavery Policy* – Data Protection Policy – Privacy Policy*
Social matters	Section 172 Statement – page 49 Responsibility and sustainability report – page 57	– Tax Strategy*
Environmental matters	Responsibility and sustainability report – page 53 and 62 Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 49	– Environmental Policy* – Timber Sourcing Policy* – Leather policy*

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

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.

CONTENTS

Responsibility & sustainability report

Bio on page 73

ALISON HUTCHINSON C.B.E.
Senior Independent Director

Twelve months ago we launched our ESG strategy which is aligned to our Group purpose, values and our Group strategy.

At the outset we emphasised that as a market leader we have the ambition to lead the sector in driving positive change within the upholstery market and we also recognised that we were unable to address our entire ESG agenda at once. Last year we made a conscious effort to prioritise sustainability in our ESG strategy and this year we have both expanded our sustainability approach whilst placing a greater emphasis on social factors.

Our approach has been to ensure we address all the wide range of matters covered by our targets, while also focusing efforts to drive rapid, tangible progress in key areas. I am pleased with the progress the Group has made in FY21 which I highlight below, along with our plans for FY22.

PROGRESS DURING THE YEAR

Our initial focus in the year was on our finished products and the resources used in manufacturing them. We have driven positive change, particularly in relation to the sustainable sourcing of wood and leather, some of the key materials in our sofas. We have also set some new challenging 'Phase 2' targets, expanding our focus to cover additional materials, as well as setting a plan to limit the risk of modern slavery occurring across our supply chain.

We are committed to working with leading industry experts in each field to ensure we have the best in class knowledge and expertise to drive change, demonstrated by individual partners for each material certification, FSC (wood), LWG (leather), OEKO-TEX (fabrics), and the Peppy, Henpicked and Fika collaborations across our social space.

To help us achieve a number of our targets we recognise it is essential that we bring our suppliers with us on our journey. We held our inaugural ESG Supplier Conference in Spring 2021 during which we outlined the stages in our sustainability roadmap, allowing our supplier base to understand what we need from them as well as the long-term benefits to our partnerships.

In addition to the continued development of our sustainability strategy, in the second half of the year we launched our diversity and inclusion strategy. Building a workforce that is both diverse and operating within a culture of inclusiveness is critical to the future success of this business. We launched a number of initiatives to both educate our colleagues and drive change which has been led by our Inclusion Council.

Our appointment to the Board of Loraine Martins OBE, an expert on inclusion, diversity and equality, will also help drive and challenge our thinking in these areas.

As it became evident through the autumn that the pandemic would continue to disrupt society, we reflected on the likely impacts on our stakeholder groups. We recognised that it was likely that many of our colleagues would be affected so we ensured that we conducted regular pulse surveys to listen to our colleagues, extended the coverage of our sickness policies to protect those who were ill or isolating and stepped up our investment in positive mental wellbeing.

Given ESG is a rapidly advancing topic and requiring a significant and growing amount of Board time, at the end of the year we took the decision to establish a Responsible and Sustainable Business Committee that will first meet in early FY22 to provide dedicated focus and governance. We have also embedded both environmental and social elements into management remuneration targets across the Group.

To validate the focus of our ESG strategy in a developing landscape, we have also conducted a materiality assessment supported by a third party specialist. The topics considered have been ranked based on the relevance to the business and importance to stakeholders and are discussed in more detail, see page 54. Greenhouse gas emissions and the sustainable and ethical sourcing of the materials used in our products ranked highest and we have set ourselves targets that we will report our progress against. We have also taken steps to start to align our reporting with the Task Force on Climate-related Financial Disclosures ("TCFD").

PLANS FOR FY22 AND BEYOND

Our focus for FY22 is to build a better understanding of our Scope 3 carbon emissions and then set targets approved by the Science Based Targets initiative ("SBTi") to support our BRC climate action commitment to reach net zero by 2040. We will then conduct scenario analysis to build our knowledge and understanding of how our strategy may be impacted by climate change, allowing us to be better positioned to respond.

Achieving our net zero ambition will likely require more forward thinking regarding circularity in the Sofa Cycle. This will require additional research and development to deliver closed-loop and carbon positive solutions which we will both seek to lead where we can and participate in other stakeholders' research where appropriate.

We will also continue our focus on achieving our current ESG-related targets, set challenging new ones and build a better understanding of our workforce and initiatives to create an environment where everyone is welcome.

Alison Hutchinson

Chair of the Responsible and Sustainable Business Committee

Responsibility & sustainability report continued

HOW WE EMBED ESG IN OUR BUSINESS

We believe that driving sustainable business behaviours is best achieved when it is embedded throughout the business. To help achieve this all colleagues are encouraged to share ideas and consider the environmental and social implications relevant to their decision-making; from capital investments to procurement decisions and product development to recruitment. We encourage our colleagues to consider both the potential risks (and options to minimise) and opportunities (and options to maximise) when considering matters with potential ESG implications. For FY22 we are now also including relevant and stretching ESG targets in our management grade roles and above.

We have a number of committees and councils set up to help drive our ESG agenda forward. The illustration below describes how we intend to govern through our FY22 financial year.

Board oversight and Responsible and Sustainable Business Committee ("RSC")

The Board has oversight of the various ESG-related risks and opportunities that may have an impact on the company and how these are being managed, ensuring our strategy remains fit for purpose, for approving any associated policies as well as ensuring compliance with relevant laws. In conjunction with the Leadership Team, the Board provides direction on which ESG areas present the most significant risk or opportunity and should be prioritised. Given the frequency and time dedicated in Board meetings to ESG topics, we are establishing a new sub-committee – the Responsible and Sustainable Business Committee ("RSC") – that will include the Group CEO and three other Board members and will meet at least three times a year.

Sustainability Steering meetings

The Group CEO, Group Chief Operating Officer, Transformation Director and ESG lead 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 sustainability roadmap and that the right level of investment is provided where needed.

Inclusion Steering meetings

The Group CEO, Group People Director, Loraine Martins (Non-Executive Director) and two Inclusion Council members meet monthly to review progress on initiatives to deliver our inclusion strategy and discuss future plans and investment requirements.

Group Leadership Team – ESG Transformation

Group Leadership Team members have all been assigned an ESG-related topic for which they are responsible and have been allocated specific targets for FY22 which form part of their bonus structure. The team meets on a monthly basis, assesses the progress made in achieving our ESG targets and looks to ensure that relevant sustainability and responsibility matters are being considered in the day-to-day operations of the business. Additionally, the team provides the link between the Board and the brand and operating segment committees, ensuring that the Board has sufficient oversight of the progress being made by these committees while also ensuring the brand and operating segments have the guidance, support and resources available to achieve their goals.

Brand and operating segment ESG meetings

These meetings comprise brand and operating segment leads who review their progress against targets and provide status updates to the Group Leadership Team. The knowledge and understanding these individuals possess, combined with the external input from experts in a variety of different fields, contribute innovative solutions to the challenges and potential opportunities across the Group.

Sustainability & Responsibility Champions and our Inclusion Council

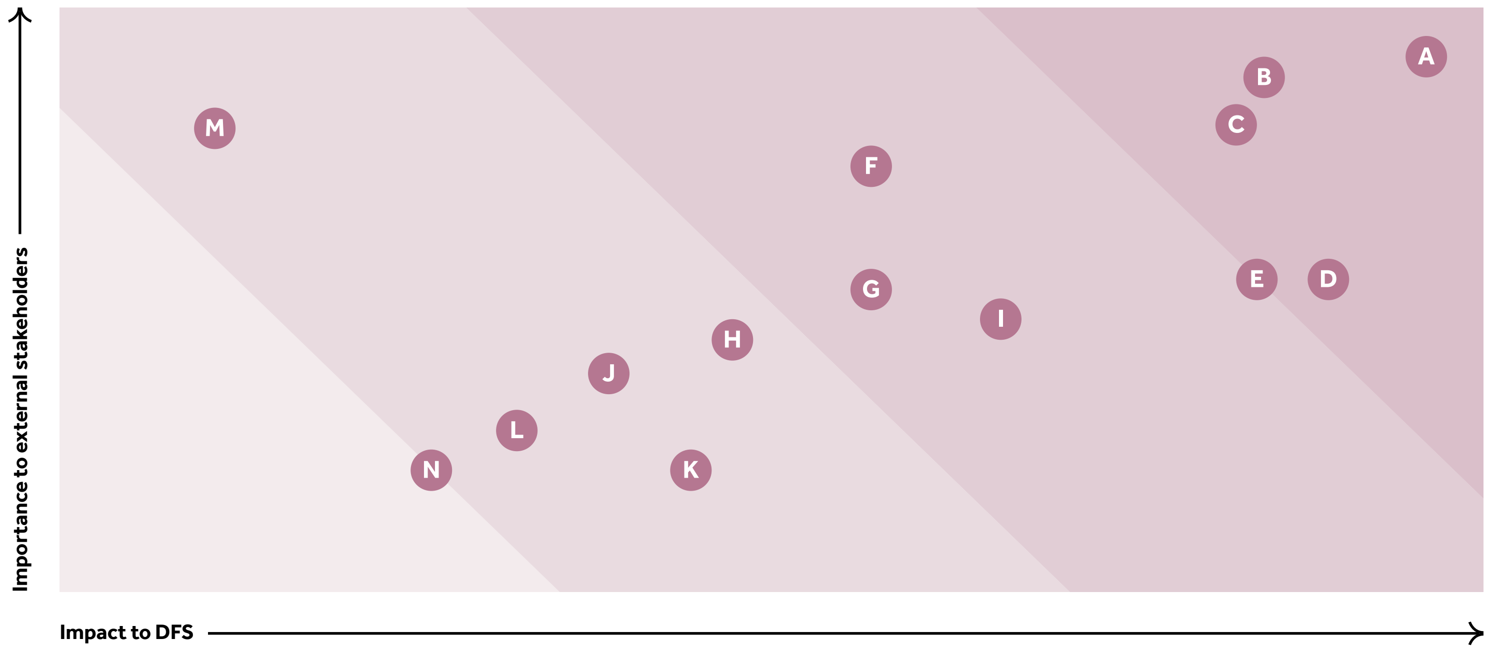
We want to empower our colleagues to drive change and improvements in both environmental and social areas. The goal of our Responsibility Champions and our Inclusion Council which both include individuals from across the business is to promote engagement and communication across the business and to generate ideas.

Responsibility & sustainability report continued

OUR FOCUS

To help ensure our ESG strategy remains fit for purpose, we recently conducted a materiality assessment across the Group which was facilitated by a third party specialist. The process 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 draft results identified a number of high priority issues including greenhouse gas ("GHG") emissions, deforestation and biodiversity, customer satisfaction and product quality, sustainable sourcing, and material usage. The exercise provided us with confidence our efforts remain focused on the risks and opportunities that are most significant to our business and our stakeholders.

In the remainder of this report we pay particular attention to those items deemed more material to the Group and its stakeholders, highlighting the risks and opportunities associated with each, the initiatives underway or delivered and, where applicable, the targets we have set.



	Area	Definition
A	**GHG emissions (Scope 1, 2, 3)**	The amount of GHG produced by the activities and operations of DFS and of the movement of resources in the supply chain.
B	**Deforestation & Biodiversity**	Protection and restoration of the forests which have been impacted by the wood use in products and production of leather.
C	**Customer satisfaction & product quality**	The measurement used to determine how satisfied customers are with its products and service.
D	**Material usage**	As resources continue to deplete, companies will be challenged to increase the efficiency in which they use materials in their products and to ensure re-use where possible.
E	**A circular approach**	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.
F	**Sustainable sourcing**	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.
G	**Supply chain traceability & transparency**	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
H	**Inclusion & diversity**	Creating an inclusive environment where everyone is welcome, ensuring employees are treated with the respect and have equal opportunities.
I	**Data protection and cyber risk**	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.
J	**Colleague engagement**	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.
K	**Talent & development**	Ensuring procedures are in place to attract talent and facilitate the continuous development of colleagues' knowledge to create a more skilled and accomplished workforce.
L	**Health, safety & wellbeing**	Programmes, guidelines and procedures in place to protect the safety, welfare and health of any person engaged in work or employment.
M	**Plastics, packaging & waste**	Limiting the waste created in DFS operations, including plastics and packaging, and increasing efficiency of recycling and reuse to minimise environmental impact.
N	**Community engagement & investment**	Investments, charitable donations and volunteering in activities with the aim of bringing about an improvement in quality of life for the local residents.

Responsibility & 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.

Environmental

Phase 1		Target Date	Status	Reference
Wood sourcing	All our sofas will be built of 100% FSC Certified Wood	Dec 2025	Underway	See page 58
Leather sourcing	The leather we use will not lead to deforestation in Amazon regions or elsewhere	Dec 2021	Underway	See page 58
Packaging	Ensure 100% of the plastic packaging we use is recyclable	Dec 2020	Not met	See page 62
Sofa packaging	85% of all our sofa packaging will be recycled	Dec 2020	Met	See page 62
Sofa packaging	100% of all our sofa packaging will be recycled	Dec 2022	Underway	See page 62
CO_2 reduction	We will reduce our Scope 1 CO_2 emissions with Sofa Delivery Company by a minimum of 10%	Dec 2023	Underway	See page 60
CO_2 offset	We will offset 100% of our Scope 1 and Scope 2 carbon emissions	Dec 2020	Met	See page 60
Phase 2				
Wood sourcing	FSC Certified Wood used in all products	Dec 2025	Newly announced	See page 58
Leather sourcing	All leather used on upholstery will be sourced from suppliers with LWG certification	Dec 2024	Newly announced	See page 58
Textile sourcing	OEKO-TEX STeP certification for upholstery ranges for Cotton, Viscose and Polyester	July 2022, 2023 & 2024 respectively	Newly announced	See page 58
Carbon reduction	Science-based targets approved by SBTi	July 2022	Newly announced	See page 60
Packaging	Zero polystyrene in product packaging	Dec 2024	Newly announced	See page 62

Social: our colleagues and our communities

Inclusion and diversity	All Group apprenticeship programmes will have at least 50% female representation	Dec 2020	Met	See page 63
Inclusion and diversity	All Group Management development programmes will have at least 50% female representation	Dec 2020	Met	See page 63
Inclusion and diversity	A minimum 50% of showroom management will be female	Dec 2024	Underway	See page 63
Charity community	Volunteering Days – everyone can have paid time off to give back to their community Target a minimum of 1,150 Volunteering days	Dec 2021	Underway	See page 68

Governance: how we manage what we do

Phase 1				
ISO	ISO45001 – Health & Safety	Dec 2021	Met	See page 66
ISO	ISO14001 – Environmental Management	Dec 2021	Met	See page 60
Modern slavery audits	Independent ethical audits of our manufacturing supply chain	Dec 2021	Underway	See page 56
Phase 2				
Modern slavery audits	Top 250 of non-manufacturing suppliers by £ spend risk assessed	Dec 2022	Newly announced	See page 56

Responsibility & sustainability report continued

Supply chain, sustainable sourcing and our products

Alignment to UN SDGs

FY21 highlights:

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

Focus for FY22:

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

Our targets:

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

Supply chain & sourcing

BACKGROUND

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

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

Potential risks associated with our supply chain and sourcing:

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

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

ENGAGEMENT WITH SUPPLIERS

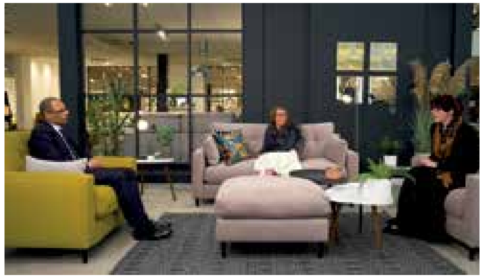
We maintain long-standing, trusted relationships with our suppliers and we intend to bring our suppliers with us on our sustainability journey. In March 2021 we hosted our inaugural ESG Supplier Conference, which was attended by 96% of our finished goods supplier base, to set out our vision, mission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

Quotes from attendees of our supplier conference:

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

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

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



Responsibility & 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 on our corporate website: www.dfscorporate.co.uk/esg/modern-slavery-and-human-trafficking-statement

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

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

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

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

Our Commitment:

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

To help achieve this we will:

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

SUPPLY CHAIN ASSURANCE

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

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

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

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

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

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

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

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

Responsibility & sustainability report continued

MATERIAL CERTIFICATION

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

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

Timber

Our targets:

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

Our Commitment

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

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

Leather

Our targets:

– Leather sourcing does not cause deforestation in Amazon regions or elsewhere by December 2021

– All leather will be sourced from suppliers with LWG certification by December 2024

Our Commitment

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

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

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

Textiles

Our targets:

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

Our Commitment

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

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

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

Responsibility & sustainability report continued

Product

Our Commitment

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

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

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

GRAND DESIGNS RANGE

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

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

LOOP

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

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

QUALITY OF PRODUCT

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

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

Responsibility & sustainability report continued

Energy and waste

Alignment to UN SDGs

13 CLIMATE ACTION

FY21 highlights:
- 100% carbon offset of our Scope 1 and 2 greenhouse gas emissions
- Signed up to the BRC climate action roadmap to be net zero by 2040

Focus for FY22:
- Engage a Carbon specialist to understand our Scope 3 emissions
- Set robust science-based targets

Our targets:
- ISO14001 – Environmental Management from December 2021
- We will achieve 100% carbon offset by December 2020
- Science-based targets approved by SBTi by July 2022
- We will reduce our CO_2 emissions with Sofa Delivery Company by a minimum of 10% by 2023

BACKGROUND

We deliver over 800,000 upholstery orders per year and our objective is to minimise the energy consumed across the product life cycle and reduce waste. We produce 19,620 TCO_2e of Scope 1 and 2 greenhouse gas emissions across our internal manufacturing operations, sales channels, warehouse and delivery operations and head offices.

Risks associated with our energy and waste consumption:

- Increased pricing of greenhouse gas emissions or end of product life charges (levied on the vendor or disposer) leading to an increase in operating costs or an extension to the sofa replacement cycle
- Costs to transition to lower emission technologies

We see the opportunity to address these risks through use of lower-emission energy sources and new technologies that could lead to a competitive cost advantage.

ENERGY USAGE

We are committed to reducing our energy consumption. Our Environmental Management System has achieved ISO14001 certification across the Group, an internationally agreed standard with a set of requirements that helps organisations improve their environmental performance through more efficient use of resources and reduction of waste.

Alongside over sixty leading retailers we have signed up to the BRC climate action roadmap which is a commitment to net zero by 2040. To help us achieve this goal we are working with a Carbon specialist to create a dynamic Scope 3 emissions model with supplier participation and we will use the information from it to set robust science-based targets to be approved by the SBTi by July 2022.

We have signed up to BRC climate action roadmap to reach net zero:

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

All of our showrooms, central distribution centres and manufacturing sites are now using 100% green energy and we are committed to removing gas boilers from our showrooms. We have also launched an energy reduction initiative on a trial set of showrooms to improve heating efficiency and are anticipating an estimated 25% average reduction in energy consumption. If the trials are successful we will roll out across the Group.

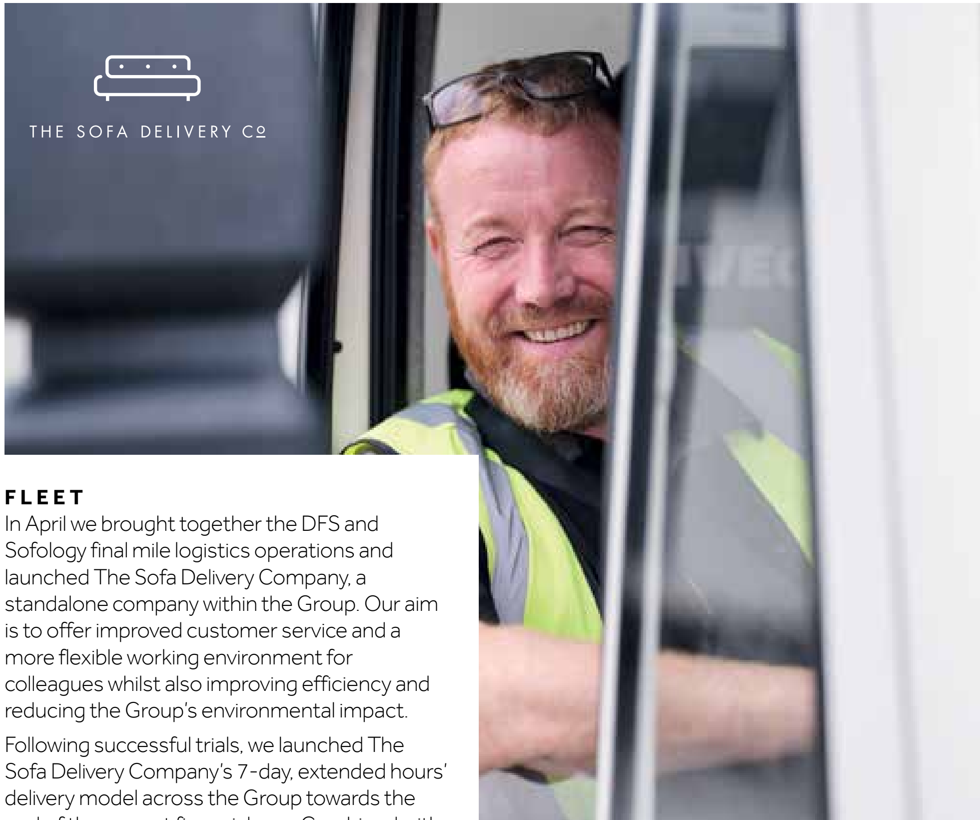
PLANTREE AND OUR PLANTING PROMISE

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 Sofology PlanTree campaign was set up in the previous financial year and DFS has introduced its Planting Promise in March 2020. We plant a tree in the UK for every sofa order delivered, as part of accredited reforestation schemes run by the Woodland Trust.

To mitigate our carbon emissions during 2021, the Group also planted over 94,000 trees in the UK through the Woodland Trust's Carbon scheme.

Responsibility & sustainability report continued



FLEET

In April we brought together the DFS and Sofology final mile logistics operations and launched The Sofa Delivery Company, a standalone company within the Group. 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.

Following successful trials, we launched The Sofa Delivery Company's 7-day, extended hours' delivery model across the Group towards the end of the current financial year. Combined with other DFS initiatives such as 'Track My Order' and eco-friendly delivery slots, The Sofa Delivery Company has a compelling proposition to meet our customers' busy lifestyles.

The benefits of our consolidated final mile delivery network will be a reduction in miles driven due to tighter delivery radials (aided by our Apollo smart routing technology) and an overall reduction in the number of DFS Group delivery fleet vehicles following the introduction of new shift patterns.

The Group will continue to look at ways to further reduce our fleet emissions, and we intend to introduce electric 3.5t vehicles from 2023 in London distribution centres to test and learn how it affects our operating model.

We also changed our policy on our company car fleet to only include hybrid or electric vehicles.

ENERGY AND TRANSPORT FUEL CONSUMED

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

We have changed our emissions intensity ratio from Tonnes CO_2 per employee as disclosed in previous years to Tonnes CO_2 per £m of gross sales as we believe it will provide a more appropriate measure in light of our strategic growth plans.

Total emissions per £m of gross sales have decreased by 51.4% year-on-year mainly due to the reduction in Scope 2 emissions during the period after successfully transitioning all our UK mainland sites' electricity supply to 100% renewable sources from October 2020.

	FY21 MWh	FY20 MWh
Group	**114,830**	100,556

	TCO_2e			TCO_2e per £m of gross sales		
	2021	2020	% increase/ (decrease)	**2021**	2020	% increase/ (decrease)
Direct emissions Scope 1	**18,261**	20,434	(10.6)	**13.3**	21.9	(39.9)
Indirect emissions Scope 2	**1,359**	7,054	(80.7)	**1.0**	7.5	(86.0)
Group Total	**19,620**	27,488	(28.6)	**14.3**	29.4	(51.4)

Responsibility & sustainability report continued

PACKAGING AND WASTE MANAGEMENT

Our targets:

- Ensure 100% of the plastic packaging we use is recyclable by December 2020.
- 85% of all our sofa packaging will be recycled by December 2020.
- 100% of all our sofa packaging will be recycled by December 2022.
- Zero polystyrene in product packaging by December 2024.

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 we deliver our own products, we are in a position to increase the level of recycling. At the end of the first half of the financial year we met our target to ensure 85% of our sofa packaging is recycled. However due to unforeseen complications with our suppliers we have experienced difficulties in ensuring 100% of our plastic packaging is recyclable. Currently over 90% of our suppliers are using 100% recyclable plastic and we continue to work with our remaining suppliers to ensure all plastic packaging is recycled.

The home category, with fragile materials such as marble and glass, will continue to be a challenge and require bespoke solutions. As such, the Group has employed an expert to work across the supplier base to find suitable alternatives.

SOFA RESCUE

The 'Sofa Rescue' initiative, developed in partnership with Clearabee, ensures sofas can be disposed of in an eco-friendly, responsible way through collecting products from customers' houses when they are no longer needed and recycling as many components as possible. This has saved over 100,000 pieces of furniture from landfill to date.

Using an integrated service model, our teams can arrange collections of old sofas the day before delivering a new order to a customer's home. Clearabee's fleet utilises an extensive network of waste transfer stations to ensure at least 90% of upholstery items collected are diverted from landfill. In addition, Clearabee also carbon offset all emissions from their fleet through reforesting.

The Sofa Rescue initiative is still in its early stages. We are committed to researching additional partnerships within the waste industry in order to help drive the goal of circularity and reduction of carbon emissions at the end of the product life cycle.

Responsibility & sustainability report continued

Our colleagues

Alignment to UN SDGs

3 GOOD HEALTH AND WELL-BEING
5 GENDER EQUALITY

FY21 highlights:
- Rolled out market leading wellness solutions to support colleagues
- Launched our Inclusivity and Diversity strategy to our management teams and educated and trained our managers
- Financially supported our employees through our Coronavirus Absence Pay Scheme ("CAPS")

Focus for FY22:
- Build our understanding of colleague demographics, analyse and develop actions to improve inclusivity and diversity
- Education program for our wider workforce on the importance of inclusion and diversity to our business
- Continue to build our 'Giving Back', charity strategy

Our targets:
- All Group apprenticeship programmes will have at least 50% female representation from 2020
- All Group Management development programmes will have at least 50% female representation from 2020
- A minimum 50% of showroom managers will be female by December 2024

BACKGROUND

We employ over 5,000 people across our head office, manufacturing, warehousing, logistics, sales and service teams. 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 businesses history of innovation in the sector and our market leading position.

Risks associated with our colleagues include:

- Loss of skilled specialist workforce (e.g. in our manufacturing operations) resulting in incremental training costs and/or reduction in quality of products
- Reduced engagement levels impacting innovation and our market leading position
- Under-representation across various demographics, impacting our ability to think more broadly and reflect our customer base
- Health and safety incidents that impact our reputation and result in financial penalties

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 AND DIVERSITY

It is our firm view that inclusive and 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 treated equally and fairly day-to-day and in the opportunities they are given and we expect all colleagues to treat each other and our customers with equal respect. We believe in this not just because it is morally right, but as an organisation that more appropriately reflects the communities where we work and the customers we serve, we will be able to better serve our customers.

Our focus in recent years has been on gender equality. This year we have kick started 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 have worked with expert advisors (such as Stonewall, an LGBTQ+ charity) to obtain expert guidance and emphasised through our appointment to the Board of Loraine Martins OBE an expert on inclusion, diversity and equality. Loraine will provide broad support and guide our plans going forward.

Working with our partners we have launched an LGBTQ+ Allyship network. This provides networks open to all of our colleagues to join, allowing individuals to educate themselves, support and provide solidarity to the LGBTQ+ community as well as driving and promoting behaviours that support inclusion and challenging those that do not.

Responsibility & 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.

We have held Inclusive Leaders training across our management population which incorporates real-life scenarios from our business to drive engagement.

We are in the process of developing our onboarding module to highlight the importance of diversity and inclusion to the business.

2

Engage

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

We set up our Inclusion Council in the year which focuses on a shared goal: to create a workplace where everyone is equal, listened to and respected. A collection of colleagues from across the business are dedicated to creating change and are personally invested in building a more inclusive future for everyone in the Group. The council, chaired by the Group CEO, published an inclusion special version of our internal magazine 'Crafted' to help educate and engage our colleagues on the importance of diversity and inclusion to our business. Outputs from this Group are reviewed at our Group Leadership Team meetings and our Group Board.

Our calendar is full of activities celebrating events throughout the year and providing a means for individuals to personally connect and learn about each other – examples include:

International Women's Day: A selection of Sofology female leaders held virtual sessions for college students, explaining their journeys into the world of work and the challenges they faced as aspiring leaders in their early years. This gave the college students a real understanding of career pathways and how they may map their own using the advice and examples given in these sessions.

Black History Month: In October we shared stories, ideas and content to promote and celebrate Black contributions to British society, and create a better understanding of Black history.

Pride: We encouraged all our teams across the business to show their support for Pride to ensure all team members irrespective of their sexual orientation feel welcome in the Group and the comments and photos showing support across our workplace social media platform was phenomenal.

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.

Across the business, our teams are working on initiatives and collaborating with others to drive change. For example, to remove the risk of unconscious bias we have tasked recruiters to remove names from job applications and the Sofology brand ran inclusive recruiting workshops.

We have developed a number of family friendly policies internally that go well beyond the statutory requirements and give flexible alternatives to our colleagues on maternity, paternity, parental and adoption leave.

Sofology's Next Generation programme which is designed to give colleagues the opportunity to apply for in-house development and support to reach the next steps in their career path has a minimum 50% female representation on each intake.

Responsibility & sustainability report continued

It is clear that in order to focus our efforts, we need to gather better data and insights on our workforce. DFS has launched 'Everyone Counts' and Sofology the 'SoForAll' campaign, encouraging colleagues to share more demographic information about themselves and these campaigns are beginning to make a difference.

We are conscious that given historical sector specific dynamics such as a predominantly male-dominated warehousing and delivery workforce and our colleague turnover levels, it may take time to achieve a better balance; however we intend to set more targets in the future to track our progress. We will also start to include questions covering diversity and inclusiveness in our colleague surveys so we can understand how colleagues perceive our efforts to drive positive change and set a benchmark to measure progress against.

The Group also recognises the right of every colleague to work in an environment free of discrimination and harassment. We have a formal policy for what constitutes harassment and bullying inside and outside the workplace and we have a grievance procedure which outlines how these instances are resolved.

40%
OF EMPLOYEES > 5 YEARS SERVICE
(FY20: 39%)

PROGRESS AGAINST TARGETS

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

	Male	Female
FY21	**38%**	**62%**
FY20	45%	55%

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

	Male	Female
FY21	**40%**	**60%**
FY20	57%	43%

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

	Male	Female
FY21	**74%**	**26%**
FY20	78%	22%

Gender diversity of the Group 27 June 2021

Directors

	Male	Female
FY21	**4 (50%)**	**4 (50%)**
FY20	4 (57%)	3 (43%)

Group Leadership Team

	Male	Female
FY21	**4 (67%)**	**2 (33%)**
FY20	6 (67%)	3 (33%)

Senior managers

	Male	Female
FY21	**17 (68%)**	**8 (32%)**
FY20	17 (68%)	8 (32%)

All colleagues

	Male	Female
FY21	**3,361 (64%)**	**1,856 (36%)**
FY20	3,437 (64%)	1,935 (36%)

Details of our most recent gender pay gap report can be found on page 111 in the Directors' Remuneration Report.

TALENT & DEVELOPMENT & EARLY CAREERS

Developing and retaining talent is important to us and as such we have a robust talent review process in place across the Group and a range of learning solutions to develop key skills, supporting career progression and role transitions.

We actively promote the benefits of further learning and development for all our colleagues, at whatever stage of their career. We provided over 100,000 training hours to our colleagues ranging from leadership development to ongoing induction and role specific training.

During the pandemic we utilised our digital technology to deliver a range of virtual learning solutions, ensuring we continued to support all our colleagues offering bite-sized development with particular emphasis on wellbeing, virtual leadership, and 'thriving through change'. The success of these virtual learning sessions will enable us to continue to offer support and development to all our colleagues well into the future.

We seek to promote internally and 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 into our business for early careers work experience and offer learning which supports students in their transition from school to work.

Our apprenticeship scheme offers support not only to young participants to achieve formal qualifications in their chosen field, but also underpins our career pathways offering Advanced and Higher Apprenticeships to existing colleagues wanting to further their professional development.

Work experience opportunities this year were severely impacted by Covid-19 during the year but are anticipated to return to normality in the coming year.

Responsibility & sustainability report continued

COLLEAGUE ENGAGEMENT

Creating highly engaged teams is a cornerstone of our success. We listen to our colleagues' feedback and ideas in many ways, including our partnership with Best Companies in DFS and Happiness Index in Sofology. We believe 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. The Forum meets regularly to keep informed with what is happening across the Group, to collaborate and share best practices. This included a special Inclusion focused Forum during the year
- Workplace by Facebook is a leading digital platform that allows colleagues to connect and collaborate with each other, while keeping updated about key news from across the Group. Workplace also gives all of our colleagues direct and instant access to our Group Leadership Team, which enables great conversations about what matters most to our business
- We keep our colleagues informed of performance and strategy through regular meetings led by the Group Leadership Team and updates via Workplace and Crafted, the Group-wide magazine
- The Executive Directors attend key business meetings throughout the year, including regular trading performance review 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
- As noted last year, Jane Bednall has been appointed as the Group's designated Non-Executive Director for workforce engagement. Jane, together with the Chairman and other members of the Board, has continued communication with colleagues through regular employee channels in addition to engagement through our dedicated employee Voice Forum. The Forum takes place twice a year, with a broad and diverse range of employees represented. Topics are selected by both employees and the Board, and have resulted in lively and engaging sessions with genuine two-way engagement between the Board and the wider workforce.
- We have a network of 'Sustainability Champions' led by our Group Leadership Team and who help to drive sustainability across all areas of the Group, providing insight to the ESG Committees on potential energy/resource saving initiatives and social matters across the business

HEALTH, SAFETY AND WELLBEING

Our targets:

- ISO45001 – Health & Safety from December 2021.

Our commitment

Our people are critical to our business and we recognise the importance of promoting safe working and preventing work-related injuries or ill health in all forms. We seek to minimise the risk of a negative impact resulting from our operations on the health, safety and wellbeing of our colleagues and to provide a working environment that our colleagues can thrive in.

Our policy 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.

We have a number of mandatory training modules including an introduction to Health and Safety which is completed by new starters to manual handling modules specific to each area of the business. We also run IOSH Managing Safety courses for managers and supervisors.

Risk assessments are reviewed annually for each business area and if required following an accident.

Our ISO45001 occupational health management system has been recertified following the latest round of audits in May and both DFS and Sofology achieved the RoSPA (Royal Society for the Prevention of Accidents) Gold Award for excellence in H&S.

"I began the apprenticeship in January 2020 and I'm now a year into my dream job. I'm still excited to come into work every day, learn something new, put it to the test, and develop skills which provide me a career for life."

DYLAN ATKINSON
JUNIOR DEVELOPER APPRENTICE – DUE TO COMPLETE LEVEL 4 IN SOFTWARE DEVELOPMENT

Responsibility & sustainability report continued

Covid-19 response

Across the Group we have continued to follow Covid-19 guidelines and the Covid-19 response plan set out in last year's annual report and prioritise the health and safety of our colleagues and customers. We have introduced 'Golden Rules' safety protocols, have testing procedures in place for our delivery and manufacturing teams and continued to operate a work from home policy for the vast majority of our head office colleagues. We have an internal process which ensures a member of our Health and Safety team calls all colleagues who have tested positive for Covid-19 to help identify any close contacts in order to isolate them and reduce the risk of an outbreak at our sites.

Given our strong trading performance we decided not to draw upon the Coronavirus Job Retention Scheme. Instead we amended our sick pay policy to take account of Covid-19 risks through the introduction of the Group's Coronavirus Absence Pay Scheme ("CAPS") to ensure that all colleagues in the business had peace of mind that they would be supported if they were absent from work because they were ill with the virus or could not work for Covid-related reasons. Colleagues were paid 80% base pay for the duration of that absence.

During the year we launched a 'Supporting You: Working Remotely' module to provide practical advice and wellbeing support to our colleagues who were working from home and we developed an online course 'thrive during change' which enabled colleagues working remotely to build their own personal strategies to develop and progress during this period.

In an effort to maintain employee interaction and keep morale high during the periods of lockdown we ran a range of virtual events hosted by the Group Leadership Team ranging from cocktail making masterclasses to online yoga.

Mental wellbeing

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 mental health first aiders working across the Group and have increased our network by around 20% during the year in response to the pandemic.

We launched an 'Understanding Mental Health in the Workplace' training course in October 2020 which is mandatory for all new and existing managers.

Peppy

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. During the year we have provided a new healthcare benefit that is now available to all our colleagues through a market-leading solution, Peppy.

Peppy offers support through some of life's more challenging transitions – like parenthood, the menopause and male specific health issues. We will be developing our partnership over the next few months and years, but to begin with we're focusing on support for the menopause.

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. Our aim over the next 12 months is to achieve recognition as one of the first accredited Menopause Friendly Employers in the UK.

Peakon Survey

We are currently trialling The Peakon survey across head office colleagues. The survey enables us to capture how colleagues are feeling, any concerns they have and how they are being supported by the company. Colleagues are surveyed at regular intervals (every 8 weeks) as a 'pulse check' and to help us capture engagement and responses to projects as they are landing. This market-leading tool will enable better insight and intelligence from our employees and the use of Peakon surveys will be particularly useful to support our transition to hybrid working.

Fika

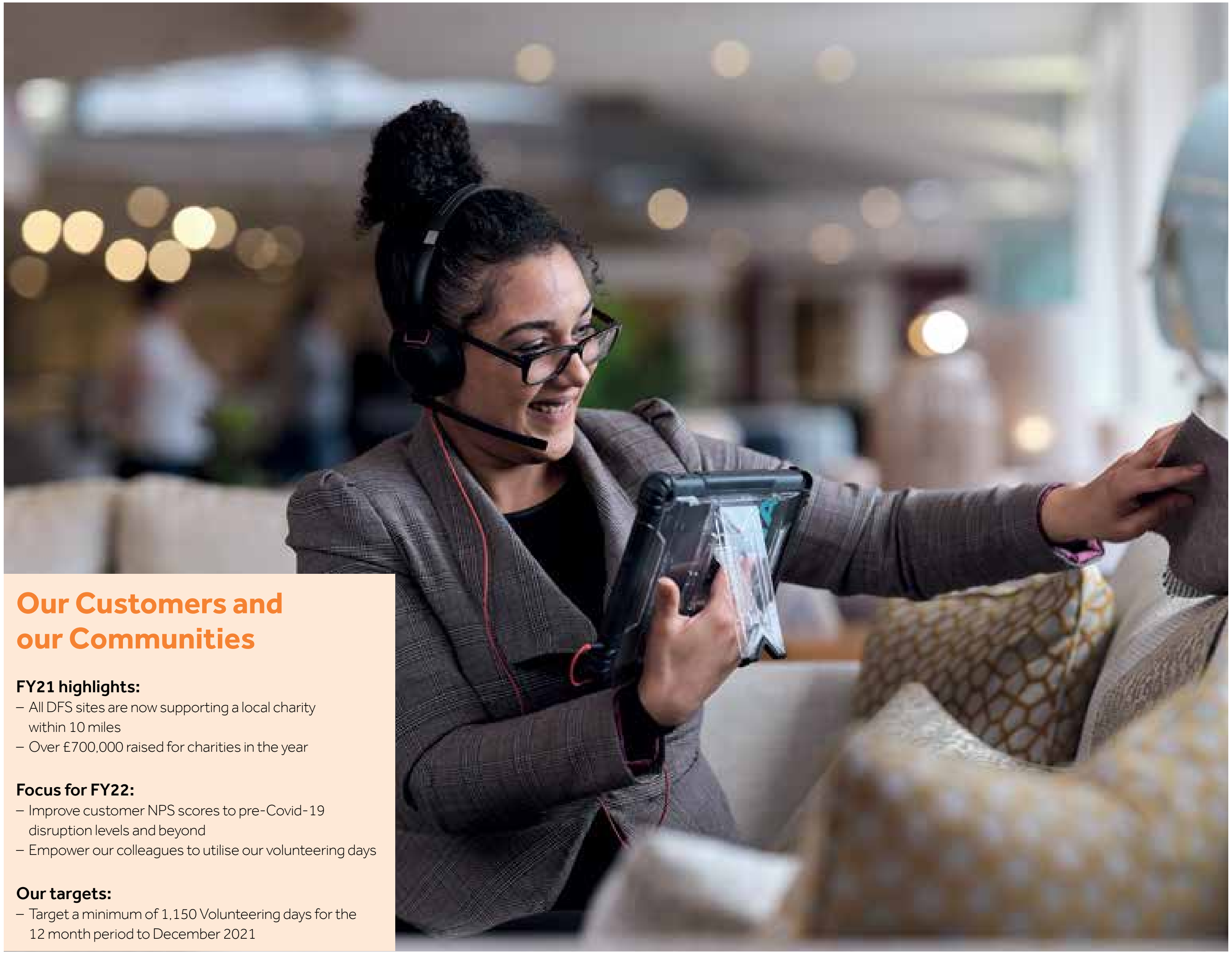
To support our colleagues' mental wellbeing we have not only attempted to encourage colleagues to discuss the issues they are facing with us and our mental health first aiders but we are trialling a specialist tool that attempts to help our colleagues build their mental fitness. Fika is a Mental Fitness app for colleagues to access short courses and training materials which help people improve their mental fitness by working on seven key skills; confidence, connection, motivation, stress, focus, positivity and meaning. The purpose is to emphasise that we all need to do exercises to maintain our mental fitness in the same way we do physical fitness to prevent future mental health decline. These tools, techniques and coping mechanisms aim to help individuals become more mentally fit and as a result more resilient to everyday life work stresses.

Flexible/hybrid working

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
- 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 & sustainability report continued



Our Customers and our Communities

FY21 highlights:
– All DFS sites are now supporting a local charity within 10 miles
– Over £700,000 raised for charities in the year

Focus for FY22:
– Improve customer NPS scores to pre-Covid-19 disruption levels and beyond
– Empower our colleagues to utilise our volunteering days

Our targets:
– Target a minimum of 1,150 Volunteering days for the 12 month period to December 2021

Our customers

BACKGROUND

We sell sofas to approximately 800,000 customers per year across the UK, Ireland, Spain and the Netherlands.

We deem the key risk associated with our customers as the loss of reputation driven by poor quality products or service levels which has the potential to negatively impact our market share and future sales.

CUSTOMER SERVICE AND NPS

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

Customer referral is 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 increased to 86.4% (FY20 85.7%). DFS established customer NPS score in the current year has been heavily impacted by the pandemic and uncontrollable issues within the supply chain resulting in longer than envisaged lead times and has decreased to 30.7% (FY20 42.9%).

Responsibility & sustainability report continued

Our Communities

BACKGROUND

We operate showrooms, manufacturing operations, distribution centres and head offices across c.200 locations in the UK and Ireland as well as six in the Netherlands and two in Spain providing local employment to many 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.

GIVING BACK

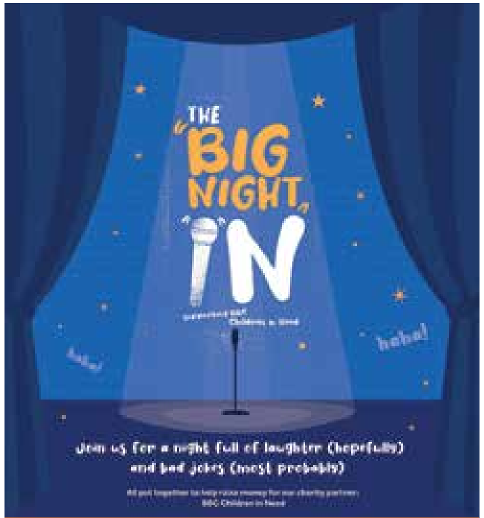
It has been over a year since we launched Giving Back at DFS, an innovative new way for colleagues and the Company to make a difference to the communities where we live and work.

Through Giving Back, we have committed to raise and donate up to 1% of our Profit Before Tax every year, give every colleague one day's paid volunteering and donate up to 1% of our products (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 have seen significant interest from our colleagues around volunteering initiatives however the pandemic has severely limited the opportunities available during the year meaning we are likely to fall short of our target. However, appetite remains strong and volunteering levels have increased since lockdown restrictions were eased.

DFS and BBC Children in Need;

We renewed our partnership with BBC Children in Need last year after engaging with our colleagues, and over the next two years the money we raise will go towards providing one-to-one counselling and specialist support for 7,500 children and young people with mental health issues.



CASE STUDY

The 'Big Night In' in support of BBC Children in Need.

In November we hosted The 'Big Night In', a night full of laughter and bad jokes all put together to help raise money for our charity partner: BBC Children in Need.

Streamed to all colleagues across our Workplace platform it was hosted by Justin Moorhouse and included stand-up routines from a range of comedians.

Employees from all areas did their bit to raise funds such as jumping in ice baths, getting dunked in baked beans and culminating in a dip in the North Sea.

In FY21 the Group raised over £637,000 for BBC Children in Need. Together with our customers we have now raised over £5,500,000 since 2013. We would like to thank all of our employees and customers for their efforts this year as we managed to exceed our pledge target despite showrooms being closed for 21 weeks of the year through Give me Five, Appeal week and our first 'Big Night In' in support of BBC Children in Need.

All our manufacturing and warehouse locations, offices and showrooms have partnered with a BBC Children in Need funded project within 10 miles of their location to ensure a connection is established and to help drive local involvement.

The Pennies Foundation

Sofology is now in the second year of its partnership with the registered charity "The Pennies Foundation". Pennies works with Sofology to allow 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.

As well as supporting these charities through customer donations, Sofology colleagues have completed individual fundraising activities to raise extra funds, including four members of the leadership team taking part in a skydive for PAPYRUS, the UK Charity for the prevention of young suicide. We held a talent competition for Children's Hospices Across Scotland ("CHAS"), and colleagues took part in a 28 day challenge in February to raise money for Grace House, a UK Charity supporting the lives of disabled children, young people and their families. During lockdown, Cancer Awareness for Teens & Twenties ("CATT's") ran workshops for colleagues that they could use their volunteering days for. We have also had colleagues help to paint the new offices for Teens Unite as well as undertaking a garden project.

Duke of Edinburgh's Award

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

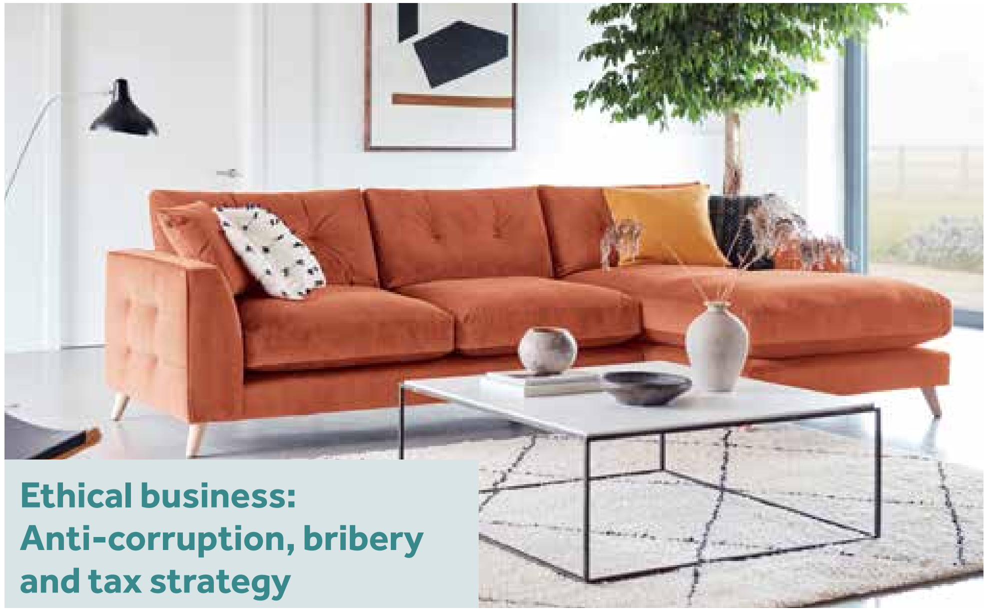
CASE STUDY

Sofology Enterprise Advisors.

At Sofology we have three colleagues who are supporting the Greater Manchester Combined Authority in one of the Mayor for Greater Manchester's key pledges to invest in young people by bridging the gap between education and employment. These colleagues work with selected SMEs in schools and colleges to strategically guide and influence the development and implementation of an effective and innovative careers and employer engagement plan to ensure schools and young people are well networked and informed to achieve their full potential.

We have supported schools by running Science Technology English Maths ("STEM") sessions in which we have provided interactive workshops that link our business to the school curriculum. For example, we tasked pupils to design and create their own sofas using crib sheets with sizes, dimensions and prices on leathers, fabrics and interiors within a certain budget.

Responsibility & sustainability report continued



Ethical business: Anti-corruption, bribery and tax strategy

Our commitment
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.

We apply our policies across all of our operations, and also 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-corruption and anti-bribery policy and our Tax Strategy are available on our website https://www.dfscorporate.co.uk/governance/policies and our key principles are stated below:

Bribery and Corruption
The principle: We will not accept bribery or corruption; in any form, or in any place and we do not offer, give, or take a bribe or inappropriate payment, either directly or indirectly.

What this means in practice:

- Offering, giving, taking or promising things that may influence, or affect an organisation or individual in order to gain business, or an advantage, is not allowed in any form
- Accepting or offering a bribe/kickback payment of any kind is prohibited; a bribe doesn't have to be successful to be corrupt
- We will never use our charity or sponsorship activities to gain an unfair advantage
- We expect all colleagues, partners and suppliers to report any breaches, or suspected bribes or corrupt behaviour

Gifts and Hospitality
The principle: Giving or accepting a gift or hospitality should only be done if it can be proved to be of small and modest value. They should never influence the decisions we take.

What this means in practice:

- We don't offer or accept gifts or hospitality as part of contract negotiations or sales transactions
- Any gifts given or received are modest in value and recorded appropriately

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

What this mean in practice:

- We don't put ourselves in a position where our knowledge or relationships compromise our decision
- All personal conflicts of interest are declared – even if they are potential in nature
- Insider trading, either direct or indirect, is strictly prohibited by law

Business transactions and information
The principle: All business records, information and transactions must be recorded accurately and honestly. We're steadfast in our approach to preventing any kind of fraud, embezzlement, money laundering or other financial crime.

What this means in practice:

- We have robust controls in place to prevent and detect any form of fraud or money laundering
- The records of our business dealings and finances are accurate and well maintained
- If we suspect any kind of irregularity in our finances, they are reported straight away to the management team
- Timesheets and expenses that are submitted for payment are accurate and timely

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 40 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 principles as set out in the GDPR and DPA 2018 and have a formal Data Protection policy.

This Strategic report was approved by the Board on 23 September 2021.

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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IAN DURANT
Non-Executive Chair

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TIM STACEY
Chief Executive Officer

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MIKE SCHMIDT
Chief Financial Officer

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ALISON HUTCHINSON CBE
Senior Independent Director

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JANE BEDNALL
Independent Non-Executive Director

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JO BOYDELL
Independent Non-Executive Director

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STEVE JOHNSON
Independent Non-Executive Director

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LORAINE MARTINS OBE
Independent Non-Executive Director

Board of Directors continued

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 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, Sea Containers 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 ICAEW

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, where he was responsible for retail, supply chain, technology 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 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 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.

Alison is the CEO of The Pennies Foundation charity, working with retail leaders for the last 12 years to support the industry in delivering on its social purpose in communities.

She 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
- Independent Non-Executive Director of Liverpool Victoria Friendly Society Ltd.
- 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 Financial Officer of Travelodge since March 2013, and has broad based finance experience in hospitality, leisure and retail.

Jo has held senior finance roles across a number of consumer-facing companies including Mothercare, Jessops, Ladbrokes plc, Hilton Group plc and EMI Group.

Jo has 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 Financial 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. He is currently the Executive Chairman at the Matalan Group.

Previously served as CEO of Focus Wickes DIY Group and Woolworths, as well as working with several other retailers. Prior to this Steve spent eight 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. Steve has significant retail and M&A experience.

Qualifications:

- BA (Engineering) MEng (University of Cambridge)

External appointments:

- Chairman of Missouri Topco Limited, the holding company of Matalan Group Limited and Director of other subsidiary companies within the group
- Senior Independent Director of Lenta Limited

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 over 30 years' experience in marketing including digital marketing, commercial and people leadership 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 InterContinental Hotels Group, British Airways and Centrica.

Jane previously held Non-Executive Directorship's with EI Group and Smart Energy GB.

Qualifications:

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

External appointments:

- None

Independent:

- Yes

LORAINE MARTINS OBE

Non-Executive Director

A N R S

Date of joining DFS: June 2021

Experience: Loraine has been the Director of Diversity and Inclusion at Network Rail since 2012 and is an expert in this field. 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.

In 2021 Loraine was awarded the OBE for her services in this area, having previously been awarded the MBE in 2016, for her work on the Olympics.

Loraine brings 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

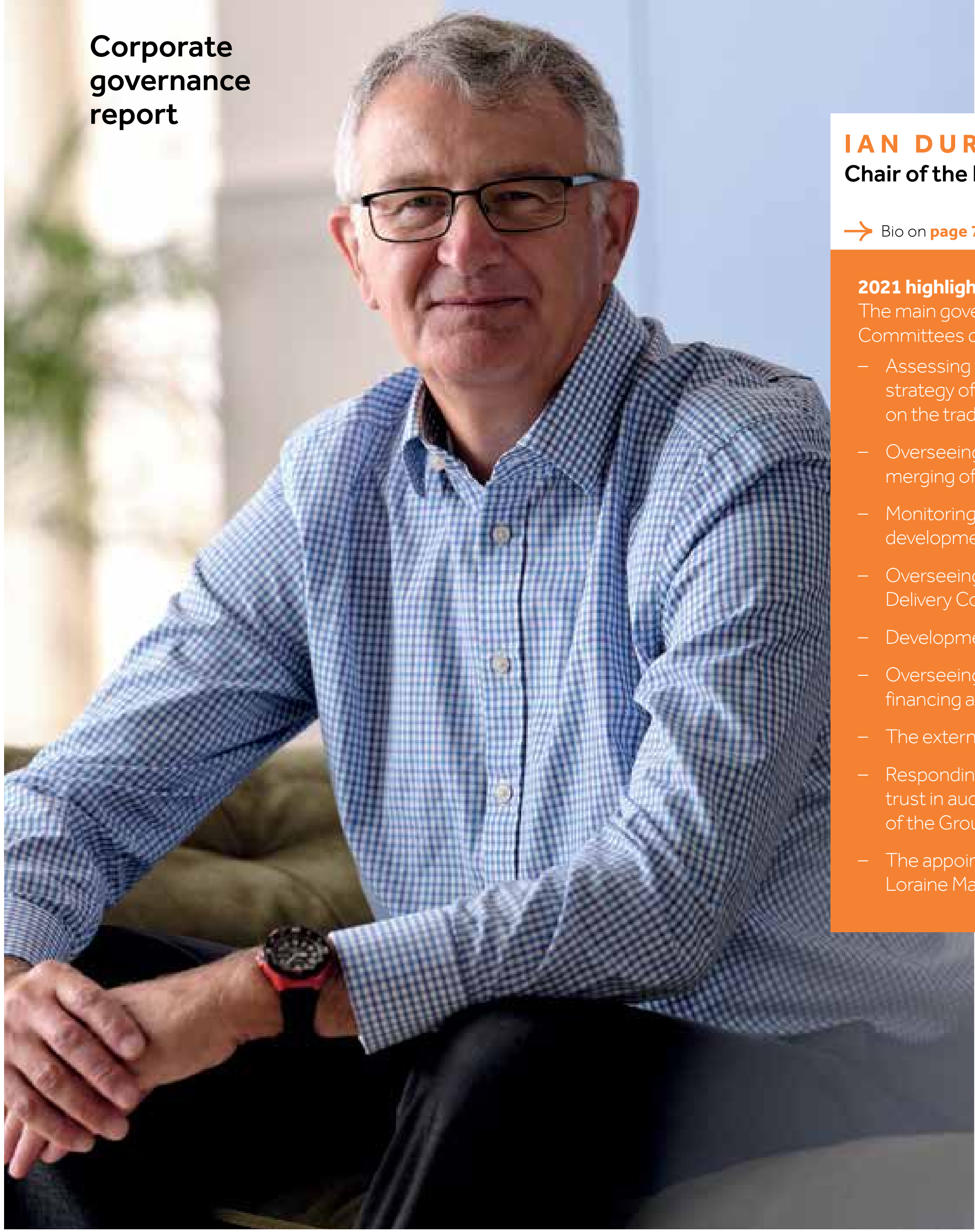
Independent:

- 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 73

2021 highlights
The main governance issues addressed by the Board, and its Committees during the year included:

- Assessing the operating and financial performance and strategy of the Group, in light of the impact of the pandemic on the trading environment and market expectations.
- Overseeing the sale of Sofa Workshop Limited and the merging of Dwell into DFS.
- Monitoring progress against ESG Phase 1 targets and the development of the Inclusion and Diversity strategy.
- Overseeing the transfer of people and assets into The Sofa Delivery Company Limited.
- Development of the new Remuneration Policy.
- Overseeing the extension to the Group's syndicated financing arrangements.
- The external Board evaluation by Gould Consulting.
- Responding to the UK Government White Paper on Restoring trust in audit and corporate governance and initiating a review of the Group's internal controls.
- The appointment of a new Non-Executive Director, Loraine Martins.

Dear Shareholder

I am pleased to present our Corporate Governance report for the year ended 27 June 2021, on behalf of the Board. This report sets out the Group's corporate governance framework and explains how it underpins and supports the Group Leadership Team in delivering the Group's strategy.

The Board recognises that good governance is essential to support resilience and innovation and enable the Board to take decisions that create long-term sustainable value for the benefit of our shareholders and wider stakeholder groups.

Board composition and roles
All our Directors' served throughout the year. As you will have seen from my introductory statement on pages 9 and 10 at the start of this year's report and accounts immediately after the end of the year, we were pleased to welcome Loraine Martins to our Board as a Non-Executive Director.

People
It has been a priority for the Board this year to look after the health and welfare of our people, and listen to their views, while at the same time continuing to serve the needs of our customers amid disrupted operating conditions

Board Evaluation
During the year, working with Gould Consulting we undertook an externally led evaluation of the Board and its Committees. The evaluation, which incorporated a detailed assessment of the view of the Directors and the Group Leadership Team has provided the basis for the Board Action plan. More detail on this can be found on page 80 in this report.

Corporate governance report continued

ESG

Environmental, social and governance ("ESG") considerations continue to be an increasingly important area of focus for our shareholders. The Board recognise the importance of this area and DFS is committed to continually improving our performance towards our targets and a more sustainable future for our communities. Given the importance of our ESG Strategy after the year-end we established the Responsible and Sustainable Business committee, chaired by Alison Hutchinson, the Senior Non-Executive Director. The Committee will lead and oversee the delivery of how the Group operates as a Responsible and Sustainable business. Further information on our ESG initiatives can be found in our Responsibility and sustainability report on pages 51 to 70.

Revised Articles of Association and 2021 AGM

We will be asking shareholders to adopt revised articles of association at the 2021 AGM. This is principally to allow hybrid shareholder meetings in the future, but we have also taken the opportunity to update the articles. A summary of the proposed changes is set out in the appendix to the Notice of AGM, which in turn is available on the website. I would appreciate your support on resolution 20 to give us the ability in the future to be flexible in how we hold meetings.

This year our AGM will be held on 12 November 2021 at 3:30pm at our Group Support Centre in Doncaster. After last year when due to the Covid-19 restrictions our AGM had to be held behind closed doors, the Directors and I are looking forward to once again welcoming shareholders to the meeting.

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 46 to 50.

Ian Durant

Chairman
23 September 2021

GOVERNANCE FRAMEWORK

DFS Furniture plc Board

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

The Board has responsibility for the overall leadership of the Group, setting the Group's purpose, values and strategy and satisfying itself that these align with its culture, taking into consideration the views of shareholders and other key stakeholders, to promote the long-term sustainable success of the Group and its contribution to wider society. It also has responsibility for the Group's performance and governance oversight.

Governance Documents are available at www.dfscorporate.co.uk

Audit Committee

Oversees financial reporting, internal controls, risk management, compliance, and audit.

See committee report on **pages 83-89**

Remuneration Committee

Oversees linking remuneration with strategy and determines the levels of remuneration.

See committee report on **pages 91-113**

Nomination Committee

Oversees the composition of the Board and succession planning.

See committee report on **pages 89-90**

Responsible & Sustainable Business Committee

Oversees the delivery of our ESG strategy

See report on **pages 51-70**

Corporate governance report continued

OUR BOARD

The Board currently consists of five independent Non-Executive Directors, an independent Non-Executive Chair and two Executive Directors. Biographies of all members of the Board appear on pages 73 to 74.

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

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

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

The Board has adopted a formal schedule of matters reserved for its approval. This is reviewed annually to ensure it complies with the requirements of the Code and the current needs of the business. 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 implemented a Group Policy framework which is considered by the Board on an annual basis. Individual policies and associated practices are considered by the Board throughout the year.

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

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

BOARD COMMITTEES

Subject to those matters reserved for its decision, the Board has delegated certain authorities to its Committees. The terms of reference for each of the Committees are available on the corporate website. Separate reports for each Committee are included in this Annual Report from pages 83 to 90.

In September 2021 after a recommendation by the Nomination Committee, the Board established a new committee: the Responsible and Sustainable Business Committee, chaired by Alison Hutchinson the Senior Independent Non-Executive Director. The focus of the Committee is to lead and oversees delivery of our strategy as a Responsible & Sustainable business focused on:

1. Our people
2. Our planet
3. Our customers
4. Our communities

The Committee will be comprised of Alison Hutchinson (Chair), the CEO Tim Stacey, Jane Bednall and Loraine Martins.

ROLE OF THE CHAIR AND CHIEF EXECUTIVE OFFICER

There is a clear division of responsibilities between the Chair and the CEO. As the 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. The role is distinct and separate to that of the Chair and clear divisions of accountability and responsibility have been agreed and documented by the Board.

Role of the Chair

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

Role of the Chief Executive Officer

- Leading the management and performance of the Group;
- Planning the Group's strategies effectively;
- Ensuring the effective implementation of the Board's decisions;
- Maintaining an effective framework of internal controls and risk management;
- Leading, motivating and monitoring performance of the Group 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 on 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

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

- Advising the Board and its Committees on corporate governance policies and procedures 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

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

BOARD BALANCE AND INDEPENDENCE

The Board considers that the Chair was independent on appointment and that all of the Non-Executive Directors are independent. Full details are set out below, and remuneration is addressed in the Remuneration Report.

The Board has determined that each of the Non-Executive Directors have sufficient time to devote to their role and that they have a complementary set of skills and experience as shown in the table below.

This year the Board reviewed the skills and experience in the light of the changes to the business brought about by the pandemic and the market in which the business now operates. Three additional skills were identified as key skills required by the Board. Governance & Regulatory, Digital, and Mergers and Acquisitions.

LENGTH OF APPOINTMENTS

Non-Executive Directors' appointments are for an initial period of three years and are subject to annual re-election by shareholders at the Company's AGM. Neither the Chair nor any Non-Executive Director have been in their position for more than nine years, in accordance with the recommendations made in the Code.

BOARD MEETINGS

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

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

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

The Board held eight scheduled meetings during the year, with one of these meetings being a strategy day with members of the Group Leadership Team. Three additional meetings were held during the year bringing the total number of Board meetings to eleven. Board decisions made outside of a meeting are made by written resolutions. Details of attendance at Board meetings is set out on page 79.

Until April 2021, lockdown restrictions meant that the Board was unable to meet in person for Board and Committee meetings. These meetings were held online. Following the easing of restrictions from this date, the Board recommenced in person meetings. The Board usually splits its meetings between Doncaster and London as well as at a number of operational locations to provide an opportunity to promote colleague engagement and provide the Board with greater insight and direct feedback.

Additionally, all of the Non-Executive Directors spend time visiting the Group's showrooms, warehousing, and manufacturing sites throughout the UK. Due to the pandemic fewer visits than normal have been possible over the last year but they have re-commenced over the last few months. 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.

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

Corporate governance report continued

Name	Meetings attended	Maximum meetings	Independent	Responsibility and role during 20/21	Date of appointment
CHAIRMAN					
Ian Durant Chairman	11	11	✓	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	11	11	–	Leading and managing Group performance and strategy to ensure the long-term profitable operation of the Group.	1 November 2018
Mike Schmidt CFO	11	11	–	Leading, managing, and maximising Group financial performance, investor relations, legal and property functions.	11 July 2019
NON-EXECUTIVE DIRECTORS					
Alison Hutchinson (SID)	11	11	✓	Overseeing the implementation of the strategy and development of the Group whilst maintaining a system of internal control and risk management.	1 May 2018
Steve Johnson	11	11	✓	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.	6 December 2018
Jo Boydell	11	11	✓		6 December 2018
Jane Bednall	11	11	✓		1 January 2020
Loraine Martins*	–	–	✓		28 June 2021
* Loraine Martins was appointed 28 June 2021 so was not eligible to attend any Board meetings during the year.					
STANDING ATTENDEES					
Elizabeth McDonald, Company Secretary				Advising the Board on all corporate governance and legal 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	7			The Group Leadership Team reports to the CEO and implements the strategy and manages the day-to-day operations of each of the Group companies. Their attendance at Board meetings is part of the process of maintaining an awareness of the Group's activities and assessing the ability of the management team. This process also affords the team the opportunity to bring matters to the attention of the Board.	
Scott Fishburn	5				
Sally Hopson	4				
Alex Salden	4				
Russ Harte	3				
Jo Shawcroft	4				

COMMITTEE MEETINGS

All Directors are invited to Audit Committee meetings, and the Chair of the Board is invited to attend Remuneration Committee meetings. The Chief Executive Officer is invited to attend both the Remuneration and Nomination Committee meetings, and the Chief Financial Officer is invited to attend the Remuneration Committee meetings. Neither the CEO or CFO are present for any of the discussions regarding their remuneration.

Name	Audit Committee	Remuneration Committee	Nomination Committee
Ian Durant	–	–	2/2
Alison Hutchinson	3/3	4/4	2/2
Steve Johnson	3/3	4/4	2/2
Jo Boydell	3/3	4/4	2/2
Jane Bednall	3/3	4/4	2/2
Loraine Martins*	–	–	–

* Loraine Martins was appointed on 28 June 2021, so was not eligible to attend any Committee Meetings during the year.

Corporate governance report continued

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018

Introduction

The report has been prepared in line with the requirements of the 2018 UK Corporate Governance Code ("the Code") and The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations). The Board remains supportive of the Code's enhanced emphasis on engagement with stakeholders, diversity, remuneration structures and strengthening of corporate culture. A copy of the Code can be found at www.frc.org.uk.

Compliance statement

This Corporate Governance Report, which incorporates reports from the Audit and Nomination Committees on pages 83 to 88 and 89 to 90 together with the Strategic Report on pages 1 to 70, the Directors' Remuneration Report on pages 91 to 113 and the Directors' Report on pages 114 to 116, describes and explains how the Company has applied the relevant provisions and principles of the Code, and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules throughout the year.

We are pleased to report that during the year the Company was compliant with all Provisions of the Code except for Provision 38. Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our incumbent Executive Directors' pension contribution rates, while in line with the policy for existing Executive Directors, do not yet match the wider workforce. Changes proposed in the Directors' Remuneration policy, will see the existing CEO and CFO pension allowances being reduced from 11% and 9% respectively to the wider workforce level by the end of 2022. Further details regarding the Executive Directors pension contributions are set out at page 98 of the Directors' Remuneration Report.

Conflict of Interest

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

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

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

Board Evaluation

In line with the FRC's 2018 Code on Corporate Governance, the Board undertakes an annual evaluation of itself and its committees. Having conducted an internal review last year, the Board appointed an independent external consultant, Gould Consulting, to perform this year's effectiveness evaluation. The Company has no other business relationship with Gould Consulting.

Between March and May 2021, a four-stage process was followed, as depicted below:

Stages of our external Board evaluation

Stage 1	Stage 2	Stage 3	Stage 4
Gould consulting gathered data from Board members/ Company Secretary/members of the Group Leadership Team using a confidential online questionnaire	One-to-one sessions between each Board member and Gould Consulting were held	Gould consulting attended one full Board meeting (and one committee) as a silent observer	An independent report was presented to and discussed by. The Board then developed and agreed an improved plan

Results overview

In considering the feedback from the above process, Gould Consulting concluded that the Board and its Committees were performing well and had increased its effectiveness over the last year. The continuity provided by longer-standing Board members and the fresh thinking from newer members had been particularly helpful.

Highlighted strengths

– The Board was felt to be balanced, collaborative and has developed an effective way of working together
– Boardroom conversations were observed as open and transparent, able to be both supportive yet challenging
– Strong relationships existed between the Board and senior management and appeared to be based on mutual respect
– Each of the directors were willing to engage fully in Board conversations. Any risk from 'group think' was thought to be low.

Board Action plan for 2021/22:

The review has helped identify areas where the Board now plans to spend more time or would wish to revisit familiar topics in a different way.

The Board action plan for 2021/22 includes:

– Investing further Board time debating long-term strategy for the business
– Heightening focus on talent planning and diversity
– Exploring the role of culture as a key enabler of our future strategy
– Increasing the focus on risk (including emerging risks), audit and internal controls
– Reducing operational updates at meetings to improve further the quality of boardroom debate.

Corporate governance report continued

The Board will continue to review its procedures, effectiveness, development, and composition during FY22. The Chair will use the output of the Board evaluation to further develop the performance of the Board during the year ahead.

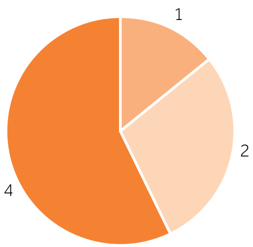
Election of Directors

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

As noted above, following the formal external evaluation process of the effectiveness of the Board, the Board is satisfied that each Director remains competent to discharge his/her responsibilities as a member of the Board and considers that each Director's contribution is, and continues to be, important to the long-term sustainable success of the Company and the specific reasons for such are set out in the Directors' biographies on pages 73 and 74.

Independence

During the year all of the Non-Executive Directors (excluding the Chairman) were independent during the reporting period and the Chairman was independent on appointment. The Remuneration Committee membership is made up of only independent Non-Executive Directors.



- Chairman
- Executive Directors
- Independent Non-Executive Directors

Culture and Company purpose

The Board recognises the importance of its role in setting the tone of the Company's culture. The Group's culture is underpinned by our Code of Conduct and associated policies and practices. In compliance with the Code, DFS has established its Corporate Purpose, which is set out on page 2, along with details of the Company's values and strategy. The Board regularly discusses the importance of the Company culture and is mindful that it remains aligned with its purpose, values, and strategy.

Diversity & experience

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

New Directors

Following appointment, a new Director will undergo a detailed, tailored month long induction programme.

As such new Directors spend a considerable amount of time understanding our company purpose, values, strategy, and culture to provide a solid groundwork to make a greater impact in relation to Board Discussions.

Should any individual development needs be identified, the Company will address those needs with the individual Director.

Understand the business	– 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 our colleagues	– One-to-one meetings with the members of Group Leadership Team and Senior Leadership teams of the operating subsidiaries. – Presentations from key functions within the Group (People, Finance etc.)
Visit the business	– Visiting operational locations including showrooms, factories, support offices and customer distribution centres and meeting with our colleagues from these areas.

External appointments

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

Due to the ongoing impact of the pandemic on the Group all the Directors spent considerably more time during the year than the minimum commitment required.

During the year Alison Hutchinson, the Senior Independent Non-Executive Director, was appointed to the Board of Foresight Group Holdings Limited, a company listed on the London Stock Exchange. Foresight is a specialist asset manager focused on sustainability.

Corporate governance report continued

Alison accepted the position after discussions with both the Chairman and CEO in accordance with provision 15 of the Code. Given the part-time nature of her executive role with the charity Pennies, the fact that she is not an Executive Director of Pennies, as well as her high level of engagement and record of attendance at Board and Committee meetings, the Board were satisfied that Alison could undertake this new opportunity whilst continuing to devote the time necessary to fulfil her role as the Company's Senior Independent Non-Executive Director. Additionally, it was felt that the specialist knowledge on sustainability Alison would gain from her role with the Foresight Group would be of benefit to the Company in further developing its sustainability and responsibility strategy.

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.

Shareholder engagement

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

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

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

The Chairman makes himself available to shareholders so that any major issues and concerns 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. No requests were received during the yet for the Senior Independent Non-Executive Director to meet with shareholders. The Chairman and Non-Executive Directors are also available to attend investor relations meetings or to meet with investors or analysts independently of the Executive Directors, if required.

The Company communicates with both institutional and private shareholders through the following means:

Interaction with all shareholders

- Presentations of full-year and interim results to analysts and shareholders, which are also available on the Company's corporate website.
- Market announcements 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

For details of our relationship with our wider stakeholders please see our section 172 statement on pages 46 to 50 and our Responsibility and sustainability report on pages 51 to 70 sets out more detail on how we manage our relationships with all our stakeholders.

External auditor

Our external auditor is Frances Simpson at KPMG LLP. Our auditors were appointed following a comprehensive tender process. The Audit Committee oversees the Group's relationship with its external auditor, including assessing the independence and effectiveness of the audit firm.

Internal audit

Further details relating to the internal audit function are contained within the Audit Committee report on pages 83 to 88.

Non–audit service policy

Our non-audit services policy can be found on our website and further details on pages 86.

Remuneration

The remuneration policies are designed to support strategy and promote the long-term success of the Company. Details of the procedures used to determine remuneration, including separate performance-related elements, in relation to the Board and wider workforce are contained in the Directors' remuneration report on pages 91 to 113.

DTR Disclosure

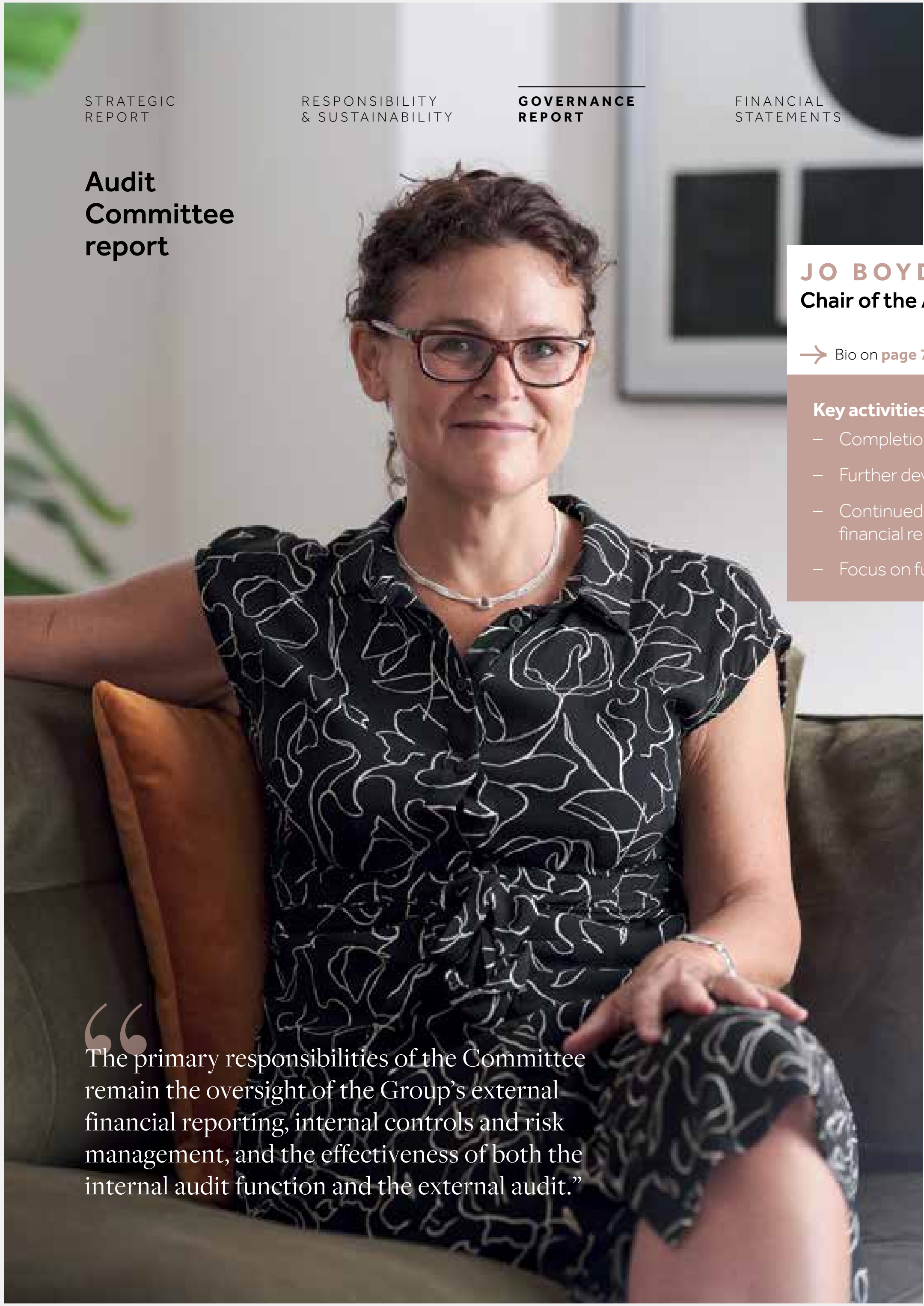
The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee reports, except for information required under DTR 7.2.6 which is contained in the Directors' report on pages 115 to 116.

Signed on behalf of the Board of Directors.

Elizabeth McDonald

Company Secretary & General Counsel
23 September 2021

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 74**

Key activities during FY21
- Completion of the external audit tender process.
- Further development of the internal audit function.
- Continued consideration of the impact of Covid-19 on financial reporting.
- Focus on future governance and reporting developments.

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

The continued disruption from the Covid-19 pandemic has demanded an agile and dynamic approach to risk management and I am proud of the way that our operational, risk and internal audit teams have responded to this challenge.

The further enhancements to our internal audit approach together with our increasing experience and confidence in working remotely have enabled our internal audit programme to remain wide-ranging and effective during this time. The Committee was delighted to see the quality of the Group's Internal Audit and Risk Team receive external recognition from the Chartered Institute of Internal Auditors during the year with the award of 'Outstanding Team – Private Sector' at the 2021 Audit and Risk Awards.

The Committee has also been able to conclude the external audit tender process that was initiated and then paused during the previous financial year. After a rigorous and informative series of meetings and presentations, the Committee recommended to the Board that KPMG LLP be re-appointed for the FY22 audit, subject to shareholder approval at the forthcoming AGM.

Following two years of significant changes to the Group's financial statements (due to a change of financial reporting period and the implementation of IFRS 16) the current financial year allows for a more straightforward presentation of results. The Committee has retained its focus on the key areas of financial reporting, particularly with regard to viability assessment given the volatility of trading experienced through the course of the pandemic.

The Committee also continues to consider the Group's response to the changing landscape of corporate financial reporting and governance and is taking proactive steps to ensure the Group is well placed to address future requirements such as those that may arise from the recently published BEIS consultation on audit and corporate governance reform.

I thank my fellow Committee members for their valuable contribution and support during the year, and I welcome any comments or questions from shareholders.

Audit Committee report continued

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 and Jane Bednall. In addition, Loraine Martins became a member of the Committee on her appointment to the Board on 28 June 2021.

The UK Corporate Governance Code ("the Code") recommends that all members of the Audit Committee are Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience. The Board considers that, by virtue of her current executive role, details of which are set out on page 74, 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 73 and 74 and a summary of their principal skills and experience is shown on page 78.

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

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 80. 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 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 79. 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 Audit Committee reviews the content of the Annual report and accounts and advises the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy. 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 provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

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 27 June 2021, 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 45
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 27 June 2021, 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 future impacts of Covid-19, and concluded that the going concern assumption remains appropriate and the Board is able to make the viability statement on page 45 of the Strategic Report.

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 27 June 2021 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 also 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.

The appointment of the Group's external auditors for FY22 was subject to a tender process as discussed below.

Approach to appointing the external auditor

As noted in last year's Annual report, the Committee took the decision, in line with FRC guidance, to pause the external audit tender process that had been initiated in FY20 as a consequence of the pandemic. This process was completed in FY21, with greater familiarity and capability with remote working on the part of both the Group and the tendering firms supporting a thorough and robust process even where restrictions on in person meetings remained in place.

After an initial review of potential audit firms four were selected to participate, comprising a mixture of 'Big Four' and other firms. The firms were issued with a detailed invitation to tender, which set out the information to be included in the proposal together with the criteria on which the proposals would be evaluated:

- Approach to ensuring overall audit quality with a specific focus on:
  - independence, scepticism and ability to challenge
  - the audit quality record of the lead partner and the firm
- The quality and experience (including industry expertise) of the lead partner, team and the firm
- The approach to managing the audit including:
  - Approach to managing the day to day process
  - Reliance placed on the Group's systems of accounting and internal control
  - Coordination and communication
  - Working with other assurance providers
  - The value provided from the audit including planned use of technology in the audit process

Audit Committee report continued

- Approach to transition including experience in transitioning similar audits
- Capability of the firm to look forward and adapt to future changes in audit requirements and focus areas.

Each firm was given access to a data room containing a broad range of information about the Group and had the opportunity to meet with relevant stakeholders including key finance and IT management, the Chairman, Chief Financial Officer, Chief Executive Officer, Company Secretary, Group Audit and Risk Director in addition to the Chair and members of the Audit Committee.

The firms submitted written proposals, which were considered in conjunction with detailed feedback obtained from the management meetings. In addition, all firms responded to a separate accounting technical challenge. Two of the four firms were then invited to present to a panel comprising the Chairman, Audit Committee, Chief Financial Officer, Group Financial Operations Director, Group Financial Controller and the Company Secretary.

Additional information brought out by the presentation sessions was then considered alongside the submitted documents and feedback gained throughout the process, including references from other audit clients.

Following detailed discussion by all those that attended the presentations, the Committee put forward a recommendation to the Board that KPMG LLP be appointed as external auditor for FY22, subject to approval by shareholders at the November 2021 AGM.

In making this recommendation, the Committee noted the strong external audit quality performance of KPMG LLP and the proposed audit team members and the positive results of the Group's own assessment of the performance of its external auditors. The Committee further considered the potential perceived and actual risks to the independence of the external audit that may arise from the length of KPMG LLP's current appointment and made specific enquiries on this point. The responses to these enquiries, together with the recent change in audit partner and level of challenge and rigour in evidence through recent audits satisfied the Committee that the length of appointment did not prevent delivery of a robust and independent audit. The Committee was also satisfied that re-appointment of KPMG LLP would not be a significant concern for shareholders based on feedback from investor roadshows and other interactions.

Safeguarding objectivity and independence relative to non-audit services

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

The policy governs the provision of non-audit services provided by the auditor and, in summary, categorises the types of non-audit services as:

- **Prohibited** – services that have the potential to impair or appear to impair the independence of their audit role
- **Permissible (subject to approval limits)** – services which primarily relate to work that is outside the required scope of the statutory audit, but is consistent with the role of the external statutory auditor
- **Services to be considered on 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 27 June 2021, 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.

INTERNAL AUDIT

The Group's internal audit function has continued to innovate with the aim of providing wider coverage with a more efficient and agile approach to increase the speed of results and support 'real time' assurance. The Committee reviewed and approved the proposed audit plan for FY21 which was built around the following core areas:

- Group Risks
- Regulatory & Legal
- Head Office functions
- Group Retail
- Supply Chain

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 or that were not completed due to the impact of the pandemic. The Committee also considered the areas not included in the FY21 audit plan in order to confirm the rationale for their exclusion.

Internal audit work is conducted through a blend of traditional full audits and lighter touch assurance reviews, introduced for the first time in FY21. These assurance reviews apply the same methodology as full audits but provide more of a snapshot of the auditable area giving timely assurance for specific areas or projects. As anticipated in last year's annual report, FY21 also saw an increased focus on sharing audit results across the Group to enable proactive remediation of identified issues and implementation of best practice.

Other improvements to the internal audit approach included increased accountability of auditors for monitoring completion of agreed remediation actions, to ensure deadlines are met and risks are adequately mitigated, as well as further development of the use of data and analytics to support the identification and tracking of risk areas.

Although the planned timetable of FY21 internal audit reviews had to be modified as a consequence of further Covid-19-related showroom closures, the Committee received updates on progress throughout the year and the overall schedule of work progressed satisfactorily given the restrictions imposed by the pandemic. Areas covered by the programme included:

- Consumer credit, including regulatory compliance with FCA Limited Permission requirements;
- Retail audits in all brands including a review of management and administration controls, stock management and regulatory compliance;

Audit Committee report continued

- Policy management;
- IT asset management;
- Retail banking and cash controls;
- Group code of conduct, anti-bribery and diversity & inclusion policies; and
- Group vehicle compliance

Following the external cyber audit carried out in FY20, the Group has continued to progress identified actions to strengthen its approach, including establishing a data strategy to ensure appropriate governance and consistency, and enhanced training for all colleagues to increase awareness and responsibility for cyber risks such as phishing, malware and password security. A follow up external cyber audit was initiated in June 2021, the outcome of which will inform developments in this area for FY22.

In addition, the internal audit team has provided a range of consulting and advisory support to the business such as collation of regulatory and compliance data, process improvements and additional resource for Covid-19 health and safety procedures.

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.

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.

The Committee was delighted to see the quality of the Group's Internal Audit and Risk Team receive external recognition from the Chartered Institute of Internal Auditors during the year, winning the 'Outstanding Team – Private Sector' category at the 2021 Audit and Risk Awards.

INTERNAL CONTROL AND RISK MANAGEMENT

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

The Group utilises a bespoke risk management system which allows for continuous updates and monitoring of risk by each business area and provides clear visibility of business engagement with risk management. The Committee receives an update at each meeting, highlighting new risks identified and progress and changes in rating of principal risks.

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

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

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

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

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

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

The impact 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. There have been no changes in 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.

As part of its horizon scanning activities the Committee has considered the potential impact of the recently published BEIS White Paper. An outline timeline of activity to review the Group's internal controls framework to ensure a thorough and orderly approach to compliance and an externally facilitated initial maturity assessment of the Group's controls against the anticipated new requirements has been undertaken in the year.

Audit Committee report continued

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 36 to 45.

Whistleblowing

The Group is committed to the highest standards of openness, honesty, integrity and accountability and, as a result, has a whistleblowing policy in place. This policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. Examples include fraud, breakdown in internal controls, misleading customers, bribery, modern slavery, dishonesty, corruption and breaches of data protection or health and safety. An internal audit of the Group's whistleblowing process conducted during FY20 concluded that it was operating effectively and identified some minor areas for improvement. During FY21 the Group has made further improvements to the reporting and analysis of 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 40 (FY20:26) 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;
– Gifts and entertainment; and
– Share dealing.

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

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

The 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, has been published on the Group's website (www.dfscorporate.co.uk).

The Group has also updated its Tax Strategy Statement, 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 117 and 124. 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 45.

Jo Boydell

Chair of the Audit Committee
23 September 2021

Nomination Committee report

"This year, the Nomination Committee has focused on ensuring that the Board has the necessary skills, diversity of thinking and experience to support the strategy of the Group."

IAN DURANT
Chair of the Nomination Committee

Bio on **page 73**

Key activities during FY21
Whilst the impact of Covid-19 on the Nomination Committee was less immediately felt, the Committee has nonetheless had a busy year:

- Overseeing the external Board Evaluation in accordance with the principles of the UK Corporate Governance Code.
- Conducting a review of the composition of the Board, based on the skills, knowledge, experience and diversity of the Board, the needs of our strategy and the requirements of our stakeholders.
- Recommending the appointment of an additional Non-Executive Director to the Board.
- Reviewing the pipeline of talent within the Group Leadership Team.

The Nomination Committee keeps the composition and performance of the Board under review to ensure that it has the right blend of skills, knowledge, inclusivity and diversity, and experience to remain effective in supporting the Company in its purpose and strategy.

During the year the Committee continued to review the composition of Board and the Group leadership team to ensure it has the right balance of skills, knowledge, experience and diversity of thinking to support the strategic needs of the business, including the need for the Board to be more reflective of society as a whole. 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 78.

Following a review by the Committee and to reflect the Group's development as an integrated retailer the Board accepted the Committee's recommendation and updated the core skills required to include digital, and M&A and Corporate Governance.

Following an introduction via our CEO and Group People Director, who had met Loraine whilst developing the Group's inclusion strategy, we decided to strengthen our Board further with the appointment of an additional Non-Executive Director, and so just after our year end Loraine Martins, MBE, was appointed to the Board as a Non-Executive Director 28 June 2021. Loraine, a senior executive with Network Rail, brings a wealth of experience in inclusion and diversity working in health and safety critical businesses.

Loraine joined us for her first Board and Committee meetings in July and is undergoing a comprehensive induction programme.

We are committed to having a diverse Board, in all respects, to reflect the customers we serve. I can report we currently have four female directors on our Board of eight directors, a 50% female representation.

Following the internally facilitated Board review in 2020, an external review process was undertaken this year. More information on the Board Evaluation process and outcomes are set out on page 80 of the Corporate Governance report. The performance of the Nomination Committee was reviewed, and I am pleased to report that the evaluation concluded that the Committee continues to operate effectively.

Nomination Committee report continued

Since the year end and following the recommendation by the Nomination Committee the Board has a established a new Committee, the Responsible and Sustainable Business Committee, which will be focused on the delivery of the Group's Environmental, Social and Governance strategy. The Committee will be chaired by Alison Hutchinson. More details of the remit and membership of the Committee is set out at page 53 of the Responsibility and sustainability report.

COMMITTEE MEMBERSHIP

The Nomination Committee is chaired by Ian Durant and comprised of all the Non-Executive Directors. Alison Hutchinson, Steve Johnson, Jo Boydell and Jane Bednall were members throughout the year. Loraine Martins joined the committee on her appointment to the Board post the year end. Only members of the Committee have the right to attend Committee meetings, but the Committee may invite others, including the Chief Executive Officer and the Chief Financial Officer to attend all or part of any meeting where appropriate.

The UK Corporate Governance Code recommends that the majority of the Nomination Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Board considers that each of the Non-Executive Directors are independent and the Chair was independent upon appointment and as such the Company complies with the Code.

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

ROLES AND RESPONSIBILITIES

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

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

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

KEY ACTIVITIES OF THE NOMINATION COMMITTEE

The main activities of the Committee included:

- Conducting the selection process, for the appointment of Loraine Martins, as an Independent Non-Executive Director effective from 28 June 2021;
- The ongoing review of the talent of the Group Leadership Team including an assessment of their training and development needs;
- A review of the succession plan for the Board;
- A review of Directors' time commitments and independence;
- The external evaluation review of the Board and Committee's effectiveness; and
- The consideration of the re-election of Directors at the Annual General Meeting.

BOARD APPOINTMENT

The Nomination Committee had previously identified the desire to change the makeup of the Board to better reflect our employee base and the customers we serve. The Board began to consider the additional skills and experience it required however, before commencing a formal process the Chairman was introduced to Loraine Martins, through the CEO and Group People Director.

Loraine had been introduced to the Group Leadership Team, as an expert in the field of Inclusivity and Diversity a key element of the Group's Environmental, Social and Governance strategy. Loraine has significant experience in Inclusivity and Diversity and in health and safety, she is currently the Director of Diversity and Inclusion at Network Rail, and in 2021 was awarded an OBE for her work with them on diversity and inclusion. Prior to that, Loraine was responsible for Jobs & Skills and Equality & Inclusion in the construction of the Queen Elizabeth Olympic Park for the London 2012 Olympic Games, for which she was awarded an MBE.

The Committee felt that given Loraine's strong background in inclusion and diversity and her experience working for large public sector organisations focused on delivering services in a safety-first environment she would be a welcome addition to the Board. Loraine subsequently met with the Chairman, Senior Independent Director, Chair of Audit as well as the Executive Directors and several members of the Group Leadership Team. Following those meetings and the completion of a formal due diligence process the Committee recommended the appointment of Loraine as an Independent Non-Executive Director to the Board.

All new Directors are subject to an in-depth and tailored induction process. Loraine had already spent some time with the Group's People Director as a critical friend advising on the development of the Group's inclusivity and diversity strategy. However, since her appointment she has commenced a formal induction process and has met the Company's financial advisors, legal advisors and brokers, and has visited several showrooms and factories across the Group.

The Board and Group Leadership Team believe a diverse and inclusive workforce and a culture where everyone is welcome, which reflects the customer base we serve is crucial to the long-term success of the Group. The appointment of Loraine will provide additional focus and understanding around these complex issues, as well as strengthening the Board's overall understanding of its responsibilities in relation to Health and Safety and employee wellbeing.

As a Committee, we will continue to give due consideration to the skills and experience new directors can bring in key areas such as integrated retail as well as cognitive, gender and diversity when making new appointments to the Board.

During the year the Board appointed Gould Consulting to carry out an in-depth evaluation of the Board and its Committees details of which are set out on page 80 of the Corporate Governance report.

Ian Durant

Chair of the Nomination Committee
23 September 2021

Directors' remuneration report

"During the year the Committee's focus has been on ensuring our Executive Directors were fairly rewarded in the context of business performance, colleague experience and shareholder outcomes, as well as developing our new Remuneration policy."

STEVE JOHNSON
Chair of the Remuneration Committee

→ Bio on **page 74**

Key activities during FY21

- Appointment by competitive tender process of Willis Towers Watson as the independent Advisors to the Remuneration Committee.
- Development of the new Remuneration Policy.
- Consultation with our largest shareholders and proxy agencies
on our new Remuneration Policy and implementation of pay.
- Setting performance targets for incentives in FY22 and determining outturns for incentives in respect of FY21, taking into consideration the experience of key stakeholders over the period.
- Consideration of market trends and governance updates.
- Consideration of pay and conditions across the wider workforce.

CONTENTS

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 FY22. This year's Remuneration Report also includes the new Remuneration Policy for which we will be seeking shareholder approval for at the AGM in November 2021.

I would also like to take the opportunity to welcome Loraine Martins to the Board and to the Remuneration Committee.

Directors' remuneration report continued

REMUNERATION IN CONTEXT

This year has been amongst the most challenging the Group has ever faced. The majority of our showrooms were closed for 21 weeks out of 52 and most of our head office colleagues have been obliged to work from home for the whole year. Thousands of colleagues have had to be sent home and brought back to work several times, often at short notice. Performance throughout the year was impacted by shipping disruption from the Far East and raw materials supply issues relating primarily to foam availability in Europe. The Group has also faced internal and external manufacturing capacity constraints due to high levels of demand for our products.

Against this backdrop, 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 behind our decisions:

Group performance

– Group revenue for FY21 was £1,067.7m (FY20: £724.5m), demonstrating the resilience of our business model and progression of our strategic agenda.
– Underlying profit before tax, excluding brand amortisation[1], was £105.8m (FY20: loss of £63.1m), demonstrating our focus on long-term operational profitability.
– The Group's share of the sofa market has grown by an estimated 2%pts in the year, and we saw exceptional growth in gross sales[1] through our online channels of +184%, driven by outperforming competitors in lockdown due to our long-standing commitment to online channel development.
– Strong underlying cash generation and significantly reduced net debt at year end. Net bank debt[1] at June 2021 was £19.0m compared to £157.7m at the previous financial year end.

Shareholder experience

– Dividends were suspended in FY20 to conserve cash during the early phases of the pandemic. Having now renewed the Group's banking facility, the restrictions on dividend payments have been removed and a full year dividend of 7.5p will be recommended to shareholders for FY21.
– The DFS Group's Total Shareholder Return ("TSR") in the last 12 months has significantly outperformed both the FTSE 250 index and FTSE 350 General Retailers Index and reflects a longer-term trend of outperformance of both indices over the preceding three years.

Colleague experience

– The Group did not participate in the UK government Coronavirus Job Retention Scheme ("Furlough") during FY21. Instead, the Group introduced a new scheme, funded entirely by the business, which paid colleagues who were sick or absent for Covid-related reasons 80% of base pay for the duration of any absence.
– Employees eligible for a bonus below board level were paid in two half yearly instalments. The bonus was funded 100% for the financial element, with personal performance also contributing to overall payout levels.
– Support for colleagues continued through our enhanced Health and Wellbeing programme.

PAY FOR PERFORMANCE IN FY21

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. The Committee is confident that it sets stretching targets and the fact that they have been achieved is due to the hard work and leadership of the management team.

ANNUAL BONUS FOR FY21

As explained in last year's report, to simplify priorities in response to Covid-19 for FY21 only, 70% of the Annual Bonus for FY21 was based on EBITDA performance and 30% was based on personal performance. EBITDA for FY21 was £220.5m against a target of £145.4m. The bonus targets were increased to ensure there was no benefit of the extension of business rates relief. The corresponding pay-out in respect of EBITDA performance was therefore 100% of the maximum award. Stretching personal objectives were also achieved in full and as such 100% of the maximum outcome was awarded for this element. As a result the bonus awarded to Tim Stacey is £491,968 (100% of maximum opportunity) and the bonus awarded to Mike Schmidt is £338,227 (100% of maximum opportunity). Full detail on the targets set and performance against them can be found on page 104. For the avoidance of doubt, in assessing whether the formulaic bonus outcome was a fair reflection of performance, the Committee considered the underlying financial performance of the business and aforementioned experience of all stakeholders as well as the exclusion of business rates relief from the bonus determination to ensure management did not unduly benefit.

LTIP VESTING IN RESPECT OF FY21

The FY19 award was granted on 30 November 2018 and was assessed against the performance targets at the end of FY21 (i.e., to 27 June 2021). Performance was based 50% on EPS growth and 50% on relative TSR growth against two peer groups. For maximum vesting EPS growth had to exceed a stretching target of 28.5p. Although reported underlying[1] basic EPS was 36.0p, the Committee decided to exclude the benefit of business rates relief from the calculation of adjusted EPS as well as the additional operating costs associated with protecting colleagues and customers during COVID. The adjusted EPS figure the Committee used for the purpose of determining the vesting outcome was lower than that reported, however it remained above the maximum target and therefore resulted in 100% of this element of the award vesting.

Relative TSR performance against the FTSE 250 excluding Investment Trusts was 12.83% p.a. against a stretch target of 10% p.a. above the Index therefore 100% of this element of the award vested. Relative TSR performance against the FTSE 350 General Retailers was similarly positive at 12.34% against a stretch target of 10% p.a. above the Index therefore 100% of this element of the award vested. The overall vesting level was 100%. Full detail on the targets set and performance against them can be found on page 106.

COMMITTEE CONSIDERATION OF INCENTIVE OUTTURNS IN THE CONTEXT OF COVID-19

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 in relation to the pandemic. The Committee are comfortable that incentive plan achievements during the year were a result of the strong leadership of our executive team, the successful implementation and operation of our business strategy and outperformance of our peers and growth in market share, in addition to the hard work and dedication of Group employees. The Committee therefore decided it appropriate not to apply any discretion to override formulaic outcomes.

OTHER PAY DECISIONS IN RESPECT OF FY21

LTIP awards

As disclosed in last year's report, in the context of Covid-19 and economic uncertainty making target setting challenging, the Committee decided that it would be appropriate to temporarily delay announcing the performance conditions in respect of the FY21 LTIP awards.

1. Refer to pages 33 to 35 for APM definitions.

Directors' remuneration report continued

The targets were subsequently determined on 9 March 2021 and are set out on page 106. These awards were granted on 6 October 2020 at a face value of 150% and 120% of salary for the CEO and CFO (respectively).

The awards are subject to targets based 50% on EPS growth and 50% on Relative Total TSR performance against two peer groups.

FY22 REMUNERATION POLICY

The Committee reviewed Remuneration Policy ahead of its triennial approval by shareholders at the 2021 AGM. The policy review process started in Autumn 2020 and included reviewing the existing policy against the business strategy, pay and conditions in the wider group and market practices. We also carefully considered governance developments and shareholder views. Having drafted the policy in consultation with our largest shareholders and taken into account their feedback in finalising the Remuneration policy we believe the policy takes a balanced approach and ensures the Group recognises the role of the Executive Directors in delivering the Group's strategic aims and strong shareholder returns.

The Committee has concluded that the structure of the current policy remains fit for purpose and aligned with the strategy, therefore no substantial changes are being proposed. However, the Committee does believe that aspects of the policy should be adapted to reflect governance developments. In addition, the Committee found that, in terms of both quantum and elements of structure, the overall market competitiveness of the policy had fallen somewhat behind those of companies of a similar size and sector.

The Remuneration Policy is set out in full in Part D of this report but in summary the following changes are being proposed:

- Pension allowances for new Executive Director appointments will be in line with the average for the wider workforce (As stated last year, pensions for the CEO and CFO will be reduced from 11% and 9% respectively to the wider workforce level by the end of 2022).
- Extension of the shareholding guideline such that it will apply for two years post-employment.
- A modest increase to the LTIP opportunity from 150% to 175% of salary for the CEO and from 120% to 140% of salary for the CFO. In the context of the growth in size of the Group over the last three years, the market data reviewed by the Committee indicated that the total remuneration package of the executives had fallen behind companies of a similar size and sector, which posed concerns with regard to potential retention and incentivisation of our executive team. Given the long-term strategic aims of the Group, the Committee considered that the LTIP was the most appropriate element to increase as it provides the best alignment with stakeholders being performance based and delivered in shares over the long-term. The Committee also purposefully set the FY22 LTIP targets at a level that would require additional stretch for maximum vesting to occur.
- Strengthening the bonus deferral mechanism, from deferral only of bonus amounts above 75% of salary to a straightforward deferral of 25% of any bonus paid. The bonus deferral period will also be changed from three years to two years. The change to the operation of the deferral mechanism seeks to align the policy with the most recently published Investment Association guidelines and with majority market practice, and results in an increase to deferred amounts for performance below c.80% of maximum.
- A revision of the shareholding guideline from 250% of salary to 200% of salary. The Committee considered the overall opportunity of the remuneration package alongside market practice and considered that a shareholding requirement of 250% was uncompetitive and more onerous than necessary for a company of DFS' size. A 250% holding is in line with the upper quartile of the FTSE 250 for the CEO, and above the upper quartile for the CFO. As such a small reduction is being proposed to bring the policy into line with the market to ensure its competitiveness. Given the addition of a post-cessation shareholding policy, the proposed change to bonus deferral and an increase to LTIP opportunity, the Committee considers there are enough mechanisms in place to enable executives to build long-term and meaningful shareholdings.
- Minor amends to policy wording to keep pace with best practices and flexibility to introduce an ESG metric during the policy period.

Details of how the Remuneration Policy will be Implemented in FY22 is set out in Part B of this report.

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
23 September 2021

Directors' remuneration report continued

Part B: Remuneration at a glance

OVERVIEW OF REMUNERATION POLICY CHANGES

Element	Former policy	New policy
Pension	CEO: 11% of salary CFO: 9% of salary	All executives: 4% of salary by the end of 2022
Post-cessation shareholding	2 year post-cessation	2 year post-cessation of 200% of salary formalised through nominee account
LTIP opportunity	CEO: 150% of salary CFO: 120% of salary	CEO: 175% of salary CFO: 140% of salary
Annual Bonus Deferral	Amounts above 75% of salary for 3 years	25% of bonus for 2 years
Shareholding guidelines	250% of salary	200% of salary

Other changes made to the policy include increased flexibility to choose performance metrics and revised wording in order to clarify our policy in relation to remuneration on loss of office and recruitment.

OUR COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE ("THE CODE")

Key Element of the Code	How is this considered within DFS's remuneration framework?
Five-year period between the date of grant and realisation for equity incentives	The LTIP has a five-year period including the performance and holding period.
Phased release of equity awards	The LTIP ensures the phased release of equity awards through annual rolling 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 2022.
Extended malus and clawback provisions	The current malus and clawback provisions reflect requirements of the Code and best practice.
Effective engagement with workforce	We have appointed a Designated Non-Executive Director (Jane Bednall) who attends the Employee Voice Forums and engages with the workforce.

KEY IMPLEMENTATION DECISIONS FOR FY21

Salaries were increased to CEO: £440,000 and CFO: £330,000 in April 2021, as set out in last year's report.

Annual bonus

Performance measure	Weighting	Achievement
Group EBITDA	70%	100%
Personal	30%	100%

FY21 Bonus opportunity: CEO: 120%, CFO: 110%

LTIP

Performance measure	Weighting	Achievement
TSR vs FTSE 250	15%	100%
TSR vs FTSE 350 Retailers	35%	100%
EPS growth	50%	100%

FY19 LTIP award opportunity: CEO: 150%; the CFO was awarded 32,042 shares under this scheme prior to his appointment to the Board.

No discretion was used in determining the incentive plan outturns.

IMPLEMENTATION OF POLICY FOR FY22

Element	Implementation for FY22
Base salary	Salaries to be reviewed in April 2022 intended to be in line with the wider workforce.
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 COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE ("THE CODE")

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

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 a positive working environment and promote the right behaviours through evidence of objective decision making, equity of treatment and trust in doing the right things in the right way. Our incentive plans are designed to reward and incentivise delivery of the Group's business plan and key strategic goals, within the risk appetite of the Group.	Our pay and reward programs 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 5,000 people across the UK, Republic of Ireland, the Netherlands, and Spain. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our people across all parts of the Group. The various factors which make up our "Fair Deal" proposition 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 which is available in the UK
Aligned to our business strategy and culture	• Company-wide groups generate positive engagement more broadly with activities in the 'Living Well' Workplace group • We have partnered with Peppy to provide all of our colleagues with a new healthcare benefit that offers support through life's more challenging transitions
Supports a high-performance sales and service culture	• We have an award-winning apprenticeship program. To date, 73 young people have successfully completed the program and now hold permanent positions in the Group A further 18 existing colleagues have completed either an advanced or higher apprenticeship with a further 63 internal colleagues currently completing an apprenticeship. • We actively participate in the national development of apprenticeship standards in manufacturing and retail for our industry.

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 and other variable pay awards	Restricted share plan	Long-term incentive plan	All employee HMRC plans
Group Leadership Team	6	●	●	●	●	●
Heads of divisions and functions	81	●	●	●		●
Managers	377	●	●	●		●
All employees	4,792	●	●			●

The table below explains how the remuneration framework operates across the Group:

<table>
<tr><th>Level</th><th>Base salary</th><th>Pension, benefits</th><th>Annual bonus and recognition awards</th><th>LTIP</th></tr>
<tr><td>Senior management</td><td rowspan="4">Base salary is set by reference to the wider workforce and market practice.</td><td rowspan="3">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="3">The annual bonus for our Support Centre 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.</td><td>Our most senior management are 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="3">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><td>The CEO and CFO are required to defer 25% of the bonus for 2 years.

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></tr>
</table>

Directors' remuneration report continued

Part D: Remuneration Policy

The following section sets out the Directors' Remuneration Policy which is to be subject to a binding shareholder vote at the AGM in November 2021. The policy will take effect from the date of approval. The Policy is intended to apply for three years 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 Group'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 Group's strategic goals and business outputs.
– Encourage and support a high-performance sales and service culture ensuring good customer outcomes.
– Reward delivery of the Group's business plan and key strategic goals.
– Adhere to the principles of good corporate governance and appropriate risk management.
– Align employees with the interests of shareholders and other external stakeholders and encourage widespread equity ownership amongst the Group.

Overview of key changes

Changes to the operation, structure and quantum of Remuneration Policy elements have been summarised in the Executive Remuneration Policy table below. The context in which the changes have been made and associated rationale are set out in the Remuneration Committee Chair's letter on pages 92 to 93.

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.

New for FY22 policy
- No changes to policy.

Directors' remuneration report continued

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.

New for FY22 policy
- No changes to policy.

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.

New for FY22 policy
- Pension contributions for new Executive Directors will be aligned to wider workforce levels (currently 4% of base salary).
- Pension contributions for incumbent Executive Directors will be aligned to wider workforce levels from the end of 2022.
- For the CEO pension will be reduced from a fixed £50,000 (11.4% of salary) less NIC where taken in cash. For the CFO pension will be reduced from a fixed £29,250 (8.9% of salary) less NIC where taken in cash.

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 participant's 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 performance which requires a stretching level of performance. 100% of maximum will only be paid for outstanding levels of 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.

New for FY22 policy
- Change to deferral mechanism from deferral of bonus amounts above 75% of base salary to deferral of 25% of the entire bonus.
- Change to deferral timeframe from 3 years to 2 years.
- Performance conditions for FY22:

  Financial (70%): Revenue (20%), Profit before tax (30%), Free Cash Flow[1] (20%); Non-financial (30%): Strategic 'ESC' objectives (15%): Environmental (5%), Social – Inclusion (5%), Customer – Average NPS (5%) and Personal objectives (15%).

- Targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

1. Refer to pages 33 to 35 for APM definitions.

Directors' remuneration report continued

Long-term incentive plan
The DFS Furniture plc 2015 Long-Term Incentive Plan ("LTIP") incentivises Executive Directors and the Group Leadership Team 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. The Committee reserves the right to change performance metrics attaching to future LTIP awards should it consider it appropriate e.g. change in strategy or to introduce an ESG related metric
- 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 e.g. recruitment 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 Group'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.

New for FY22 policy
- Maximum LTIP award level increased from 150% to 175% of salary for the CEO and from 120% to 140% of salary for the CFO. Exceptional maximum remains unchanged.
- No change to the performance period or holding period.
- Additional flexibility to determine appropriate performance measures on an annual basis, providing that the majority of the weighting is on financial measures.
- Malus and clawback trigger events and time scales have been expanded to align with best practice.
- For the FY22 LTIP grant, performance will be assessed as follows:
  – Adjusted EPS growth (50%)
  – TSR relative to FTSE 250 excl investment trusts (15%)
  – TSR relative to FTSE 350 General Retailers Index (35%)
- See page 111 for further details of performance targets and measures for FY22 awards.

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

Performance measures/assessment and recovery provisions
- No performance or recovery provisions apply.

New for FY22 policy
- Shareholding guidelines will be reduced from 250% to 200% of base salary from FY22.
- 2-year post-cessation shareholding requirements will be enforced through holding the shares in a global nominee account.

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.

New for FY22 policy
- No changes to policy.

Directors' remuneration report continued

NOTES TO THE REMUNERATION POLICY TABLE

Pre-existing remuneration arrangements and minor changes

The Committee may make remuneration payments outside of the terms of this Policy where the terms of the payment were agreed prior to the introduction of this or our prior Policy, provided the terms were in line with the Remuneration Policy in place at that time, or where the terms were agreed prior to the relevant director being a member of the board. Any such payments may be satisfied in line with the terms agreed.

Performance measures and targets

When selecting performance measures for our incentive plans our primary reference is the business strategy and Key Performance Indicators. We also consider market practice both in our sector and general industry. We seek to choose measures that create balanced incentives and that promote sustained, responsible growth and motivate the right behaviours.

The performance measures selected for LTIP awards to be granted in FY22 (and for those granted in FY21) were chosen because EPS provides a clear assessment and line of sight of overall profitability and shareholder value creation. Relative TSR was chosen because it motivates and rewards outperformance of sector peers and the market and provides an external independent view of performance from a shareholder perspective. The Committee considers that the combination of external (relative TSR) and internally focused (EPS growth) metrics provide a suitable balance and overall assessment of long-term performance.

Incentive plan targets are set primarily in reference to the latest business plan and budget. We also take into consideration market and economic forecasts, analyst consensus and practice in our sector and general industry. Our incentive plan targets are set at a challenging level which reflect the scale and the challenge implicit in our financial budgets.

We seek to ensure that pay-out levels are commensurate with overall group and individual performance.

As set out in the policy table, performance measures and targets for LTIP awards are generally disclosed in advance in the annual report. In certain circumstances (e.g. market uncertainty) the Committee may instead provide details of the targets and measures applicable to awards when announcing award grants. Bonus plan measures will generally be disclosed in advance. Bonus targets and outcomes will be disclosed in the annual report for the following year.

The Committee retains discretion in exceptional circumstances to change incentive plan performance measures and targets and the weightings attached to performance measures part-way through a performance period if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. In such circumstances the Committee will seek to ensure that the revised conditions are not less difficult to satisfy.

Discretion may also be exercised in cases where the Committee believes that the formulaic outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of the bonus pay-out resulting from the application of the performance measures. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report.

Discretion

The Committee has discretion in several areas of Policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend Policy regarding minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

As noted, the Committee reviews all incentive outturns to assess whether they align to the overall performance of the business and the experience of its key stakeholders over the period e.g. shareholders and employees. The Committee retains discretion to adjust the final outturn of incentives up or down to reflect its judgement, any such exercise of discretion will be disclosed in the relevant annual report.

Malus and clawback

Malus and clawback provisions apply to both the Annual Bonus and LTIP.

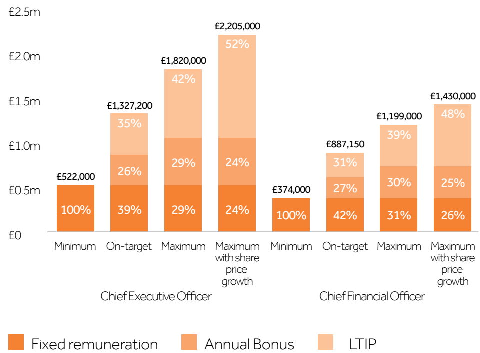
Malus may apply before the determination of the bonus, before the vesting of any deferred component under the bonus and before the vesting of any LTIP award. Clawback may apply up until three years after the date of any cash bonus payment and up until three years after the date of vesting of LTIP awards. Malus and clawback will continue to apply following cessation of employment.

Circumstances where malus and/or clawback could apply include: a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct by the participant and fraud or any other reason as determined by the Committee.

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.

Remuneration scenarios



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: £492,000 CFO: £352,000	
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 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. • Awards may be granted up to the maximum opportunity allowable in the remuneration Policy table at the Committee's discretion and will ordinarily be subject to proration from the date of employment.
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 consider 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	21 May 2018	6 months (Executive) or 12 months (Company)
Mike Schmidt	12 July 2019	6 months (Executive) or 6 months (Company)

All service contracts are available for viewing at the Company's registered office and at the AGM. The Executive Directors may accept outside appointments subject to approval of the Board and provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company. The Executive Directors concerned may retain fees paid for these services.

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 consider 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 considered 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 consulted its major shareholders (who together hold 87% of the Issued Share Capital) and the main shareholder representative bodies (IA, ISS and Glass Lewis) on the proposed new Remuneration Policy for which we are seeking shareholder approval at the 2021 AGM.

The Committee is grateful for the time that shareholders have taken to consider proposals and provide feedback. At the end of the consultation a large majority of shareholders consulted indicated they were supportive of the proposed new Remuneration Policy.

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 with them where appropriate.

Consideration of employee views and employment conditions elsewhere in the Group

In setting the Policy for directors, the pay and conditions of other employees of the Group are taken into account, including any base salary increases awarded. 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 Company.

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 and the Designated Non-Executive Director, has discussed Executive Director Remuneration with the Group wide Employee Voice Forum. 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 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 competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group

Operation
- Fee levels are reviewed periodically considering 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 (and any tax thereon) 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	£187,275
Senior Independent Director fee	£62,425
Chair of Audit / Remuneration Committee fee	£59,305
Basic Non-Executive Director fee	£52,020

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-executives 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 and are 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 as a Group Director.

	Date of appointment
Ian Durant	2 May 2017
Alison Hutchinson	1 May 2018
Jo Boydell	6 December 2018
Steve Johnson	6 December 2018
Jane Bednall	1 January 2020
Loraine Martins	28 June 2021

Directors' remuneration report continued

Part E: Annual Report on Remuneration for the Financial Year ended 27 June 2021

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	Total Fixed	Total Variable	Total
Tim Stacey	**2021**	**410**	**38**	**492**	**780**	**243**	**44**	**–**	**492**	**1,515**	**2,007**
	2020	387	40	–	–	98	43	–	470	98	568
Mike Schmidt[5]	**2021**	**308**	**14**	**338**	**89**	**–**	**26**	**4**	**352**	**427**	**779**
	2020	289	13	–	–	–	27	2	331	–	331

Notes:

1. Taxable benefits comprise car, private medical insurance (including cover for spouses and dependents), relevant professional subscriptions, seasonal gifts and reimbursement of home telephone line and telephone expenses – the value of which has been included in the Taxable Benefits column.
2. The amount presented for LTIP awards represents the number of shares vesting under the FY19 (2018) Plan valued at £2.77 per share, being the average share price for the three months ended 27 June 2021.
3. This is an award under the DFS Restricted Share Plan that was made to the CEO prior to his appointment as an Executive Director. The first part of the award vested on 16 November 2019 and was subject to a share price performance condition with an increase attributed to this award is £10,952. The second part of the award vested on 16 November 2020 and was subject to a share price performance condition with an increase attributed to this award of £40,464. The CFO also received awards under the same Plan prior to his appointment as an Executive Director which were not subject to any share price conditions and therefore not included in the single figure remuneration table above. The value of these awards in the current and prior year were £81,599 and £20,156 respectively.
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 for Mike Schmidt represents a car allowance supplement.

ANNUAL BONUS OUTTURN FOR FY21 – AUDITED

As disclosed in last year's report, 70% of the Annual Bonus for FY21 was based on EBITDA performance and 30% was based on personal performance. EBITDA for FY21 was £220.5m and therefore 100% of the maximum outcome was awarded for this measure. Personal objectives were achieved in full and as such 100% of maximum outcome was also awarded for this measure. As a result of the performance results shown above, the bonus awarded to Tim Stacey is £491,968 (100% of maximum opportunity) and the bonus awarded to Mike Schmidt is £338,227 (100% of maximum opportunity). In line with the policy in operation during FY21, bonus amounts in excess of 75% of salary are deferred for 3 years, for Tim Stacey this is 36.8% of salary (£161,968) and for Mike Schmidt this is 27.5% of salary (£90,727). The percentage of bonus deferred into shares is 45% for the CEO and 35% for the CFO. No discretion was exercised in determining the annual bonus outturn.

Performance measure	Weighting	Threshold (0%)	Target	Maximum (100%)	Outcome (% max bonus)
Group EBITDA	70%	£130.9m	£145.4m	£152.7m	100%
Personal objectives	30%	See notes below		100%	
				Tim Stacey Mike Schmidt	100% 100%
Bonus outcome (% maximum)				Tim Stacey Mike Schmidt	100% 100%
Total bonus outcome (£)				Tim Stacey Mike Schmidt	£491,968 £338,227

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 opposite.

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 arising.

Executive Director	Performance area	Measures of achievement	Level of performance
CEO – Tim Stacey	**Delivery of the Transformation Strategy** – Execute the agreed business strategy through the transformation plan	• The Sofa Delivery Company rolled out successfully by end of FY21. • Dwell integrated into DFS by H1. • Manufacturing Transformation Strategy agreed by H1. • Sofa Workshop Limited disposal by end of H1.	Achieved
	ESG strategy – Launch the new ESG strategy externally and integrate into business plan	• Pro-actively lead for and champion the ESG agenda. • Activities scoped, resourced and embedded within the business to enable ongoing delivery. • Strategy launched externally in Q1. • Year 1 ESG targets achieved (as described in ESG target document).	Achieved
	People & Culture – Develop a safe, engaging & inclusive workplace	• Lead for a strong health & safety culture as measured by HSE reports or investigations and severity of any incidents. • Establish new diversity and inclusion programme to support BAME colleagues. • All management new appointments will be a minimum of a 50/50 gender split.	Achieved
	Growth – Execute the growth agenda focusing on DFS 3.0 and Sofology store roll out	• New growth strategy developed by H1. • 5 new Sofology stores in FY21. • Execution of DFS 3.0 strategy.	Achieved
	Innovation – Develop a pipeline of new products & services for the Group	• A minimum of 3 distinct initiatives piloted and rolled out into the business. • Successful roll out of the extended general insurance product Sofacare.	Achieved

Executive Director	Performance area	Measures of achievement	Level of performance
CFO – Mike Schmidt	**Delivery of the Transformation Strategy** – Executing the agreed business strategic initiatives	• Ensure strong finance support for the rollout of The Sofa Delivery Company, Dwell Integration and disposal of Sofa Workshop, new Sofology showrooms and other ongoing strategic development. • Drive the business in adapting an agile approach to the post-Covid-19 environment – with flexible cost and capital commitments.	Achieved
	Leading the Finance Agenda – Ensure the Group maintains a robust financial position and good relationships with its financial stakeholders	• Lead the Group in achieving a successful refinancing, including equity if required, and in establishing a revised post-Covid-19 liquidity strategy.	Achieved
	Finance Transformation – Make material progress on developing finance support and operations in the Group	• Continue to strengthen forward visibility, insight and reporting. Maintain our journey of improvement of the effectiveness of transactional activities through simplifying operational processes.	Achieved
	People & Culture – Reinforce a safe, engaging & inclusive workplace that operates with the right approach and values	• Lead for a strong health & safety culture as measured by HSE reports or investigations and severity of any incidents. • Drive the agenda for inclusion (in its broadest sense) amongst the finance team and the broader business. • Support the launch and establishment of the Group's ESG strategy externally.	Achieved
	Property – Lead the delivery of the agreed property strategy	• Deliver planned FY21 showroom openings and secure future sites for FY22 in line with the four-year plan. • Deliver the expected property cost savings delivered for FY21 and pathway for £1m of FY22.	Achieved

Directors' remuneration report continued

LTIP AWARDS VESTING IN RELATION TO PERFORMANCE IN FY21 – AUDITED

The 2018 award was granted on 30 November 2018 and was assessed against the performance targets at the end of FY21 (i.e., to 27 June 2021).

LTIP award	Performance conditions	Weighting (% award)	Detail	Entry level performance	Max performance	Actual performance	Vesting %
2018 LTIP	EPS growth	50%	Reporting underlying EPS	23.0p	28.5p	36.0p	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	12.83%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	12.34%	100%
	Total vesting						**100%**

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 100%. No discretion was exercised in respect of award vesting levels.

SCHEME INTERESTS AWARDED IN FY21 (2020 AWARDS) – AUDITED

Details of LTIP awards and Deferred Bonus Awards granted during FY21 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	Nil cost option	337,711	£600,000	150%
CFO – Mike Schmidt	LTIP	Nil cost option	202, 626	£360,000	120%

The number of shares granted was based on a share price of £1.77 (which was the average of the closing share price on the three days prior to the grant). The performance period for the 2020 award is from 28 June 2020 and will end 25 June 2023. The performance measures and targets are set out below.

Adjusted EPS (50%)

Percentage of this portion of the Award vesting			
Nil	20%	100%	Between 20% and 100% on a straight-line basis
Less than 18.7p	18.7p	24.7p or more	Between 18.7p and 24.7p

Relative TSR (50%)

	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 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.

Directors' remuneration report continued

SAYE AWARDS – AUDITED

The CFO 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
2019 LTIP	EPS growth	50%	Reporting underlying EPS	23.0p	28.5p	20%	100%
	TSR	15%	TSR (FTSE 250 excl ITs)	Index	Index + 10% p.a.	20%	100%
		35%	TSR (FTSE 350 General Retailers)	Index	Index + 10% p.a.	20%	100%

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

As disclosed in the 2019 Directors' Remuneration Report, our former CFO Nicola Bancroft was treated as a good leaver upon her retirement from the Board. As such, Nicola's 2018 LTIP award continued and vested at the normal date, subject to achievement of the performance conditions. As set out on page 106, 100% of the performance conditions were met for the 2018 LTIP awards, Nicola's awards were pro-rated for time from the date of grant until 10 July 2019 to reflect Nicola's period of employment. A total of 34,357 shares vested which were valued at £95,076.

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	**2021**	**185**	**1**	**186**
	2020	177	1	178
Alison Hutchinson	**2021**	**62**	**–**	**62**
	2020	61	–	61
Jo Boydell	**2021**	**58**	**–**	**58**
	2020	56	–	56
Steve Johnson	**2021**	**58**	**–**	**58**
	2020	52	–	52
Jane Bednall	**2021**	**51**	**–**	**51**
	2020	24	–	24
Luke Mayhew	**2021**	**–**	**–**	**–**
	2020	21	–	21

Notes:
1. The NEDs all took a 20% reduction in their fees in May and June 2020 to support the business through the pandemic.
2. Luke Mayhew stepped down from the Board on 15 November 2019.
3. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019.
4. Jane Bednall was appointed to the Board on 1 January 2020.
5. Steve Johnson was appointed as Chair of the Remuneration Committee on 17 January 2020.
6. Ian Durant other remuneration relates to health insurance benefit in kind.
7. Loraine Martins was appointed to the Board after the end of the financial year and therefore received no remuneration for her services as a Non-Executive Director during FY21.

Directors' remuneration report continued

SHAREHOLDING AND OTHER INTERESTS AT 27 JUNE 2021 – 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 FY21 was equal to 250% 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	Subject to conditions	Not subject to conditions	Vested but unexercised	Unvested SAYE awards	Total at 27 June 2021
Tim Stacey	517,804	334%	Yes	867,676	–	–	–	1,385,480
Mike Schmidt	38,343	33%	No	383,633	18,309	–	11,111	451,396
Ian Durant	44,666	n/a	n/a	–	–	–	–	44,666
Jane Bednall	13,333	n/a	n/a	–	–	–	–	13,333
Jo Boydell	13,333	n/a	n/a	–	–	–	–	13,333
Alison Hutchinson	13,333	n/a	n/a	–	–	–	–	13,333
Steve Johnson	26,666	n/a	n/a	–	–	–	–	26,666
Total	**667,478**			**1,251,309**	**18,309**	**–**	**11,111**	**1,948,207**

Notes:
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Shareholding requirement calculation is based on the share price at the end of the year (£2.84 at 27 June 2021).
3. Mike Schmidt's interests in shares, not subject to conditions, refer to his outstanding 2018 RSP award. The RSP awards was granted prior to him becoming Executive Director and have no performance conditions attached

At 23 September 2021 there had been no movement in Directors' shareholdings and share interests from 27 June 2021.

OUTSTANDING SHARE AWARDS

The following share awards remain outstanding as at 27 June 2021 for the Executive Directors:

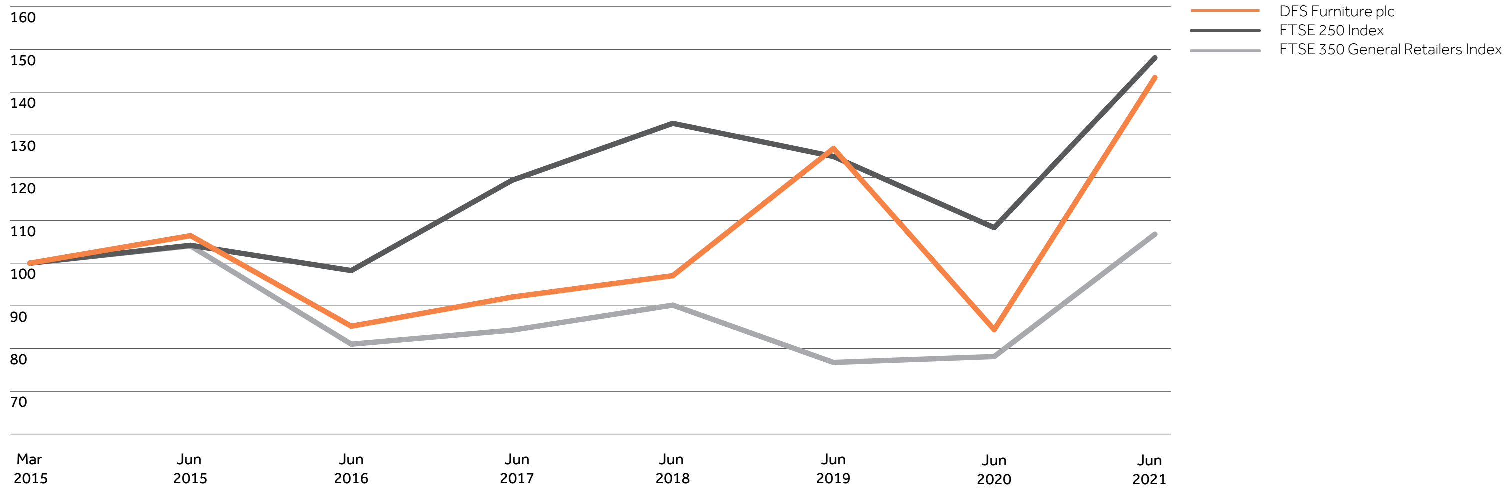
Director	Type of award	Date of grant	Number of awards	Award vested	Awards lapsed	Outstanding awards	Share price[2]	Normal vesting date
Tim Stacey	2018 LTIP	30/11/18	281,690	–	–	281,690	£2.13	30/11/21
	2019 LTIP	25/10/19	248,275	–	–	248,275	£2.42	25/10/22
	2020 LTIP	06/10/20	337,711	–	–	337,711	£1.77	06/10/23
Mike Schmidt	2018 RSP	30/11/18	18,309	–	–	18,309	£2.13	30/11/21
	2018 LTIP	30/11/18	32,042	–	–	32,042	£2.13	30/11/21
	2019 LTIP	25/10/19	148,965	–	–	148,965	£2.42	25/10/22
	2020 LTIP	06/10/20	202, 626	–	–	202, 626	£1.77	06/10/23

Notes:
1. Mike Schmidt's 2018 RSP award was granted prior to him becoming an Executive Director.
2. 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 FY21 (27 June 2021). 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.

	FY21	FY20	FY19		FY18	FY17	FY16	FY15
CEO	**Tim Stacey**	Tim Stacey	Tim Stacey	Ian Filby	Ian Filby	Ian Filby	Ian Filby	Ian Filby
Single Figure	**2,007**	568	464	374	673	666	804	790
Annual Bonus (% of max)	**100%**	0%	26.2%	32.2%	36%	37.5%	71.9%	85.2%
LTIP vesting (% of max)	**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.
4. Tim Stacey's single figure for FY21 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 £243k and vested on 16 November 2020

Directors' remuneration report continued

PERCENTAGE CHANGE IN THE DIRECTORS' REMUNERATION

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

We note that the 2019 figures used to calculate the % changes below reflect the 11-month financial year. No Directors received a salary or fee increase for FY20. The Executive Directors received a salary increase of 10% for FY21.

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.

		FY19-FY20			FY20-FY21		
Annual % change		**Base salary**	**Benefits**	**Annual bonus**	**Base salary**	**Benefits**	**Annual bonus**
CEO	Tim Stacey	2%	41%	-100%	10%	-6%	100%
CFO	Mike Schmidt	39%	0%	-100%	10%	10%	100%
Non-Executive Directors	Ian Durant	5%	n/a	n/a	2%	n/a	n/a
	Alison Hutchinson	17%	n/a	n/a	2%	n/a	n/a
	Jo Boydell	81%	n/a	n/a	2%	n/a	n/a
	Steve Johnson	79%	n/a	n/a	2%	n/a	n/a
	Jane Bednall	n/a	n/a	n/a	2%	n/a	n/a
Employee pay		0%	n/a	n/a	2%	n/a	n/a

Notes:
1. In line with the regulations, this analysis will be extended up to five years in the future.
2. Tim Stacey became the CEO and Executive Director on 1 November 2018. The change in CEO remuneration is Tim Stacey's FY20 remuneration compared to FY19 remuneration which has been calculated by adding together the remuneration paid to Tim Stacy and the previous CEO Ian Filby in respect of the period these individuals were Executive Directors in FY19.
3. Mike Schmidt became the CFO and Executive Director on 11 July 2019. Nicola Bancroft stepped down from the CFO role and the Board in March 2019. The change in CFO remuneration is Mike Schmidt's FY20 remuneration compared to FY19 remuneration for Nicola Bancroft which represents remuneration for only 9 months of the year. We note that Mike Schmidt joining base salary level was the same as his predecessors (£300,000) and he did not receive a salary increase for FY20.
4. No annual bonus was paid to Executive Directors for FY20.
5. Whilst the NEDs all took a 20% reduction in their fees in May and June 2020 to support the business through the pandemic (see single figure remuneration table for Non-Executive Directors on page 107 for further details), the changes in fees above also represent a number of changes to roles:
   a. Luke Mayhew stepped down from the Board in FY20 (on 15 November 2019) and therefore has been excluded from this table from FY21
   b. Alison Hutchinson was appointed Senior Independent Director on 26 September 2019.
   c. Jane Bednall was appointed to the Board on 1 January 2020.
   d. Jo Boydell was appointed to the Board on 6 December 2018 and appointed as Chair of the Audit Committee on 1 April 2019.
   e. Steve Johnson was appointed to the Board and its Committees on 6 December 2018 and appointed as the Chair of the Remuneration Committee on 17 January 2020.
6. With regards to the annual bonus for the wider employee population, payments for targets achieved (for the NPS and personal performance measures) were withheld until the first half of FY21 and were subject to achievement of a financial underpin.

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	2021	2020	% change
Employee remuneration	**£197.7m**	£186.5m	+6.0%
Distributions to shareholders (dividends and share buybacks)	–	£17.0m	n/a

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

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN FY22

Base salary

The base salaries of the Executive Directors will be reviewed in April 2022 along with the wider workforce. The expectation is that any increases would be in line with the wider workforce.

Pension and benefits

The pension contribution for Tim Stacey for FY22 will be £50,000 and for Mike Schmidt will be £29,250 for the same period (less employers NI cost).

Benefits provided will be in line with the Policy.

Annual bonus

The operation of the bonus for FY22 will be in line with the new Policy. The bonus opportunity for the CEO will be 120% of salary and for the CFO 110% of salary.

For FY22, bonus performance will be based 70% on financial measures: 20% Revenue, 30% Profit before tax, 20% Free Cash Flow and 30% on non-financial measures: 15% Strategic ESC objectives (Environmental 5%, Social – Inclusion 5%, Customer – Average NPS 5%) and 15% Personal objectives.

Targets are deemed commercially sensitive and will be disclosed retrospectively following the end of the performance period.

LTIP

The operation of the LTIP for FY22 will be in line with the new Policy. The maximum LTIP award level will be 175% of salary for the CEO and 140% of salary for the CFO. In its ordinary course of determining LTIP targets the Committee took into account the latest available analyst forecasts, business plans and projections. In doing so the Committee observed variance in long-term analyst forecasts, reflecting the ongoing uncertainty as retailers emerge from Covid-19. Taking these points of reference into account, and the increased level of opportunity for FY22, the Committee purposefully set the threshold EPS target at a level broadly aligned with long-term analyst consensus but the maximum EPS target at a level that would require significant outperformance of analyst consensus, plan and historic (pre Covid-19) levels of EPS. In determining the stretch associated with the TSR targets, the Committee took into account recent TSR performance relative to other retailers and indices more generally as well as long-term analyst forecasts and the current share price relative to historic levels. The Committee concluded that a maximum target of 10% p.a. growth in TSR continued to represent a stretching target for the TSR element. Performance targets and weightings are set out below.

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%)

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 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 intention is to carry out a review of fees in readiness to make any increases from April 2022 at the same time as 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 2020 in September 2021 and it is available online: https://dfscorporate.co.uk/

We recognise that there continues to be a gender pay gap in the business, although the mean and median gaps fell 3.0% and 1.2% respectively in the year. The Group's employee base has an approximate two-thirds male, one-third female split driven mainly by the fact that historically our manufacturing, supply chain and retail business areas have, for various reasons, attracted a predominantly male workforce. Analysis shows that our 11.8% mean and 8.9% median pay gap is a result of more men in senior positions throughout all business areas. We note that we have no positions in the Group where there is a gender pay gap for men and women performing the same job.

Directors' remuneration report continued

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 51 to 70 of this Annual Report.

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 over the last 6-12 months in building a culture-first strategy, kick starting the conversation around inclusion with internal education and engagement activity, alongside the creation of longer-term plans by brand and function to make a measurable difference to the diversity of our workforce.

Activity to date in FY21 has included:

- The creation and implementation of an Inclusive Leaders workshop with an external partner, to be rolled out across out entire leadership community.
- Beginning a partnership with LGBTQ+ charity Stonewall, to support with education, policy reviews and the launch of an LGBTQ+ Allyship network.
- Implementing an Inclusion Impact Assessment to be applied to all Capital projects, ensuring careful consideration of the effect on all protected characteristics.
- Active involvement in Pride Month, to include our first external show of support in the DFS Tottenham Court showroom with an affiliation to a local LGBTQ+ Charity supporting education in schools.
- The formal creation of an Inclusion Council made up of representatives from minority groups across the business, to act as a sounding board for our plans and to act as the voice of our colleagues.
- Development of governance around Inclusion as a Transformational project, including monthly steering groups with executive sponsorship and a Programme Board responsible for delivery for change by brand and function.

CEO pay ratio

This is the second year in which we are required to disclose the CEO Pay ratio.

As for last year, 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 (2021 and 2020) 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 2020 (financial year FY20) and June 2021 (financial year FY21). 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 FY21 and FY20 single total figure of remuneration for the CEO with that of employees who are paid at the 25th, 50th and 75th percentile of the employee population.

FY21 AND FY20 PAY RATIO DATA

Year	Method	Measure	CEO	25th percentile	50th percentile	75th percentile
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

The change in pay ratio is primarily due to 100% of maximum vesting outcome on both the FY21 annual bonus and 2018 LTIP Award.

It is also reflective of the increase to the CEO's salary from 1 April 2021 which the Committee initially envisaged as being a stepped increase over two years but was delayed in relation to the pandemic and so a larger increase occurred in a single year.

MATTERS COVERED DURING THE COMMITTEE'S MEETINGS IN FY21

As at 27 June 2021, the Committee consisted of the following members:

- Steve Johnson Chair
- Alison Hutchinson
- Jo Boydell
- Jane Bednall

Directors' remuneration report continued

The key matters covered by the Committee during the year are summarised below.

Matter	July 20	Sep 20	Feb 21	April 21
Reviewed base salaries for FY21	●			
Approved bonus outcomes for 2020	●			
Approved bonus scorecard for FY21 and monitored interim performance	●		●	●
Signed-off LTIP performance outcomes for 2018 LTIP	●			
Reviewed Covid-19 impact pay report	●		●	
Appointed Willis Towers Watson		●		
Approved LTIP performance targets for 2021 LTIP		●	●	
Signed-off Directors Remuneration Report		●		
Reviewed pay and conditions for wider workforce		●		
Review of people and reward calendar		●		
Review of Remuneration Committee calendar			●	
Review of corporate governance code changes and market practice update			●	●
FY21 annual pay review			●	
Gender pay reporting and diversity and inclusiveness initiatives				●
Remuneration policy review updates		●	●	●

Note:
Details of meeting attendance by Committee members can be found on page 79 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 FY21 from PwC and Willis Towers Watson. PwC were the Committee's independent advisors until October 2020 when further to a competitive tender process, Willis Towers Watson were appointed as the Committees independent advisors.

Both Willis Towers Watson and PWC are considered by the Committee to be objective and independent, both are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee reviewed the nature of all the services provided during the year by PwC and 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 PwC in respect of services to the Committee during the year were £22,250. The total fees paid to Willis Towers Watson in respect of services to the Committee during the year were £51,000. All fees were determined based on the scope and nature of the projects undertaken for the Committee.

Steve Johnson

Chair of the Remuneration Committee
23 September 2021

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

Registered office address:	1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA
Company Number:	07236769
Date of Incorporation:	27 April 2010
Telephone Number:	01302 573 200

DFS Furniture PLC (the " Company") is the holding company of the DFS Group of companies (the "Group").

The shares of the Company have been traded on the main market of the London Stock Exchange throughout the 52 weeks ended 27 June 2021.

The Company has no overseas subsidiaries but operates branches in the Republic of Ireland, Spain, and the Netherlands.

The Directors present their Annual Report and audited financial statements for the 52 weeks ended 27 June 2021, 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	83-88
Colleague Engagement	63-67
Corporate Governance Report	75-82
Community	69
Diversity & Inclusion	63
Directors' Interests	108
Directors' Remuneration Report	91-113
Executive Share Plans	108
Health & Safety	66
Modern Slavery	57
Independent Auditors	118-124
Internal Controls / Risk Management	36-45
Nomination Committee Report	89-90
S.172 & Stakeholder Engagement	46-50

ANNUAL GENERAL MEETING ("AGM")

The Company's next AGM will take place on 12 November 2021 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA at 3:30pm.

Due to the uncertainty around the Covid-19 pandemic, the Board took the difficult decision to hold a closed AGM on 13 November 2020, with shareholders not permitted to attend.

Throughout the year the Board has followed the evolution of hybrid meetings and reviewed best practice adopted by listed companies, as well as monitoring the ongoing restrictions imposed by the Government. The Company will seek the approval of shareholders at the 2021 AGM to allow hybrid meetings for the future.

Restrictions related to the pandemic were substantively lifted on 19 July therefore the intention of the Company is to host the AGM with no restrictions. All shareholders are therefore welcome, and actively encouraged to attend the AGM. Further information on this, including resolutions to be tabled at the meeting, will be found in the Notice of AGM to be received in September.

Shareholders should continue to monitor the Company's website for the most up to date information on the arrangements for the AGM.

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 72 to and 74. Changes to the Directors during the year and up to the date of this report are set out below. Details of Directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 108. Options granted to directors under the Save As You Earn ("SAYE"), and Executive Share Option Schemes are shown on page 106. Further information regarding employee share option schemes is provided in note 25 to the financial statements.

Director	Position	Service in the year ended 27 June 2021
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	Appointed 28 June 2021

Directors' report continued

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 102 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.

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 73 and 74.

Dividends
On 10 March 2021 the Board announced its interim results, however in order to preserve liquidity in the continued uncertainty of the pandemic, no interim dividend was paid. The Board recognises the importance of dividend payments to shareholders and proposes a final dividend payment of 7.5p per share to be paid in respect of the 52 weeks ended 27 June 2021. The final dividend will be paid on 23 December to all shareholders on the register at 26 November 2021. The Company's shares will trade ex-dividend from 25 November 2021. The dividend is subject to approval by shareholders at the AGM on 12 November 2021.

No interim dividend	(last year 0.0p per share)
7.5p proposed final dividend	(last year 0.0p per share)
Total dividend of 7.5p per share for 2020/21	(last year 0.0p per share)

Substantial Shareholders
As at 10 September 2021, the Company has been notified of the following holdings of voting rights in its shares under Rule 5 of The Disclosure Guidance and Transparency Rules of the Financial Conduct Authority:

Investor	Number of Ordinary Shares	% voting rights	Date of notification
Liontrust Sustainable Investments	24,294,528	9.40	25 Nov 2019
Aviva Investors	21,818,822	8.44	30 Apr 2020
Franklin Templeton Fund Mgt	19,524,928	7.56	13 Apr 2020
Jupiter Asset Mgt	16,856,645	6.52	20 Oct 2020
JO Hambro Capital Mgt	15,540,459	6.01	17 Feb 2021
Pelham Capital Mgt	15,498,121	6.00	12 Dec 2019
Stadium Capital Mgt	13,898,874	5.38	26 Sep 2017
Aberforth Partners	13,176,711	5.10	24 May 2021
Aberdeen Standard Investments (Standard Life)	12,768,091	4.94	7 June 2021
Janus Henderson Investors	11,442,840	4.43	

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:

Share capital & Treasury Shares
The Company has only one class of shares, Ordinary Shares of £0.10 pence each.

As at 23 September, the Company had an issued share capital of 258,636,720 ordinary shares of £0.10p each.

On 27 June 2021, the Company held 250,332 Ordinary Shares in treasury (2020:266,473).

Treasury shares are held in the expectation that they will be utilised to satisfy future share-based employee-awards.

Details of the Company's share capital are set out in note 22 to the consolidated financial statements.

The rights and obligations attached to these shares are governed by Companies Act 2006 and the Company's Articles. 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.

Under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some 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.

Directors' report continued

Authority to purchase own shares

At the last AGM of the Company on 13 November 2020, 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 12 November 2021 unless revoked, varied, or renewed prior to that meeting.

A resolution will be proposed at the 2021 AGM to renew this authority.

Authority to allot shares

At the last AGM of the Company on 13 November 2020, the Company was granted a general authority by its shareholders to allot shares up to an aggregate nominal amount of £127,685,124 (or up to £255,370,247 in connection with an offer by way of a rights issue).

During the year, the Company allotted 3,000,000 new ordinary shares of £0.10 pence each for the purposes of satisfying the vesting of outstanding awards granted between 2017 and 2019 under the DFS Furniture plc 2015 Long Term Incentive Plan, the DFS Furniture plc 2015 Restricted Share Plan and the DFS Furniture plc Share save Scheme. The shares were purchased at nominal value by the DFS Furniture plc Equity Plan Employee Trust (the "EBT") – the Company's employee benefit trust.

A resolution will be proposed at the 2021 AGM to renew this authority.

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.

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 proposes to adopt revised articles of association at the 2021 AGM. Due to the pandemic the 2020 AGM was a closed meeting with the minimum shareholders present to achieve a quorum and the Company appreciates that shareholders may not have been able to express their views appropriately. The proposed amendment to the articles will allow for hybrid physical and online meetings to be held in the future and will ensure adequate measures are in place to facilitate engagement with shareholders.

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 44 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 27 June 2021 and the date of this report, Loraine Martins was appointed to the Board as an Independent Non-Executive Director and the Board established the Responsible and Sustainable Business Committee. There were no further reportable events.

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.

Donations

The Group does not make any political donations. The Group has a policy of not making donations to political organisations or independent election candidates.

The Group made charitable donations of £138,000 during the year.

Going concern

The performance of the Group throughout the pandemic has been resilient. The Group remains highly cash generative and currently has sufficient medium and long-term facilities in place, including a £225.0m senior revolving credit facility, extended during the year until December 2023 with two further one-year extension options.

Out of this £225.0m, £8.0m 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 pages 154 to 157.

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 45. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

This report has been approved by the Board of Directors and has been signed on its behalf by:

Elizabeth McDonald

Group General Counsel & Company Secretary
23 September 2021

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 applicable law 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. In addition, the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

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, reliable, and prudent.
- 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 International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").
- For the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the 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.

Responsibility statement of the directors in respect of the annual financial report

Each of the Directors whose names and functions are set out on pages 73 and 74 confirms that, to the best of their 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.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 23 September 2021 and signed on its behalf by:

Elizabeth McDonald

Group General Counsel & Company Secretary
23 September 2021

Independent auditor's report
to the members of DFS Furniture plc

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of DFS Furniture plc ("the Company") for the year ended 27 June 2021 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 27 June 2021 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- The parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

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 7 financial years ended 27 June 2021. A competitive tender process was run in 2021 for the FY22 year end audit. 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	£3.0m (2020:£1.8m) 4.2% (2020: 3.6%) of three financial year average absolute Group profit/loss before tax excluding non-underlying items
Coverage	91% (2020:72%) of Group profit before tax (2020: Group loss before tax)
Key audit matters	vs 2020
Recurring risks	↓ Going concern
	↓ Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies

Independent auditor's report continued

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, 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.

	The risk	**Our response**
Going concern	**Disclosure quality:**	**Our procedures included:**
Refer to page 36 (Principal Risks), page 45 (Viability reporting), page 85 (Audit Committee Report), page 116 (Director's report) and page 131 (accounting policy).	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 were: – The impact of the Covid-19 pandemic and the risk of any future periods of lockdown either in the UK, China or other significant supplier territories, leading to reduced order intake and customer deliveries; – Reduced customer demand for furniture as we exit the Covid-19 pandemic; 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.	– **Funding assessment:** Assessed the committed level of finance, and its expiry, to determine the level of financing available to the Group and its associated covenants. Considered covenant compliance, both in the financial year and for the forecast period; – **Historical comparisons:** Critically assessed historical results in order to consider the directors' track record of forecast accuracy versus actual cash flow achieved in the current financial year and previously; – **Benchmarking assumptions:** Benchmarked the key assumptions behind the cash flow forecasts to third party evidence, including analyst reports and market data; – **Sensitivity analysis:** Considered 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 various Covid-19 lockdown scenarios, and 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 reduction in non-essential capital expenditure and marketing costs, and reduction 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 (2020: acceptable).

Independent auditor's report continued

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

	The risk	Our response
Recoverability of goodwill and of the parent's investment in subsidiaries and receivables from other group companies. Group's goodwill £509.3m; 2020 £509.3m; impairment expense £0m (2020: £5.3m) parent Company's investment in subsidiaries £250.1m; 2020: £246.5m; parent Company's receivables £355.7m; 2020 £356.7m) Refer to page 85 (Audit Committee Report), page 133 (accounting policy), note 10 on page 147 (financial disclosures), notes 2 and 3 to parent Company financial statements on page 163.	**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, or the parent Company's investment in subsidiaries, or recoverability of its receivables from other group companies. This risk remains significant in light of FY20 financial trading performance for the Group falling behind internal and market expectations. The directors considered the recoverability of the goodwill balances, the parent Company investment in subsidiaries and recoverability of receivables from other group companies through a value in use calculation that had underlying assumptions of varying sensitivities. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. 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.	Our procedures included: – **Historical comparisons:** Compared the Group's previous forecasts against actual outcomes to assess the historical reliability of the forecasting; – **Benchmarking assumptions:** Compared the Group's trading forecasts against current trading performance and anticipated growth in the furniture retail sector, and investigated any significant deviations, in order to challenge the assumptions included in the forecasts. This was performed by comparing the anticipated growth in the forecasts to industry projections and applying our knowledge of the Group and of the retail sector; – **Sensitivity analysis:** Performed sensitivity analysis over revenue, profit margins and discount factor in order to determine their impact on the value in use calculations; – **Our sector experience:** Engaged our internal valuation specialists to asses and challenge the discount rate by obtaining the detail of the inputs used in the discount rate calculation, 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 and the parent company net asset position to the Group's market capitalisation to assess the reasonableness of those cash flows and the reasonableness of the carrying value of those assets; and – **Assessing transparency:** Considered the adequacy of the Group's disclosures around the carrying value of goodwill and the impairment analysis, as well as the disclosures around the recoverability of parent company investments and receivables. **Our results** We found the carrying amount of goodwill in the Group, the parent Company's investment in subsidiaries and recoverability of receivables from other group companies to be acceptable (2020: acceptable).

For each of the key audit matters reported, we performed the detailed tests above rather than seeking to rely on any of the Group's controls. This is because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and impairment tests however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

We continue to perform procedures over the DFS Trading Guarantee Provision. However, due to its size relative to materiality, the consistency in approach taken by management in previous years, and the availability of corroborating data supporting the assumptions within the model, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over IFRS 16. However, as the key audit matter recognised in the previous year was specifically over the transition, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £3.0m (2020: £1.8m), determined with reference to a benchmark of three financial year average absolute Group profit/loss before tax excluding non-underlying items, of which it represents 4.2% (2020: 3.6%).

The group audit team performed procedures on the items excluded from normalised Group profit before tax.

Materiality for the parent Company financial statements as a whole was set at £1.6m (2020: £1.0m), determined with reference to a benchmark of the parent Company total assets, of which it represents 0.26% (2020: 0.17%).

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% (2020: 75%) of materiality for the financial statements as a whole, which equates to £2.25m (2020: £1.35m) for the group and £1.2m (2020: £0.75m) 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 £0.15m (2020: £0.09m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

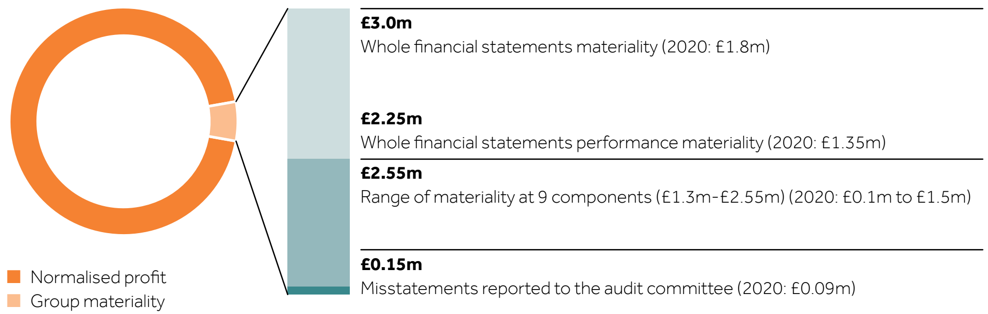
Of the group's 9 (2020: 9) reporting components, we subjected 3 (2020: 3) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite. The work on all components, including the audit of the parent company, was performed by the Group audit team.

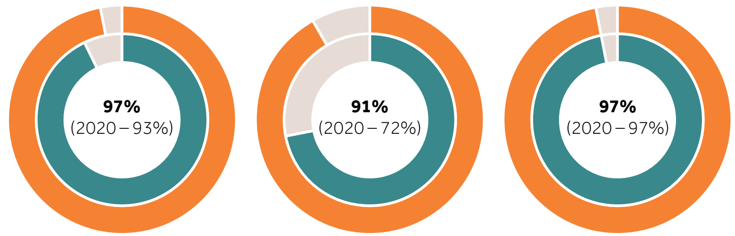
For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Three financial year average absolute Group profit/loss before tax excluding non-underlying items
£3.0m (2020: £50.2m)

Group materiality
£3.0m (2020: £1.8m)



Group revenue **Group profit before tax** **Group total assets**



Full scope for group audit purposes 2021
Full scope for group audit purposes 2020
Residual components

Independent auditor's report continued

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;
- We have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- The related statement under the Listing Rules set out on page 116 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 remuneration incentive schemes and performance targets for management/directors.
- 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 the unusually high trading and order book during the financial year, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as provisions.

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 significant 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 FCA focus on consumer duty with regards to the provision of Sofacare.

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.

Independent auditor's report continued

5. FRAUD AND BREACHES OF LAWS AND REGULATIONS –ABILITY TO DETECT CONTINUED

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.

Strategic report and directors' report

Based solely on our work on the other information:
- We have not identified material misstatements in the strategic report and the directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

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 (page 45) 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 (page 45) 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.

Independent auditor's report continued

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 117, 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.

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
Sovereign Street
Leeds
LS1 4DA
23 September 2021

Financial statements

This section presents details of the Group's and the Company's financial performance and position as at 27 June 2021.

CONTENTS

Consolidated income statement *for 52 weeks ended 27 June 2021 (52 weeks ended 28 June 2020)*

	Note	52 weeks to 27 June 2021 Underlying £m	52 weeks to 27 June 2021 Non-underlying £m	52 weeks to 27 June 2021 Total £m	52 weeks to 28 June 2020 Underlying £m	52 weeks to 28 June 2020 Non-underlying £m	52 weeks to 28 June 2020 Total £m
Gross sales[1]	1, 2	**1,368.7**	**–**	**1,368.7**	935.0	–	935.0
Revenue	2	**1,067.7**	**–**	**1,067.7**	724.5	–	724.5
Cost of sales		**(466.5)**	**–**	**(466.5)**	(307.4)	(3.1)	(310.5)
Gross profit		**601.2**	**–**	**601.2**	417.1	(3.1)	414.0
Selling and distribution costs		**(303.4)**	**–**	**(303.4)**	(287.5)	(2.1)	(289.6)
Administrative expenses	3	**(75.2)**	**(2.1)**	**(77.3)**	(67.7)	(0.2)	(67.9)
Operating profit before depreciation, amortisation and impairment		**222.6**	**(2.1)**	**220.5**	61.9	(5.4)	56.5
Depreciation		**(77.4)**	**–**	**(77.4)**	(81.9)	–	(81.9)
Amortisation		**(7.9)**	**–**	**(7.9)**	(6.8)	–	(6.8)
Impairments		**–**	**–**	**–**	(0.3)	(11.2)	(11.5)
Operating profit/(loss)	2, 3	**137.3**	**(2.1)**	**135.2**	(27.1)	(16.6)	(43.7)
Finance income	5	**–**	**–**	**–**	0.1	–	0.1
Finance expenses	5	**(32.9)**	**(3.1)**	**(36.0)**	(37.6)	–	(37.6)
Profit/(loss) before tax		**104.4**	**(5.2)**	**99.2**	(64.6)	(16.6)	(81.2)
Taxation	6	**(11.9)**	**1.4**	**(10.5)**	11.1	0.9	12.0
Profit/(loss) for the period		**92.5**	**(3.8)**	**88.7**	(53.5)	(15.7)	(69.2)
Earnings per share							
Basic	7	**36.0p**	**(1.5)p**	**34.5p**	(24.3)p	(7.1)p	(31.4)p
Diluted	7	**35.6p**	**(1.4)p**	**34.2p**	(24.3)p	(7.1)p	(31.4)p

1. Refer to pages 33 to 35 for APM definitions.

Consolidated statement of comprehensive income *for 52 weeks ended 27 June 2021 (52 weeks ended 28 June 2020)*

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) for the period	**88.7**	(69.2)
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	**(22.4)**	3.9
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**9.2**	(8.3)
Recognised in finance expense	**1.9**	0.7
Income tax on items that are or may be reclassified subsequently to profit or loss	**2.6**	0.4
Other comprehensive expense for the period, net of income tax	**(8.7)**	(3.3)
Total comprehensive income/(expense) for the period	**80.0**	(72.5)

Consolidated balance sheet *at 27 June 2021 (28 June 2020)*

	Note	27 June 2021 £m	28 June 2020 £m
Non-current assets			
Property, plant and equipment	8	**91.6**	74.1
Right of use assets	8, 9	**345.1**	384.5
Intangible assets	10	**535.4**	532.5
Other financial assets	12	**0.1**	0.8
Deferred tax assets	13	**24.7**	24.0
		996.9	1,015.9
Current assets			
Inventories	14	**61.1**	58.9
Other financial assets	12	**0.1**	4.5
Trade and other receivables	15	**17.1**	22.2
Current tax assets		**6.9**	7.8
Cash and cash equivalents (excluding bank overdrafts)		**22.7**	62.3
		107.9	155.7
Total assets		**1,104.8**	1,171.6
Current liabilities			
Bank overdraft		**(16.7)**	–
Trade payables and other liabilities	16	**(297.4)**	(216.0)
Lease liabilities	9	**(88.1)**	(88.6)
Provisions	20	**(15.1)**	(11.9)
Other financial liabilities	17	**(6.7)**	(0.1)
		(424.0)	(316.6)
Non-current liabilities			
Interest bearing loans and borrowings	18	**(23.1)**	(218.7)
Lease liabilities	9	**(366.0)**	(428.6)
Provisions	20	**(5.7)**	(3.9)
Other financial liabilities	17	**(1.5)**	(1.9)
		(396.3)	(653.1)
Total liabilities		**(820.3)**	(969.7)
Net assets		**284.5**	201.9
Equity attributable to owners of the Company			
Share capital	22	**25.9**	383.4
Share premium	22	**40.4**	40.4
Merger reserve	22	**18.6**	18.6
Capital redemption reserve	22	**357.8**	–
Treasury shares	22	**(0.7)**	(0.7)
Employee Benefit Trust shares	22	**(0.2)**	–
Cash flow hedging reserve	22	**(8.0)**	3.3
Retained earnings		**(149.3)**	(243.1)
Total equity		**284.5**	201.9

These financial statements were approved by the board of directors on 23 September 2021 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 £	Treasury shares £m	Employee Benefit Trust shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2019	319.5	40.4	18.6	–	(2.1)	–	7.0	(131.6)	251.8
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	–	–	–	(26.4)	(26.4)
Balance at 1 July 2019	319.5	40.4	18.6	–	(2.1)	–	7.0	(158.0)	225.4
Loss for the year	–	–	–	–	–	–	–	(69.2)	(69.2)
Other comprehensive income/(expense)	–	–	–	–	–	–	(3.7)	0.4	(3.3)
Total comprehensive income/(expense) for the year	–	–	–	–	–	–	(3.7)	(68.8)	(72.5)
Dividends	–	–	–	–	–	–	–	(15.9)	(15.9)
Purchase of own shares	–	–	–	–	(1.1)	–	–	–	(1.1)
Treasury shares issued	–	–	–	–	2.5	–	–	(1.2)	1.3
Shares issue	63.9	–	–	–	–	–	–	–	63.9
Settlement of share based payments	–	–	–	–	–	–	–	(1.6)	(1.6)
Share based payments	–	–	–	–	–	–	–	2.4	2.4
Balance at 28 June 2020	383.4	40.4	18.6	–	(0.7)	–	3.3	(243.1)	201.9
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**88.7**	**88.7**
Other comprehensive income/(expense)	**–**	**–**	**–**	**–**	**–**	**–**	**(11.3)**	**2.6**	**(8.7)**
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(11.3)**	**91.3**	**80.0**
Issue of shares to 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**

Consolidated cash flow statement *for 52 weeks ended 27 June 2021 (52 weeks ended 28 June 2020)*

	Note	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 £m
Profit/(loss) for the period		**88.7**	(69.2)
Adjustments for:			
Income tax expense/(credit)	6	**10.5**	(12.0)
Finance income	5	**–**	(0.1)
Finance expenses	5	**32.9**	37.6
Exceptional financing costs	5	**3.1**	–
Depreciation of property, plant and equipment	8	**19.7**	21.3
Depreciation of right of use assets	9	**57.7**	60.6
Amortisation of intangible assets	10	**7.9**	6.8
Impairment of assets		**–**	11.5
Gain on sale of property, plant and equipment	3	**(1.2)**	(1.1)
Gain on disposal of right of use assets	3	**(1.4)**	–
Loss on sale of subsidiaries	3	**0.7**	–
Settlement of share based payments		**(2.1)**	(1.6)
Share based payment expense	25	**3.6**	2.4
Decrease/(increase) in trade and other receivables		**4.6**	(1.6)
Increase in inventories		**(2.2)**	(4.1)
Increase in trade and other payables		**81.4**	4.7
Increase in provisions		**3.3**	6.6
Net cash from operating activities before tax		**307.2**	61.8
Tax paid		**(8.2)**	(6.1)
Net cash from operating activities		**299.0**	55.7
Investing activities			
Proceeds from sale of property, plant and equipment		**1.5**	1.4
Proceeds received from sale of subsidiaries		**0.3**	–
Interest received		**–**	0.1
Acquisition of property, plant and equipment	8	**(38.0)**	(16.8)
Acquisition of other intangible assets	10	**(11.2)**	(6.6)
Net cash used in investing activities		**(47.4)**	(21.9)
Financing activities			
Interest paid		**(6.1)**	(9.0)
Interest paid on lease liabilities	9	**(26.7)**	(29.2)
Payment of lease liabilities	9	**(77.1)**	(36.3)
Exceptional financing costs		**(4.1)**	–
(Repayment)/drawdown of borrowings	26	**(195.0)**	25.0
Proceeds on issue of shares	22	**0.3**	63.9
Purchase of own shares		**(0.3)**	(1.1)
Proceeds from sale of own shares		**1.1**	1.3
Ordinary dividends paid		**–**	(15.9)
Net cash used in financing activities		**(307.9)**	(1.3)
Net (decrease)/increase in cash and cash equivalents	26	**(56.3)**	32.5
Cash and cash equivalents at beginning of period	26	**62.3**	29.8
Cash and cash equivalents (including bank overdraft) at end of period	26	**6.0**	62.3

Notes to the consolidated financial statements *at 27 June 2021*

1 ACCOUNTING POLICIES

DFS Furniture plc ("the Company") is a company incorporated and domiciled 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 1.18.

1.1 Basis of preparation

The consolidated financial statements have been prepared and approved by the directors in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 27 June 2021 (last year 52 weeks to 28 June 2020).

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 160 to 164.

Going concern

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The Group has a £225.0m revolving credit facility with a consortium of seven banks maturing in December 2023, with two one-year options to extend the facility, subject to mutual agreement. At 20 September 2021, £217.0m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £9.0m.

Covenants applicable to the revolving credit facility are consistent with those on the previous facility (prior to the temporary alternative covenants in place from April 2020 to December 2020): 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; impacts on gross margin from regulatory and other changes; 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: further two month Covid-19 related showroom closures; significantly reduced customer spending; and impacts on gross margin from inflationary cost pressures. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group 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 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 aftercare services for which the Group acts as an agent. 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 within a few days of delivery, less a fee for taking responsibility for payment collection and bearing the full credit risk for any future default by the customer. The fee due to the finance house varies depending on the amount borrowed by the customer, the length of the repayment term and the LIBOR rate at the time of the transaction.

In calculating reported revenue in accordance with IFRS the Group is required to deduct these fees from the value of the customer order. Reported revenue will therefore vary depending on the proportion of customers who choose to take up the interest free credit offer, the average duration of the interest free loan period and the prevailing LIBOR rates.

For the purposes of managing its business the Group focuses on gross sales, which is defined as the total amount payable by customers, inclusive of VAT and other sales taxes and prior to any accounting adjustments for interest-free credit fees or aftercare product costs. The directors believe gross sales is a more transparent measure of the activity levels and performance of its stores and online channels as it is not affected by customer preferences on payment options. Accordingly gross sales is presented in this annual report in addition to statutory revenue, with a reconciliation between the two measures provided in note 2 to the financial statements.

Notes to the consolidated financial statements continued *at 27 June 2021*

1 ACCOUNTING POLICIES CONTINUED

1.3 Gross sales and revenue 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 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.

Notes to the consolidated financial statements continued *at 27 June 2021*

1 ACCOUNTING POLICIES CONTINUED

1.9 Business combinations continued

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.

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

Notes to the consolidated financial statements continued *at 27 June 2021*

1 ACCOUNTING POLICIES CONTINUED

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.

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 judgements in note 1.18.

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 Significant areas of estimation and judgement

In the application of the Group's accounting policies, the Directors are required to make judgements, 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 judgement or estimation arose in the current financial statements.

The following are other areas of important estimates 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 27 June 2021.

Notes to the consolidated financial statements continued *at 27 June 2021*

1 ACCOUNTING POLICIES CONTINUED

1.18 Significant areas of estimation and judgement continued

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 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 27 June 2021.

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 27 June 2021.

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 27 June 2021.

1.19 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 27 June 2021 that have a material impact on the Group's results.

A number of new or revised standards and interpretations have been issued which are not yet effective or endorsed by the EU, and which have not therefore been applied by the Group in these financial statements.

Notes to the consolidated financial statements continued *at 27 June 2021*

2 SEGMENTAL ANALYSIS

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Group Leadership Team. Segment performance is assessed based upon brand contribution. Brand contribution is defined as underlying EBITDA (being earnings before interest, 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 manufacture and 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.

During the current financial year, the retail operations and management of the Dwell brand were combined with the DFS brand and accordingly they are now presented as one segment. Prior year comparative figures have been re-presented to align with the revised presentation. Other segment activities comprise the retailing of upholstered furniture and related products through Sofa Workshop until it was disposed of on 18 September 2020.

Segment revenue and profit

	External sales		**Internal sales**		**Total gross sales**	
	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 Re-presented £m	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 Re-presented £m	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 Re-presented £m
DFS	**1,093.2**	735.3	**–**	–	**1,093.2**	735.3
Sofology	**269.2**	181.7	**–**	–	**269.2**	181.7
Other segments	**6.3**	18.0	**–**	–	**6.3**	18.0
Gross sales	**1,368.7**	935.0	**–**	–	**1,368.7**	935.0

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Total segments gross sales	**1,368.7**	935.0
Less: value added and other sales taxes	**(217.4)**	(146.4)
Less: costs of interest free credit and aftercare products	**(83.6)**	(64.1)
Revenue	**1,067.7**	724.5
Of which:		
Furniture sales	**1,013.2**	676.0
Sales of aftercare products	**54.5**	48.5
Revenue	**1,067.7**	724.5

52 weeks to 27 June 2021

	DFS £m	**Sofology £m**	**Other £m**	**Total £m**
Revenue	**848.0**	**214.6**	**5.1**	**1,067.7**
Cost of sales	**(363.4)**	**(101.8)**	**(1.3)**	**(466.5)**
Gross profit	**484.6**	**112.8**	**3.8**	**601.2**
Selling & distribution costs (excluding property costs)	**(244.4)**	**(55.6)**	**(0.5)**	**(300.5)**
Brand contribution (segment profit)	**240.2**	**57.2**	**3.3**	**300.7**
Property costs				**(2.9)**
Underlying administrative expenses				**(75.2)**
Underlying EBITDA				**222.6**

Notes to the consolidated financial statements continued *at 27 June 2021*

2 SEGMENTAL ANALYSIS CONTINUED

52 weeks to 28 June 2020

	DFS Re-presented £m	Sofology £m	Other Re-presented £m	Total £m
Revenue	566.5	143.7	14.3	724.5
Cost of sales	(227.5)	(72.3)	(7.6)	(307.4)
Gross profit	339.0	71.4	6.7	417.1
Selling & distribution costs (excluding property costs)	(205.3)	(47.8)	(7.2)	(260.3)
Brand contribution (segment profit)	133.7	23.6	(0.5)	156.8
Property costs				(27.2)
Underlying administrative expenses				(67.7)
Underlying EBITDA				61.9

	Note	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 £m
Underlying EBITDA		**222.6**	61.9
Non-underlying items	3	**(2.1)**	(16.6)
Depreciation & amortisation		**(85.3)**	(88.7)
Impairments		**–**	(0.3)
Operating profit/(loss)		**135.2**	(43.7)
Finance income		**–**	0.1
Finance expenses		**(32.9)**	(37.6)
Non-underlying financing costs	5	**(3.1)**	–
Profit/(loss) before tax		**99.2**	(81.2)

A geographical analysis of revenue is presented below:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
United Kingdom	**1,044.6**	701.7
Europe	**23.1**	22.8
Total revenue	**1,067.7**	724.5

Notes to the consolidated financial statements continued *at 27 June 2021*

2 SEGMENTAL ANALYSIS CONTINUED

Segment assets and liabilities

	Assets		**Liabilities**	
	27 June 2021 £m	28 June 2020 Re-presented £m	**27 June 2021 £m**	28 June 2020 Re-presented £m
DFS	**903.4**	997.0	**(659.2)**	(595.4)
Sofology	**174.1**	145.5	**(157.8)**	(143.9)
Other segments	**–**	7.5	**–**	(25.2)
Total segments	**1,077.5**	1,150.0	**(817.0)**	(764.5)
Loans and financing	**–**	–	**(23.1)**	(218.7)
Financial assets/(liabilities)	**0.2**	5.3	**(8.2)**	(2.0)
Current tax	**6.9**	7.8	**–**	–
Deferred tax	**24.7**	24.0	**–**	–
Eliminations	**(4.5)**	(15.5)	**28.0**	15.5
Total Group	**1,104.8**	1,171.6	**(820.3)**	(969.7)

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

	Additions to non-current assets		**Depreciation, amortisation and impairment**	
	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 Re-presented £m	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 Re-presented £m
DFS	**51.6**	22.9	**66.4**	68.3[1]
Sofology	**17.9**	7.6	**17.8**	18.8[2]
Other segments	**–**	0.6	**1.1**	13.1[3]
Total Group	**69.5**	31.1	**85.3**	100.2

Additions to non-current assets include both tangible and intangible non-current assets.

1. 2020: DFS: includes impairment charges of £1.4m.
2. 2020: Sofology: includes impairment charges of £0.3m.
3. 2020: Other segments: includes impairment charges of £9.8m.

Notes to the consolidated financial statements continued *at 27 June 2021*

3 OPERATING PROFIT

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

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Depreciation on tangible assets (including depreciation on right of use assets)	**77.4**	81.9
Amortisation of intangible assets	**7.9**	6.8
Impairment of tangible assets	**–**	5.2
Impairment of intangible assets	**–**	1.0
Impairment of goodwill	**–**	5.3
Net gain on disposal of property, plant and equipment	**(1.2)**	(1.1)
Net gain on disposal of right of use assets	**(1.4)**	–
Cost of inventories recognised as an expense	**465.5**	317.1
Write down of inventories to net realisable value	**5.6**	7.2
Other costs of sales	**(4.6)**	(13.8)
Operating lease rentals	**0.5**	1.9

During the period the Group did not receive any Government support through the Coronavirus Job Retention Scheme (2020: £19.5m).

Non-underlying items	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 £m
Restructuring costs	**1.4**	2.3
Impairment of goodwill and brand names	**–**	6.3
Impairment of tangible and right of use assets	**–**	4.9
Write down of inventories on restructuring	**–**	3.1
Loss on disposal of subsidiaries	**0.7**	–
	2.1	16.6

On 18 September 2020, the Group formally completed the sale of the entire issued share capital of The Sofa Workshop Limited for cash consideration of £0.3m. The loss on disposal includes professional fees, property guarantees and other costs associated with the disposal.

In addition, non-underlying redundancy costs of £1.4m were incurred in the year in respect of a significant operational restructuring of the DFS sales administration function.

In the 52 weeks to 28 June 2020, non-underlying costs arose in connection with the restructure of the Dwell brand and the sale of Sofa Workshop following the end of the financial year. The goodwill relating to Sofa Workshop was fully impaired, together with the right of use and other tangible assets relating to stores being closed, and the brand name was written down to £0.3m. In addition, related inventories impacted by the restructure were written down to a reduced net realisable value. Other restructuring costs included redundancy costs and operational costs associated with exiting closed locations.

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Auditor's remuneration:		
Audit of these financial statements	**0.4**	0.3
Audit of the financial statements of Group subsidiaries	**0.2**	0.1
Amounts receivable by the Company's auditor and its associates in respect of:		
All other services	**–**	–
	0.6	0.4

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 (2020: £20,000), and £5,000 in respect of other audit-related services (2020: £nil).

Notes to the consolidated financial statements continued *at 27 June 2021*

4 STAFF NUMBERS AND COSTS

The average number of persons employed by the Group during the period, analysed by category, was as follows:

	Number of employees	
	52 weeks to 27 June 2021	52 weeks to 28 June 2020
Production	**1,088**	1,160
Warehouse and transport	**902**	1,056
Sales and administration	**2,808**	3,281
	4,798	5,497

The aggregate payroll costs of these persons were as follows:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Wages and salaries	**171.9**	163.1
Social security costs	**17.5**	15.5
Other pension costs	**4.7**	5.5
	194.1	184.1
Share based payment expense (equity settled)	**3.6**	2.4
	197.7	186.5
Coronavirus job retention scheme income	**–**	(19.5)
	197.7	167.0

Aggregate remuneration payable to directors in respect of qualifying services was as follows:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Emoluments	**2.0**	1.1
Pension contributions	**0.1**	0.1
Gain on exercise of share options	**1.1**	0.1

Two directors accrued retirement benefits under pension schemes in the period (2020: one). All of the directors' pension contributions were to defined contribution schemes.

Notes to the consolidated financial statements continued *at 27 June 2021*

5 FINANCE INCOME AND EXPENSE

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Finance income		
Interest income on bank deposits	**–**	0.1
Total finance income	**–**	0.1

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Finance expense		
Interest payable on senior revolving credit facility	**(4.2)**	(7.6)
Bank fees	**(2.0)**	(0.5)
Unwind of discount on provisions	**(0.1)**	–
Interest on lease liabilities	**(26.5)**	(29.2)
Other interest	**(0.1)**	(0.3)
Total underlying finance expense	**(32.9)**	(37.6)
Non-underlying items:		
Refinancing costs	**(3.1)**	–
Total finance expense	**(36.0)**	(37.6)

Non-underlying finance costs of £3.1m relate to the refinancing of the Group's revolving credit facility in December 2020. This includes the write off of unamortised underwriting fees associated with the old revolving credit facility, break costs associated with exiting interest rate swaps that were no longer required, and professional fees incurred in relation to the arrangement of the new revolving credit facility.

6 TAXATION

Recognised in the income statement

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Current tax		
Current period	**8.9**	(2.6)
Adjustments for prior years	**0.1**	–
Current tax expense/(credit)	**9.0**	(2.6)
Deferred tax		
Origination and reversal of temporary differences	**7.4**	(6.8)
Deferred tax rate change	**(5.2)**	(1.9)
Adjustments for prior years	**(0.7)**	(0.7)
Deferred tax expense/(credit)	**1.5**	(9.4)
Total tax expense/(credit) in income statement	**10.5**	(12.0)

Notes to the consolidated financial statements continued *at 27 June 2021*

6 TAXATION CONTINUED

Reconciliation of effective tax rate

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) before tax for the period	**99.2**	(81.2)
Tax using the UK corporation tax rate of 19% (2020: 19%)	**18.8**	(15.4)
Non-deductible expenses	**0.8**	2.5
Tax exempt revenues	**(0.3)**	–
Effect of tax rates in foreign jurisdictions	**0.3**	0.2
Disposal of subsidiaries	**(0.5)**	–
Recognition of previously unrecognised tax losses	**(2.6)**	2.9
Adjustments in respect of share options	**(0.2)**	0.4
Adjustment in respect of prior years	**(0.6)**	(0.8)
Impact of change in tax rate on deferred tax balances	**(5.2)**	(1.8)
Total tax expense/(credit)	**10.5**	(12.0)

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 27 June 2021 (19% at 28 June 2020).

Income tax recognised in other comprehensive income

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Effective portion of changes in fair value of cash flow hedges	**(3.9)**	0.9
Net change in fair value of cash flow hedges reclassified to profit or loss	**1.7**	(1.6)
Adjustments in respect of share options	**0.1**	0.1
Impact of change in tax rate on deferred tax balances	**(0.5)**	0.2
	(2.6)	(0.4)

Notes to the consolidated financial statements continued *at 27 June 2021*

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 Director's Remuneration Report.

	52 weeks to 27 June 2021 pence	52 weeks to 28 June 2020 pence
Basic total earnings per share	**34.5**	(31.4)
Diluted total earnings per share	**34.2**	(31.4)

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) for the period attributable to equity holders of the parent company	**88.7**	(69.2)

	27 June 2021 No.	28 June 2020 No.
Weighted average number of shares in issue for basic earnings per share	**257,096,686**	220,289,976
Dilutive effect of employee share based payment awards	**2,352,481**	–
Weighted average number of shares in issue for diluted earnings per share	**259,449,167**	220,289,976

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 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) for the period attributable to equity holders of the parent company	**88.7**	(69.2)
Non-underlying loss after tax	**3.8**	15.7
Underlying profit/(loss) for the period attributable to equity holders of the parent company	**92.5**	(53.5)

	52 weeks to 27 June 2021 pence	52 weeks to 28 June 2020 pence
Underlying basic earnings per share	**36.0**	(24.3)
Underlying diluted earnings per share	**35.6**	(24.3)

Notes to the consolidated financial statements continued *at 27 June 2021*

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 30 June 2019	8.6	161.6	28.3	–	198.5
Recognised on adoption of IFRS 16	–	–	–	434.5	434.5
Reclassifications		(1.3)	(17.1)	18.4	–
Additions	–	15.9	0.9	7.7	24.5
Remeasurements	–	–	–	(2.9)	(2.9)
Disposals	–	(1.8)	(0.1)	(3.3)	(5.2)
Balance at 28 June 2020	8.6	174.4	12.0	454.4	649.4
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**
Depreciation and impairments					
Balance at 30 June 2019	1.3	92.0	15.3	–	108.6
Reclassifications	–	(0.7)	(7.2)	7.9	–
Depreciation charge for the period	0.2	19.3	1.8	60.6	81.9
Disposals	–	(1.9)	–	(3.0)	(4.9)
Impairments	–	0.8	–	4.4	5.2
Balance at 28 June 2020	1.5	109.5	9.9	69.9	190.8
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**
Net book value					
At 30 June 2019	7.3	69.6	13.0	–	89.9
At 28 June 2020	7.1	64.9	2.1	384.5	458.6
At 27 June 2021	**18.8**	**71.1**	**1.7**	**345.1**	**436.7**

Remeasurements of right of use assets relate to leases where the terms have been renegotiated during the period.

Capital commitments
At 27 June 2021 the Group had contracted capital commitments of £3.6m (2020: £1.7m) for which no provision has been made in the financial statements.

Notes to the consolidated financial statements continued *at 27 June 2021*

9 LEASES

Right of use assets

	Property £m	Vehicles £m	Equipment £m	Total £m
Cost				
Balance at 30 June 2019	–	–	–	–
Recognised on adoption of IFRS 16	434.5	–	–	434.5
Reclassifications	–	17.1	1.3	18.4
Additions	2.4	5.3	–	7.7
Remeasurements	(2.9)	–	–	(2.9)
Disposals	–	(3.3)	–	(3.3)
At 28 June 2020	434.0	19.1	1.3	454.4
Additions	**17.4**	**2.3**	**0.6**	**20.3**
Remeasurements	**13.4**	**–**	**–**	**13.4**
Disposals	**(21.5)**	**(3.7)**	**–**	**(25.2)**
Balance at 27 June 2021	**443.3**	**17.7**	**1.9**	**462.9**
Depreciation and impairment				
At June 2019	–	–	–	–
Reclassifications	–	7.2	0.7	7.9
Depreciation charge for the period	56.1	4.2	0.3	60.6
Disposals	–	(3.0)	–	(3.0)
Impairment of right of use asset	4.4	–	–	4.4
At 28 June 2020	60.5	8.4	1.0	69.9
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**
Net book value				
At 30 June 2019	–	–	–	–
At 28 June 2020	373.5	10.7	0.3	384.5
At 27 June 2021	**335.3**	**9.1**	**0.7**	**345.1**

Notes to the consolidated financial statements continued *at 27 June 2021*

9 LEASES CONTINUED

Amounts recognised in the consolidated balance sheet:

	27 June 2021 £m	28 June 2020 £m
Current lease liabilities	**88.1**	88.6
Non-current lease liabilities	**366.0**	428.6

For more information on the maturity of the Group's lease liabilities, see note 24.

Amounts recognised in the consolidated income statement:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Interest on lease liabilities	**26.7**	29.2
Variable lease payments not included in the measurement of lease liabilities	**(0.6)**	2.1
Income from subleasing right of use assets	**(0.5)**	(1.0)
Expenses relating to short-term leases and low value leases	**1.6**	0.8

Amounts recognised in the consolidated cash flow statement:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Total cash outflow for lease liabilities	**103.8**	65.5

Non-cancellable short-term lease rentals are payable as follows:

	27 June 2021 £m	28 June 2020 £m
Less than one year	**0.1**	1.2
Between one and five years	**–**	–
More than five years	**–**	–
	0.1	1.2

The Group has entered into short-term leases in respect of warehouses and equipment.

At 27 June 2021, future rentals receivable under non-cancellable leases where the Group is the lessor were £2.7m (2020: £2.1m).

During the period ended 27 June 2021 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 (2020: £nil).

Notes to the consolidated financial statements continued *at 27 June 2021*

10 INTANGIBLE ASSETS

	Computer software £m	Brand Names £m	Goodwill £m	Total £m
Cost				
Balance at 30 June 2019	28.0	16.8	514.6	559.4
Additions	6.6	–	–	6.6
Balance at 28 June 2020	34.6	16.8	514.6	566.0
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**
Amortisation and impairments				
Balance at 30 June 2019	17.5	2.9	–	20.4
Amortisation charge for the period	5.3	1.5	–	6.8
Impairments	–	1.0	5.3	6.3
Balance at 28 June 2020	22.8	5.4	5.3	33.5
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**
Net book value				
At 30 June 2019	10.5	13.9	514.6	539.0
At 28 June 2020	11.8	11.4	509.3	532.5
At 27 June 2021	**16.4**	**9.7**	**509.3**	**535.4**

Goodwill

The carrying amount of goodwill is allocated to the following cash generating units:

	Goodwill	
	27 June 2021 £m	28 June 2020 £m
DFS Trading Limited	**479.9**	479.9
Sofology Limited	**28.4**	28.4
DFS Spain Limited	**1.0**	1.0
	509.3	509.3

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%. These cash flow forecasts were then discounted at pre-tax discount rates of 9.9%-10.1% (2020: 8.0%-11.1%). The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

Notes to the consolidated financial statements continued *at 27 June 2021*

10 INTANGIBLE ASSETS CONTINUED

For the DFS brands and Sofology, these calculations showed 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, are wholly owned by the Group and have been consolidated:

	Principal activity
Diamond Holdco 2 Limited[1]	Intermediate holding company
Diamond Holdco 7 Limited[1]	Intermediate holding company
DFS Furniture Holdings plc[1]	Intermediate holding company
DFS Furniture Company Limited[1]	Intermediate holding company
DFS Trading Limited[1]	Furniture retailer
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 *at 27 June 2021*

12 OTHER FINANCIAL ASSETS

	27 June 2021 £m	28 June 2020 £m
Non-current		
Foreign exchange contracts	**0.1**	0.8
Current		
Foreign exchange contracts	**0.1**	4.5

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23).

13 DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	27 June 2021 £m	28 June 2020 £m
Fixed asset timing differences	**7.3**	6.2
IFRS 16	**11.9**	10.3
Remeasurement of derivatives to fair value	**2.0**	(0.6)
Tax losses carried forward	**2.4**	6.3
Brand names	**(2.2)**	(2.0)
Share based payments	**1.3**	1.0
Corporate interest restriction	**–**	1.8
Other temporary differences	**2.0**	1.0
Net tax assets	**24.7**	24.0

The deferred tax movement in the period is as follows:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
At start of period	**24.0**	8.7
Recognised on adoption of IFRS 16	**–**	5.4
(Charged)/credited to the income statement:		
Fixed asset timing differences	**1.5**	2.3
Unwind of IFRS 16 transition impact	**1.6**	0.1
Tax losses carried forward	**(3.9)**	4.8
Brand names	**(0.2)**	0.2
Share based payments	**0.3**	–
Corporate interest restriction	**(1.8)**	1.8
Other temporary differences	**1.0**	0.3
Disposal of subsidiaries	**(0.4)**	–
Recognised in the statement of comprehensive income	**2.6**	0.4
At end of period	**24.7**	24.0

Deferred tax assets on losses of £2.7m (2020: £6.8m) have not been recognised as there is uncertainty over the utilisation of these losses.

Notes to the consolidated financial statements continued *at 27 June 2021*

14 INVENTORIES

	27 June 2021 £m	28 June 2020 £m
Raw materials and consumables	**6.6**	7.4
Finished goods and goods for resale	**68.6**	63.2
	75.2	70.6
Provision for net realisable value	**(14.1)**	(11.7)
	61.1	58.9

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

	27 June 2021 £m	28 June 2020 £m
Trade receivables	**9.3**	10.4
Prepayments	**7.2**	10.1
Accrued income	**0.4**	0.9
Other receivables	**0.2**	0.8
	17.1	22.2

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

	27 June 2021 £m	28 June 2020 £m
Current		
Payments received on account	**117.7**	86.8
Trade payables	**83.9**	41.9
Other creditors including other tax and social security	**31.3**	39.0
Accruals	**64.5**	48.3
	297.4	216.0

Payments on account represent contract liabilities under IFRS 15. The FY20 amounts have been realised through revenue in FY21 and it is anticipated that the FY21 amounts will be realised through revenue in the subsequent financial year. Trade payables do not bear interest and are paid within agreed credit terms.

Notes to the consolidated financial statements continued *at 27 June 2021*

17 OTHER FINANCIAL LIABILITIES

	27 June 2021 £m	28 June 2020 £m
Non-current		
Interest rate derivatives	**–**	1.9
Foreign exchange contracts	**1.5**	–
	1.5	1.9
Current		
Foreign exchange contracts	**6.7**	0.1

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23).
Interest rate derivatives are used to hedge interest rate risk on the Group's floating rate debt (note 23).

18 OTHER INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.
For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

	27 June 2021 £m	28 June 2020 £m
Senior revolving credit facility	**25.0**	220.0
Unamortised issue costs	**(1.9)**	(1.3)
	23.1	218.7

The revolving credit facility bears interest at a rate of 3 month LIBOR plus 2.75% and is currently repayable on 21 December 2023, with two one-year options to extend the facility, subject to mutual agreement. 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. On 21 December 2020 the Group agreed the size of the revolving credit facility to be £225.0m, reducing to £215.0m from 26 June 2022.

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 £4.7m (2020: £5.5m).

Notes to the consolidated financial statements continued *at 27 June 2021*

20 PROVISIONS

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 28 June 2020	8.1	1.6	6.1	15.8
Provisions made during the period	6.6	3.1	3.2	12.9
Provisions reclassified during the period	–	0.8	–	0.8
Provisions used during the period	(5.6)	–	(1.1)	(6.7)
Provisions released on disposal of subsidiary	–	(0.7)	–	(0.7)
Provisions released during the period	–	(1.1)	(0.2)	(1.3)
Balance at 27 June 2021	**9.1**	**3.7**	**8.0**	**20.8**
Current	6.2	0.9	8.0	15.1
Non-current	2.9	2.8	–	5.7
	9.1	**3.7**	**8.0**	**20.8**

The Group offers a long-term guarantee on its upholstery products and in accordance with accounting standards a provision is maintained for the expected future cost of fulfilling these guarantees on products which have been delivered before the reporting date. In calculating this provision the key areas of estimation are the number of future claims, average cost per claim and the expected period over which claims will arise (nearly all claims arise within two years of delivery). The Group has considered the sensitivity of the calculation to these key areas of estimation, and determined that a 10% change in either the average cost per claim or the number of expected future calls would change the value of the calculated provision by £0.9m. 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 repair and remediation 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 deferred consideration payable on the Group's November 2017 acquisition of Sofology. Subsequent to the balance sheet date, the deferred consideration was finalised and settled on 11 August 2021.

21 DIVIDENDS

The following dividends were recognised and paid during the period:

	Pence per ordinary share	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 £m
Final ordinary dividend for FY19	7.5p	**–**	15.9
		–	15.9

The Directors recommend a final dividend of 7.5p in respect of the financial period ended 27 June 2021, resulting in a total proposed dividend of £19.4m. Subject to shareholder approval it is intended that this dividend will be paid on 23 December 2021. DFS Furniture plc shares will trade ex-dividend from 25 November 2021 and the record date will be 26 November 2021. This dividend has not therefore been recognised as a liability in these financial statements.

Notes to the consolidated financial statements continued *at 27 June 2021*

22 CAPITAL AND RESERVES

Share capital

	Ordinary shares of £1.50 each		Ordinary shares of £0.10 each		Deferred shares of £1.40 each		Total share capital
	'000	£m	'000	£m	'000	£m	£m
Allotted, called up and fully paid							
At the start of the financial period	255,637	383.4	–	–	–	–	383.4
Subdivision of ordinary share capital	(255,637)	(383.4)	255,637	25.6	255,637	357.8	–
Repurchase of deferred shares	–	–	–	–	(255,637)	(357.8)	(357.8)
Issued during the year	–	–	3,000	0.3	–	–	0.3
At the end of the financial period	**–**	**–**	**258,637**	**25.9**	–	–	25.9

Ordinary shares

Following a resolution at the 2020 Annual General Meeting, on Friday 13 November 2020 the ordinary shares of £1.50 each in the capital of the Company in issue were each subdivided into one ordinary share of £0.10 in the capital of the Company, having the same rights and being subject to the same restrictions in all respects as the ordinary shares of £1.50 each in the capital of the Company prior to that date (save as to nominal value) and one deferred share of £1.40 in the capital of the Company. The deferred shares were subsequently purchased for cancellation on 25 November 2020 for aggregate consideration of £0.01.

On 16 November 2020 the Company issued 3,000,000 ordinary shares of £0.10 each to the Employee Benefit Trust, as noted below.

Deferred shares

The deferred shares carry no entitlement to dividends, distributions or returns of capital save in the event of a winding-up of the Company (such entitlement being limited to the repayment of the amount paid up on the deferred shares), nor any further or other right of participation in the assets of the Company. Holders of deferred shares are not entitled to receive notice of, nor attend, speak or vote at any general meeting 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.

Capital redemption reserve

The capital redemption reserve arose on the cancellation of deferred shares of £1.40 each on 25 November 2020.

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 27 June 2021 16,141 of the Company's own ordinary shares (2020: 990,451) were used to satisfy employee share based payment awards. At 27 June 2021 the company had 250,332 ordinary shares held in treasury (2020: 266,473).

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 27 June 2021 the Company issued 3,000,000 ordinary shares to the Employee Benefit Trust of which 1,135,013 were subsequently used during the period. At 27 June 2021 the Employee Benefit Trust held 1,864,987 of the Company's ordinary shares.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the consolidated financial statements continued *at 27 June 2021*

23 FINANCIAL INSTRUMENTS: CATEGORIES AND FAIR VALUE

	27 June 2021 £m	28 June 2020 £m
Financial assets		
Derivatives in designated hedging relationships	**0.2**	5.3
Loans and receivables	**9.5**	11.2
Cash	**24.1**	62.3
Financial liabilities		
Derivatives in designated hedging relationships	**(8.2)**	(2.0)
Senior revolving credit facility	**(23.1)**	(218.7)
Bank overdraft	**(16.7)**	–
Amortised cost	**(164.2)**	(101.0)
Fair value	**(5.0)**	(5.0)
Finance lease obligations	**(454.1)**	(517.2)

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.

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:

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 *at 27 June 2021*

24 FINANCIAL INSTRUMENTS: RISK MANAGEMENT CONTINUED

28 June 2020	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	90.2	–	–	–	90.2
Lease liabilities	88.0	85.9	214.5	235.3	623.7
Senior revolving credit facility	4.6	3.9	220.6	–	229.1
Other liabilities	11.9	2.5	–	1.4	15.8
	194.7	92.3	435.1	236.7	958.8
Derivatives: net settled	0.9	0.8	0.1	–	1.8
Derivatives: gross settled					
Cash in flows	(107.7)	(34.3)	–	–	(142.0)
Cash out flows	114.5	27.1	–	–	141.6
Total cash flows	202.4	85.9	435.2	236.7	960.2

Interest rate risk management

The Group's operating profit is affected by the cost of providing interest free credit to its customers. A fall in LIBOR rates would have a positive impact on operating profit and a rise in LIBOR rates would impact operating profit negatively. However, with the current low LIBOR rates any increases or decreases at present would largely be mitigated by the LIBOR 'floor' mechanisms used by the external providers of credit to the Group's customers. Excluding the effect of these floors, an increase in LIBOR of one percentage point would reduce the Group's reported revenue by 0.7%.

The Group is exposed to interest rate risk on its senior revolving credit facility, which bears interest at a floating rate of 3 month GBP LIBOR plus 2.75%. Due to the significantly reduced amount of drawn facility at 27 June 2021, the level of this risk to the Group is minimal and as such no interest rate hedging is in place. In the prior year, the Group had in place four participating interest rate swaps and caps. The effect of these instruments was to fix the interest rate payable on the senior revolving credit facility to a maximum level while allowing the Group to retain some benefit on a proportion of the facility where LIBOR remained below 1.39%.
The fair values of the Group's interest rate derivatives are as follows:

	27 June 2021 £m	28 June 2020 £m
Interest rate swaps		
Derivatives in designated hedging relationships	**–**	(1.9)

Foreign exchange risk management

The Group is exposed to the risks of exchange rate fluctuations on the purchase of products denominated in foreign currencies. The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing certain products which are paid for predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly-probable".

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 and their critical terms are aligned to the hedged transactions. The Group assesses the effectiveness of these hedging relationships prospectively via a capacity test and retrospectively using the dollar offset method.

Notes to the consolidated financial statements continued *at 27 June 2021*

24 FINANCIAL INSTRUMENTS: RISK MANAGEMENT CONTINUED

The table below summarises the forward foreign exchange contracts outstanding at the period end:

	27 June 2021		28 June 2020	
	Notional amount £m	**Fair value £m**	Notional amount £m	Fair value £m
Derivatives in designated hedging relationships				
US Dollar	**189.2**	**(8.8)**	141.7	4.1

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	27 June 2021 £m	28 June 2020 £m	**27 June 2021 £m**	28 June 2020 £m
US Dollar	**7.6**	7.7	**(8.6)**	(7.8)
Euro	**2.9**	4.4	**(0.3)**	(0.1)

Foreign currency sensitivity analysis

The Group's primary foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% weakening of these currencies against Sterling, assuming all other variables were unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the cash flow hedging reserve in equity.

Positive figures represent an increase in profit or equity.

	Income statement		**Equity**	
	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 £m
US Dollar	**–**	–	**(17.8)**	(14.7)
Euro	**(0.3)**	(0.4)	**–**	–

The net of outstanding US Dollar denominated monetary items at the year end is low, therefore the impact on the income statement would be £nil, but a change in rate would result in a change in the value of the derivatives in designated hedging relationships, resulting in a movement through equity.

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.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a qualitative and forward-looking approach to assessing hedge effectiveness. The Group determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and, has been, effective in offsetting cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of counterparties and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

Notes to the consolidated financial statements continued *at 27 June 2021*

24 FINANCIAL INSTRUMENTS: RISK MANAGEMENT CONTINUED

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. The Group does not offer any credit to its customers, therefore credit risk relating to exposure to customers is low.

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. The Group considers that expected credit losses on derivative assets arising from the default of counterparties are not material (see note 1.3). Concentrations of risk are mitigated through the use of multiple counterparties and by counterparty limits which are reviewed and approved by the Board.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group's maximum credit exposure arising from derivatives is equal to the carrying value at the reporting date.

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 three share based payment schemes in operation:

Long Term Incentive Plan (LTIP)

The LTIP is a discretionary executive reward plan that allows the Group to grant conditional share awards or nil-cost options to selected executives at the discretion of the Remuneration Committee. The scheme is focused on the senior leadership roles in the Group, including Executive Directors. The maximum value of LTIP awards granted to an individual is 150% of base salary, although the Remuneration Committee may in exceptional circumstances increase this to 300%.

LTIP awards vest after a three year performance period subject to the achievement of performance measures based on earnings per share and total shareholder return targets. Further information on LTIP performance targets and awards made to Directors during the year is given in the Directors' Remuneration Report on page 106 in the sections entitled 'LTIP Awards Vesting in Relation to Performance in FY21 – Audited' and 'Scheme Interests Awarded in FY21 (2020 Awards) – Audited'.

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.

Notes to the consolidated financial statements continued *at 27 June 2021*

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.	RSP No.	SAYE No.
Outstanding at the beginning of the period	1,676,222	3,605,064	2,508,458
Granted	849,903	1,127,187	3,032,379
Forfeited	(87,902)	(225,875)	(88,039)
Exercised	–	(1,392,847)	(719,058)
Lapsed	(508,992)	–	(160,685)
Cancelled	–	–	(375,816)
Outstanding at the end of the period	**1,929,231**	**3,113,529**	**4,197,239**
Weighted average remaining contractual life (months)	**17.6**	**16.7**	**26.3**
Weighted average share price at exercise	**–**	**£2.28**	**£2.33**

At 27 June 2021 the weighted average exercise price of outstanding SAYE options was £1.69 (2020: £1.79) and the range of exercise prices was £1.61 to £1.88 (2020: £1.61 to £1.88).

Fair value calculations

The LTIP, RSP and SAYE awards are all accounted for as equity-settled under IFRS 2. The fair value of LTIP awards which are subject to a market based performance condition (total shareholder return) is calculated using a stochastic (Monte Carlo) option pricing model. RSP awards, SAYE awards and LTIP awards subject to a non-market based performance condition (earnings per share) are valued using a Black-Scholes option pricing model. The inputs to these models for awards granted during the financial period are detailed below:

	LTIP	RSP	SAYE
Grant date	6 October 2020	6 October 2020	27 November 2020
Valuation date[1]	9 March 2021	11 March 2021	27 November 2020
Share price at date of grant	£2.01	£2.01	£2.03
Share price at valuation date	£2.40	£2.45	£2.03
Exercise price	Nil	Nil	£1.62
Volatility	51.0-64.8%[2]	–[3]	47.2%
Expected life	3 years	3 years	3.1 years
Risk free rate	0.1-0.3%[2]	–[3]	0.0%
Dividend yield	–[4]	2.8%	2.8%
Fair value per share			
Market based performance conditions	£1.39-£1.53[2]	–	–
Non-market based performance condition	£2.19-£2.40[2]	£1.89	–
No performance condition	–	£2.28	£0.70

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 £3.6m (2020: £2.4m).

1. Performance conditions for the 2020 LTIP and RSP awards were determined subsequent to the initial date of grant on 9 March 2021 and 11 March 2021 respectively. The fair value calculations in respect of those awards subject to performance conditions were therefore calculated based on share price and other inputs prevailing at the valuation date.
2. The 2020 LTIP grant included a number of required holding periods, giving a range of volatility and fair values.
3. Volatility and risk free rates do not impact the fair value calculation for awards with no exercise price or market based performance condition.
4. LTIP participants are entitled to receive dividend equivalents on unvested awards therefore dividend yield does not impact the fair value calculation.

Notes to the consolidated financial statements continued *at 27 June 2021*

26 NET DEBT

	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 (including bank overdraft)	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)**

	30 June 2019 £m	IFRS 16 transition £m	Cash flow £m	Other non-cash changes £m	28 June 2020 £m
Cash in hand, at bank	29.8	–	32.5	–	62.3
Cash and cash equivalents	29.8	–	32.5	–	62.3
Senior revolving credit facility	(194.0)	–	(25.0)	0.3	(218.7)
Lease liabilities	(12.1)	(536.6)	36.3	(4.8)	(517.2)
Total net debt	(176.3)	(536.6)	43.8	(4.5)	(673.6)

Non-cash changes include the addition of leases within the period of £20.3m (2020: £7.7m), lease remeasurements of £13.5m (2020: £2.9m), disposals of leases of £13.6m (2020: £nil), impact of the disposal of Sofa Workshop on lease liabilities of £6.2m (2020: £nil) and the amortisation of capitalised debt issue costs of £0.6m (2020: £0.3m).

27 RELATED PARTIES

Key Management Personnel

At 27 June 2021, Directors of the Company held 0.3% of its issued ordinary share capital (2020: 0.3%), and a further 0.1% (2020: 0.1%) was held by other key management personnel.

The compensation of key management personnel (including the Directors) is as follows:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Emoluments	**4.9**	2.9
Share based payments expense	**1.2**	0.7
Company contributions to money purchase schemes	**0.3**	0.2
	6.4	3.8

Company balance sheet *at 27 June 2021*

	Note	**27 June 2021 £m**	28 June 2020 £m
Non-current assets			
Investments	2	**250.1**	246.5
Amounts due from group companies	3	**355.7**	–
		605.8	246.5
Current assets			
Amounts due from group companies	3	**–**	356.7
Current liabilities			
Amounts due to group companies	4	**(112.0)**	(112.0)
Net assets		**493.8**	491.2
Capital and reserves			
Called up share capital	5	**25.9**	383.4
Share premium	5	**40.4**	40.4
Merger reserve	5	**18.6**	18.6
Capital redemption reserve	5	**357.8**	–
Treasury shares	5	**(0.7)**	(0.7)
Shares held by employee benefit trust	5	**(0.2)**	–
Retained earnings		**52.0**	49.5
Equity shareholders' funds		**493.8**	491.2

The Company's profit for the period was £nil (2020: £nil).

These financial statements were approved by the board of directors on 23 September 2021 and were signed on its behalf by:

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Company registered number: 07236769

Company statement of changes in equity *at 27 June 2021*

	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 30 June 2019	**319.5**	**40.4**	**18.6**	–	**(2.1)**	**–**	**65.8**	**442.2**
Profit for the period	–	–	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	–	(15.9)	(15.9)
Purchase of own shares	–	–	–	–	(1.1)	–	–	(1.1)
Treasury shares issued	–	–	–	–	2.5	–	(1.2)	1.3
Shares issue	63.9	–	–	–	–	–	–	63.9
Settlement of share based payments	–	–	–	–	–	–	(1.6)	(1.6)
Share based payments	–	–	–	–	–	–	2.4	2.4
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	–	**(0.7)**	**–**	**49.5**	**491.2**
Profit for the period	–	–	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	–	–	–
Purchase of shares held 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**

Notes to the Company financial statements *at 27 June 2021*

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In these financial statements the Company has applied the exemption available under FRS101 in respect of the following disclosures:

- A cash flow statement and related notes
- Comparative period reconciliations
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management
- The impact of new but not yet effective IFRSs

As the consolidated accounts of the Company include the equivalent disclosures, the Company has also taken the exemption available under FRS 101 in respect of IFRS 2 Share Based Payments disclosures of group settled share based payments. Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account. The Company's profit for the period was £nil (2020: £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 £225.0m revolving credit facility maturing in December 2023, with two one-year options to extend the facility, 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 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 for the period of 18 months to March 2023. 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.

Credit risk

The ability of subsidiary undertakings to repay outstanding balances to the Company is assessed at each reporting date and counterparty credit risk is reviewed on a regular basis using IFRS 9's expected credit loss impairment model.

Notes to the Company financial statements continued *at 27 June 2021*

2 INVESTMENTS

	Shares in subsidiary undertakings	
	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Cost and net book value		
At the start of the financial period	**246.5**	244.1
Additions	**3.6**	2.4
At the end of the financial period	**250.1**	246.5

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. No impairment indicators or impairment charges were identified in the current financial period.

3 DEBTORS

	27 June 2021 £m	28 June 2020 £m
Amounts due from subsidiary undertakings		
Current assets	**–**	356.7
Non-current assets	**355.7**	–

Amounts due from subsidiary undertakings are non-interest bearing and repayable on demand. During the year the Directors reviewed the expectation of the timing of settlement of these balances and accordingly reclassified them to non-current assets. No material impairment of the receivable was recorded at 27 June 2021 or 28 June 2020.

4 CREDITORS: AMOUNTS DUE IN LESS THAN ONE YEAR

	27 June 2021 £m	28 June 2020 £m
Amounts due to subsidiary undertakings (non-interest bearing, repayable on demand)	**112.0**	112.0

5 CAPITAL AND RESERVES

Share capital

	Ordinary shares of £1.50 each		Ordinary shares of £0.10 each		Deferred shares of £1.40 each		Total share capital
	'000	£m	'000	£m	'000	£m	£m
Allotted, called up and fully paid							
At the start of the financial period	255,637	383.4	–	–	–	–	383.4
Subdivision of ordinary share capital	(255,637)	(383.4)	255,637	25.6	255,637	357.8	–
Repurchase of deferred shares	–	–	–	–	(255,637)	(357.8)	(357.8)
Issued during the year	–	–	3,000	0.3	–	–	0.3
At the end of the financial period	**–**	**–**	**258,637**	**25.9**	–	–	**25.9**

Notes to the Company financial statements continued *at 27 June 2021*

5 CAPITAL AND RESERVES CONTINUED

Ordinary shares
Following a resolution at the 2020 Annual General Meeting, on Friday 13 November 2020 the ordinary shares of £1.50 each in the capital of the Company in issue were each subdivided into one ordinary share of £0.10 in the capital of the Company, having the same rights and being subject to the same restrictions in all respects as the ordinary shares of £1.50 each in the capital of the Company prior to that date (save as to nominal value) and one deferred share of £1.40 in the capital of the Company. The deferred shares were subsequently purchased for cancellation on 25 November 2020 for aggregate consideration of £0.01.

On 16 November 2020 the Company issued 3,000,000 ordinary shares of £0.10 each to the Employee Benefit Trust, as noted below.

Deferred shares
The deferred shares carry no entitlement to dividends, distributions or returns of capital save in the event of a winding-up of the Company (such entitlement being limited to the repayment of the amount paid up on the deferred shares), nor any further or other right of participation in the assets of the Company. Holders of deferred shares are not entitled to receive notice of, nor attend, speak or vote at any general meeting 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.

Capital redemption reserve
The capital redemption reserve arose on the cancellation of deferred shares of £1.40 each on 25 November 2020.

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 27 June 2021 16,141 of the Company's own ordinary shares (2020: 990,451) were used to satisfy employee share based payment awards. At 27 June 2021 the company had 250,332 ordinary shares held in treasury (2020: 266,473).

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 27 June 2021 the Company issued 3,000,000 ordinary shares to the Employee Benefit Trust of which 1,135,013 were subsequently used during the period. At 27 June 2021 the Employee Benefit Trust held 1,864,987 of the Company's ordinary shares.

Financial history

		FY21	**FY20**	FY19[3] 52 weeks	FY19[2] 48 weeks	FY18[1]	FY17
		IFRS 16		IAS 17			
Gross sales	£m	**1,368.7**	935.0	1,287.2	1,165.0	1,125.6	990.8
Revenue	£m	**1,067.7**	724.5	996.2	901.0	870.5	762.7
Underlying EBITDA	£m	**222.6**	61.9	90.2	65.1	76.1	82.4
Underlying (loss)/profit before tax excluding brand amortisation	£m	**105.8**	(63.1)	50.2	28.2	38.3	50.2
Profit/(loss) before tax	£m	**99.2**	(81.2)	43.6	22.4	25.8	50.1
Basic earnings per share	p	**34.5**	(31.4)	16.5	8.6	8.9	18.7
Ordinary dividends per share	p	**7.5**	–	11.2	11.2	11.2	11.2
Special dividends per share	p	**–**	–	–	–	–	9.5
Purchase of own shares	£m	**–**	1.1	–	–	–	–
Total shareholder return	%	**+71.4**	-32.5	+31.9	+31.5	+1.9%	+6.5%

1. Sofology acquired 30 November 2017.
2. Audited statutory period: 48 weeks ended 30 June 2019.
3. Unaudited proforma period: 52 weeks ended 30 June 2019.

Shareholder information

Contacts

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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:
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+44 (0)20 7353 4200

Annual General Meeting 2021
This year's AGM will be held at 3:30pm on 12 November 2021 at DFS Group Support Centre, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA

Financial calendar

FY21 full year results	23 September 2021
Annual General Meeting	12 November 2021

Report and Accounts
Registered number 7236769
27 June 2021
Company No. 07236769

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