DFS FURNITURE HOLDINGS PLC

REPORT AND ACCOUNTS

28 JULY 2012

Company no 7218977

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FINANCIAL HIGHLIGHTS:

- Record EBITDA of £82 0m (2011 £80 0m) – up 2 5%, after £5 9m (2011 nil) expense to fund retail and manufacturing expansion
- Sales £624 7m (2011 £638 4m) – down 2 1%
- Strong cash generation continues year-end cash balances £27 0m (2011 £38 9m) after £47 9m bond buybacks and shareholder dividend

OPERATIONAL HIGHLIGHTS:

- Expansion strategy on track 13 new stores opened
- New stores performing well
- First DFS store outside UK opened in Dublin
- First city centre store opened in Tottenham Court Road, London
- Creating 500 new British jobs in retailing and manufacturing

CHAIRMAN'S STATEMENT

We are pleased to have delivered a good result for the year, despite the tough trading environment As we expected, the improving trend in performance during the year continued in the fourth quarter This performance benefited from a growing sales contribution from our new stores, which also began to contribute to profit Improved margins over the year as a whole reflected the increase in our own manufacturing capacity and our drive to improve efficiency across the business, particularly through more cost-effective media buying

We opened a total of 13 new stores during the year, including our first store outside the UK in Dublin and our first city centre store in London's Tottenham Court Road These new stores are performing well, in line with our expectations Since the beginning of our new financial year we have opened one further new store and our expansion plan is firmly on track as we develop our future store opening pipeline, while also enhancing our successful and growing online business

The group has remained strongly cash generative, and over the two full years of ownership by Advent International, DFS has generated operating cash flow in excess of £100 million

We are delighted that we are creating some 500 new jobs through our retail and manufacturing expansion during the year, and have been pleased by strong demand for these positions The strength of our performance, under exceptionally testing market conditions, is a testament to the hard work and commitment of the whole DFS team

We will continue to invest in our people and our brand in the year ahead, increasing our appeal and accessibility to customers through further innovation in products and services and our continuing, measured programme of store expansion We will also maintain our focus on managing our costs, maximising cash generation and ensuring a robust balance sheet

We remain confident in the future prospects for DFS based on our clear strategy, excellent products and outstanding people, and our expanding store and online presence

Richard Baker
Chairman

Directors' report

The directors present their report together with the audited financial statements for the year ended 28 July 2012

PRINCIPAL ACTIVITIES

The principal activities of DFS Furniture Holdings plc and its subsidiaries ("the Group") are the retailing and manufacture of furniture The Company acts as a holding company for the Group and is itself owned by Advent International

DFS is the leading retailer of upholstered furniture in the United Kingdom We design, manufacture, sell and deliver to our customers an extensive range of upholstered furniture products The business operates a national retail network of upholstered furniture stores and dining stores, which have been established and developed gradually over more than 40 years of operating history, and has an expanding online proposition We attract customers to our stores and website through our substantial and continued investment in nationwide marketing activities and our reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation for the Group was £24 2 million (2011 £19 0 million) After paying an interim dividend of £17 0 million (2011 £nil) during the year and providing for taxation, an amount of £7 7 million has been transferred from reserves (2011 £7 5 million transferred to reserves)

The directors do not recommend the payment of a final dividend (2011 £nil)

STRATEGY

Our strategy for DFS is firmly based on the principles that were pursued so successfully for over 40 years under its previous ownership We have maintained the Group's focus on fresh, high quality upholstered furniture, and successfully extended the range of optional products on offer to our customers We have also continued to invest substantially in our stores and people In marketing, we have been able to achieve substantial cost efficiencies in media buying without compromising the volume or impact of our advertising The effectiveness of our marketing activities will be further improved by the broadening of our store base as we press ahead with our measured store rollout programme, while simultaneously expanding and developing our successful online proposition

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Key performance indicators

	2012	*2011*	*% change*
Turnover	£624 7m	£638 4m	-2 1%
EBITDA	£82 0m	£80 0m	+2 5%
EBITDA margin	13 1%	12 5%	+4 8%
Net debt	£159 6m	£182 2m	-12 4%
Number of stores	92	80	

***EBITDA** means earnings before interest, income taxes, depreciation and amortisation*
***EBITDA margin** means EBITDA for the period divided by turnover for that period*
***Net Debt** means cash less corporate bonds outstanding and related unamortised issue costs*

Directors' report *(continued)*

Trading performance

Turnover in the 52 weeks ended 28 July 2012 was £624 7 million (2011 £638 4 million), a reduction of 2 1 per cent Even though there was no alleviation of the challenging UK trading environment, our sales showed a progressively improving trend during the year, from a decline of 14 3 per cent in the first three months to an increase of 16 7 per cent in the final quarter The resilience of our overall performance delivered a further increase in DFS's share of the upholstered furniture market, aided by a growing sales contribution from new stores and underpinned by the consumer's trust in our established brand, exceptional range and superior interest-free credit offering, backed by our continued investment in effective marketing

EBITDA increased by 2 5 per cent to a record £82 0 million (2011 £80 0 million) The company's EBITDA margin showed a further significant improvement to 13 1 per cent, compared with 12 5 per cent in 2011 and 12 0 per cent in 2010, principally reflecting more effective media purchasing This has enabled us to make significant savings in our advertising expenditure without a reduction in our share of voice or impact on the consumer Profitability has also benefited from the additional contribution we derive by increasing the proportion of our total sales made in our own factories

This strong result was despite the impact of £5 9 million of non-recurring investment, comprising £5 0 million in new store pre-opening and launch costs, £0 5 million associated with the expansion of our UK manufacturing capacity by adding further production shifts at two of our factories and £0 4 million in website enhancement

Stores

We opened 13 new upholstery stores during the year, including our first store in the Republic of Ireland, giving us a total of 92 stores (including four Dining Centres) at the year-end

Our plans to bring a DFS store within easy reach of all significant customer bases in the UK are well on track, with the current retail property environment providing an excellent opportunity to acquire suitable leasehold properties on favourable terms

Online

We have continued to enhance our online offering during the year, and have initiated a significant investment in the development of a fully multichannel customer experience This will enable customers to engage with DFS on any aspect of the customer journey in their preferred manner, extend our online transactional capabilities and provide a powerful marketing tool

Brand and marketing

DFS built its market-leading position as one of the UK's best-known brands through sustained and substantial investment in marketing We have continued to pursue this strategy, though efficiencies in our media buying arrangements have enabled us to achieve substantial savings without affecting our ability to reach consumers Our ongoing store network expansion across the UK will enable us to achieve further marketing efficiency by allowing us to spread our national advertising costs across a broader store base, with only limited incremental local marketing support

In November 2011 we appointed a new creative agency, Krow, to develop a new approach to advertising and communications, enabling us to broaden our customer appeal without losing our traditional core base

Directors' report *(continued)*

Products

DFS continues to offer consumers exclusive, innovative, design-led products that also provide outstanding value for money Everything we sell is handmade to order, and our confidence in the quality of our products is underlined by the free, ten-year guarantee we provide on everything we make and on products that we have exclusively sourced from our supplier partners We pride ourselves on offering the broadest range of any upholstered furniture retailer in the UK, covering the widest spread of price points and product styles, and with the greatest choice of colour and fabric options and accessories, this enables us to attract customers of all ages and tastes, and with a wide range of budgets During the year we have focused on extending our appeal still further, providing an even greater choice of sofa styles, covers for our sofas and expanding the range of occasional tables and other accessories We have also exclusively teamed up with several external brands to introduce a series of branded sofa ranges These developments have been to ensure that we really do offer something for everyone

Manufacturing and supply chain

We have continued to pursue our strategy of flexible sourcing from our own UK factories at Long Eaton, Alfreton and Carcroft, and from a range of supplier partners in Britain, Europe and the Far East Having our own manufacturing capability gives DFS an important competitive edge, not just by providing us with a unique point of difference with customers, but also by affording us real insights into the furniture market and production process that are invaluable in developing our relationships with other suppliers We benefit from direct control of design, quality and lead times in our own factories, as well as from the additional manufacturing margin they generate Following the introduction of an additional shift in two of our factories in 2011, we have further increased the proportion of the product we sell that we manufacture ourselves

Investment

As expected, capital expenditure during the year substantially increased to £20 4 million (2011 £8 4 million), largely driven by our store opening programme We have also made a significant investment in the development of our web platform and e-commerce capability which will continue into 2013 These projects are in addition to our continued investment in our vehicle fleet and ongoing programme of store refurbishment, ensuring that all our existing stores continue to offer an outstanding environment for the display of our products As in previous years, all capital expenditure remains self-financed from our strong cash flow

Management

Recognising the importance of marketing to the business, we are delighted to have appointed Helen Normoyle to the newly created role of Chief Marketing Officer Helen, formerly Director of Marketing and Audiences at the BBC, brings a wealth of high profile brand marketing experience and particular expertise in engaging with target audiences

Cash flow and balance sheet

DFS remains a strongly cash generative business, enabling us to reduce net debt by £22 6 million during the year Cash balances at the year-end were £27 0 million (2011 £38 9 million) after repayment of a further £35 7 million of the £240 million seven-year, fixed rate bond issued in July 2010 at a cost of £33 7 million and a £14 2 million dividend payment In addition to the cash generated from operations, during the year we received £6 1 million in settlement of the sale and leaseback of our freehold store in Inverness in the previous year The business has the benefit of a robust balance sheet and is well placed to pursue our strategy for growth in the years ahead

Directors' report *(continued)*

Outlook

Like all UK retailers, we continue to operate in a climate of great economic uncertainty and weak consumer confidence Our plans have been made on the assumption that there will be no early improvement in the trading environment, and remain focused on the areas within our own control ensuring that DFS continues to increase its market share by offering an outstanding proposition and providing excellent service both in store and online, and making us accessible to even more customers through our programme of store expansion, financed from our strong cash flow We will also maintain our focus on managing margin and costs, maximising cash generation and ensuring a robust balance sheet

Our strategy of continued innovation in products and services, measured store expansion, and investment in the DFS brand and our people, will provide a strong platform for profitable growth and DFS has excellent prospects for the future

CORPORATE RESPONSIBILITY

At DFS, we recognise that we have a responsibility to understand and endeavour to meet the needs of everyone involved in our business We count among our stakeholders suppliers, customers, employees, shareholders and the people in the communities in which we operate DFS is also a member of Business in the Community Throughout our interaction with all these parties, we aim to have a positive impact in UK society and on the environment whilst striving to achieve our commercial objectives

Corporate Responsibility ("CR") is represented on our Senior Management Team by Human Resources Director Andrew Stephenson Bi-annual reports to the Audit and Risk Committee of our board help to ensure that CR remains integral to the way we do business

Employees

This year's good results are a testimony to the hard work and commitment of DFS's people, and their determination to deliver great customer service in a challenging trading environment

One of the most pleasing aspects of our planned expansion is the opportunity it creates for both new and existing employees, as we recruit additional staff and are able to offer opportunities for promotion to our talented people By the end of the financial year the DFS team had grown to 3,098 (2011 2,792) people We expect our ongoing expansion programme to create more than 500 new jobs in total

We remain strongly committed to helping all our employees to make the most of their talents through our continuing programmes of training and development Internal training courses are accredited to National Standards, and over 6,300 days of formal training were delivered during the year in a wide variety of areas including retail, business and administration, customer service, distribution and logistics At July 2012, 329 employees were engaged in formal apprenticeship programmes and a further 158 were working towards NVQs A further 280 employees successfully completed their training during the year

Employees are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests The Group's strategy is communicated in detail to all employees through presentations from senior management Employee views are sought through regular feedback sessions with directors and an active programme of employee engagement surveys, the results of which are communicated back to staff

DFS aims to support the health and welfare of our employees and their families through a variety of initiatives including a proactive musculoskeletal programme, life and critical illness cover, and an employee assistance service It is the policy of the Group to support the employment of disabled people, wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Group as well as generally through training and career development

We thank all our staff for their commitment to DFS in a highly competitive market place and for their individual contributions to the year's strong results

Directors' report *(continued)*

Customers

DFS makes a significant investment in staff training in order to deliver the highest levels of customer service Staff performance and customer satisfaction are monitored through regular inspections, surveys and mystery shoppers carried out through an independent consumer research group

The Group goes to great lengths to ensure the quality and safety of all the products it sells Our own detailed quality checks are supported by the use of independent safety specialists, and all upholstered furniture items are offered with a ten year guarantee

Suppliers

DFS maintains close contact with its suppliers through frequent visits by operational and senior management and has established a dedicated forum for working in partnership with suppliers to improve performance The Group agrees payment terms with each of its suppliers individually when it enters into binding purchase contracts The Group uses its best efforts to meet payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions

Environment

DFS is committed to responsible business and is working to reduce the potential impact of its activities on the environment The Group has formulated an Energy Management Policy to support the reduction of the Group's energy use where practical and consistent with the operational needs of the business

Energy efficient lighting schemes have now been rolled out across the store portfolio and other initiatives [such as voltage optimization] are being explored to further reduce store energy use and associated carbon footprint The installation of automated meter readers in stores has enabled energy usage to be monitored more accurately and sources of energy wastage identified and dealt with more quickly

Waste management is also an important consideration for the Group and during the year further progress has been made to reduce overall packaging usage while extending the recycling of cardboard and polythene across the store portfolio, including investment in a larger capacity baler at our central warehouse As a result, the level of recycling of cardboard and polythene has increased 16% compared to the previous year

Community

Charitable donations made by the Group during the period amounted to £71,475 (2011 £154,667) DFS continues to be a Gold Partner of the Duke of Edinburgh's Award, supporting young people to develop new skills for work and life and contribute to their communities

During the year, DFS successfully trialled a project with The British Heart Foundation to raise funds for the charity while offering customers a way to recycle their old sofas This raised over £153,000 in the year and will be rolled out across our store network in the coming year A specialist recycling service is now also available to all customers, enabling their old furniture to be fully diverted from landfill

There were no political donations made in the current period (2011 £nil)

Directors' report *(continued)*

BUSINESS RISKS AND UNCERTAINTY

The Group faces a number of risks and uncertainties in both the development and day-to-day operations of its business The Board regularly reviews key business risks and oversees the implementation by executive directors and operational management of processes to manage these risks

Those risks that could potentially have a significant impact on the business are discussed below, together with the Group's related mitigating activities Other risks which are currently either not known to the Group or are not considered material could also impact the Group's reported performance or assets

Business strategy

The success of the Group depends upon the formulation and implementation of appropriate strategies by the Board Strategic issues are regularly discussed at Board meetings in addition to dedicated strategy days Performance against strategic targets is documented and reviewed to assess progress and enable any remedial actions to be taken on a timely basis Senior management are set specific objectives for their business area which are aligned to the strategy and a proportion of their remuneration is dependent on the achievement of these objectives

Economy and market conditions

The retail market for upholstered furniture in the UK is highly competitive The Group's success is therefore dependent on its ability to compete effectively, particularly during peak trading periods The Group continues to make substantial investments in marketing to maintain its leading brand status Detailed sales information by product and store is reviewed daily, enabling changes to product selection, incentive structures and advertising strategy to be made on a dynamic basis to optimise sales

The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the wider UK economy including (but not limited to) consumer confidence, income levels, interest rates and the level of housing market activity Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value and are supported by excellent customer service, in order to enhance the Group's market-leading position

Supply chain management

A large portion of the Group's products are supplied by a core of manufacturers, with many produced in continental Europe and Asia The Group's internal manufacturing operations also supply a significant proportion of goods sold and may not wholly be able to compensate for the failure of any of the Group's key external suppliers to satisfy their delivery obligations The Group maintains flexible supply arrangements to facilitate switching between suppliers where necessary and uses a variety of freight forwarders to avoid reliance on any one transport link All external upholstered furniture suppliers are frequently inspected by the Group to ensure that production is proceeding smoothly and that quality standards are maintained

Consumer finance

The majority of the Group's sales are to customers that utilise its interest free finance offerings, which are provided by external finance houses that, in return for a fee, bear the risk of customer default Credit standards with respect to customer finance offerings typically tighten during periods of economic downturn, which may limit the Group's ability to offer customer finance on commercially acceptable terms and/or may increase the amount of the fee payable to the external providers of customer finance The Group has longstanding relationships with a number of finance houses, enabling redistribution of business in the event of withdrawal by one or more providers and acceptance rates and fee levels are continuously reviewed to ensure that each provider remains competitive

Directors' report *(continued)*

Expansion of retail store network

The growth of the Group depends on its ability to open and operate new stores on a timely and cost-effective basis while continuing to increase sales at existing stores Competition for desirable retail sites has historically been significant, which may reduce the availability and/or increase the rental costs of such sites A detailed appraisal model is applied to assess the payback period and expected profitability of each potential new store, including its impact on existing stores in the area Appraisals are subject to thorough review and approval by the Board before any investment is made The Group has an established supporting infrastructure in place to recruit and train staff and fit out and open stores to schedule

Employees

The success of the Group depends significantly on its ability to attract and retain a workforce that includes experienced sales, product design and production personnel and to retain members of its senior management team, many of whom have significant experience in the Group's business and industry Employee remuneration is structured to be at attractive levels and to incentivise employees towards results that are aligned with the objectives of the Group In addition, senior management may participate in equity in the Group or in longer term incentive plans operating over a three year cycle

IT systems

The Group's operations depend upon the continued availability and integrity of its IT systems, including its website Full back up and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated

Financial risk and liquidity

A downturn in the macroeconomic environment may impact the Group's ability to obtain financing The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £30 0 million revolving credit facility in place until June 2016 which is as yet unutilised

The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas This risk is managed through the use of foreign currency forward contracts in accordance with its Board-approved treasury policy No derivatives are entered into for speculative purposes

Regulatory environment

The Group is subject to an increasing burden of compliance in many of its activities from regulatory and other authorities and is subject to regulatory risk with potential for significant financial impact or reputational damage Comprehensive training and monitoring programmes are in place, including a dedicated Treating Customers Fairly committee, to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance

Directors' report *(continued)*

DIRECTORS

The directors of the Company are listed below

F E Wakeman
A J M Dawson
R A Baker
I F Filby
J H Massey
W R Barnes

F E Wakeman and A J M Dawson are investor directors who represent Advent International

GOING CONCERN

The Group and Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review section of the Directors' Report The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries

As noted in the Business Risks and Uncertainties section of the Directors' Report, the Company remains highly cash generative and currently has sufficient medium and long term facilities in place, including £189 3m (2011 £225 0m) of senior secured loan notes maturing in 2017 and a £30 0m revolving credit facility in place until June 2016 which is as yet unutilised

On the basis of their assessment of the Company's financial position and expected future performance, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the Board

PA Walker
Company Secretary

1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
South Yorkshire
DN6 7NA

11 October 2012

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period

In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgements and estimates that are reasonable and prudent,

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

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 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

Independent auditor's report to the members of DFS Furniture Holdings PLC

We have audited the financial statements of DFS Furniture Holdings plc for the 52 weeks ended 28 July 2012 set out on pages 13 to 31 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 auditors' 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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 28 July 2012 and of the group's profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of DFS Furniture Holdings PLC (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 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

GA Watts
Senior Statutory Auditor
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

11 October 2012

Group profit and loss account

52 weeks ended 28 July 2012 (52 weeks ended 30 July 2011)

	Notes	2012 £m	2011 £m
Turnover	1 4	**624.7**	638 4
Operating profit before depreciation and amortisation		**82.0**	80 0
Depreciation		(9 7)	(9 0)
Amortisation of goodwill		(24 9)	(25 0)
Operating profit	2	**47.4**	46 0
Net interest payable and similar charges	4	**(23 2)**	(27 0)
Profit on ordinary activities before taxation	2	**24 2**	19 0
Taxation on profit on ordinary activities	5	**(14.9)**	(11 5)
Profit for the period	17	**9.3**	7 5

There were no recognised gains or losses in the period other than those reported in the Group profit and loss account

Balance Sheets

as at 28 July 2012 (30 July 2011)

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Fixed assets					
Intangible assets	7	**445 7**	470 6	-	-
Tangible assets	8	**44.1**	33 6	-	-
Investments	9	-	-	**514.0**	514 0
		489 8	504 2	**514.0**	514 0
Current assets					
Stocks	10	**18.6**	13 5	-	-
Debtors	11	**30.2**	30 9	**0.3**	0 3
Cash at bank and in hand		**27.0**	38 9	-	-
		75.8	83 3	**0.3**	0 3
Current liabilities					
Creditors amounts falling due within one year	12	**(132.4)**	(109 1)	**(145.3)**	(127 2)
Net current liabilities		**(56.6)**	(25 8)	**(145 0)**	(126 9)
Total assets less current liabilities		**433.2**	478 4	**369 0**	387 1
Creditors· amounts falling due after more than one year	13	**(228.9)**	(264 1)	**(186 6)**	(221 1)
Provisions for liabilities and charges	14	**(9.3)**	(11 6)	-	-
Net assets		**195.0**	202 7	**182 4**	166 0
Capital and reserves					
Called up share capital	16	**197 3**	197 3	**197 3**	197 3
Profit and loss account	17	**(2.3)**	5 4	**(14.9)**	(31 3)
Equity shareholders' funds		**195.0**	202 7	**182.4**	166 0

The financial statements were approved by the Board on 11 October 2012 and were signed on its behalf by

IF Filby
Director

WR Barnes
Director

Company number 7218977

Group cash flow statement

52 weeks ended 28 July 2012 (52 weeks ended 30 July 2011)

	Notes	2012 £m	2011 £m
Net cash inflow from operating activities	22 1	**82.2**	88 3
Returns on investments and servicing of finance	22 2	**(21.1)**	(22 5)
Taxation		**(11.3)**	(8 6)
Net capital expenditure	22 3	**(13.8)**	(7 1)
Acquisitions and disposals	22 4	**-**	(3 7)
Equity dividends paid		**(14.2)**	-
Net cash inflow before financing		**21 8**	46 4
Financing	22 5	**(33.7)**	(14 5)
(Decrease)/increase in cash in the period		**(11.9)**	31 9

Reconciliation of movements in Group shareholders' funds

52 weeks ended 28 July 2012 (52 weeks ended 30 July 2011)

	2012 £m	2011 £m
Profit for the period	**9.3**	7 5
Dividends paid on equity shares	**(17.0)**	-
Net (reduction in)/addition to shareholders' funds	**(7.7)**	7 5
Shareholders' funds at the beginning of the period	**202.7**	195 2
Shareholders' funds at the end of the period	**195.0**	202 7

During the period an equity dividend of £17 0m was declared of which £14 2m was paid in cash The remainder amounting to £2 8m was credited to amounts owed to parent company shown in note 12

Note to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Group and the Company Where it is necessary to choose between accounting policies, those selected are judged by the directors to be the most appropriate to the Group's particular circumstances for the purpose of giving a true and fair view

1 1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules

1 2 Consolidation

The consolidated financial statements incorporate the results of the Company and all of its subsidiary undertakings made up to the end of the Group's financial period

Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account or cash flow statement

1.3 Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

1.4 Turnover

Turnover represents the ticket price (excluding value added tax) of furniture delivered to third parties Turnover comprises retail sales wholly in the UK to external customers

Due to the related nature of the Group's products, the common distribution channel and the manner in which the Group's activities are organised, the directors do not believe that the Group has different classes of business as defined in SSAP 25 Accordingly the additional disclosures set out in SSAP 25 are not considered to be required

1.5 Store developments

Pre-opening and launch costs for new stores are written off against operating profit as incurred No interest is capitalised on new store developments

1 6 Tangible fixed assets

Tangible fixed assets are shown at cost, less depreciation and any provision for impairment in value

1 7 Depreciation

Depreciation is provided in equal amounts each period in order to write off the cost or valuation of fixed assets less the estimated residual value, over their anticipated useful economic lives The estimated useful economic lives used are

Freehold buildings	50 years
Leasehold buildings	The shorter of 50 years or the unexpired portion of the lease
Plant and equipment	4 to 7 years
Motor vehicles	4 years

No depreciation is provided on freehold or long leasehold land Short leasehold land (less than 50 years) is depreciated over the unexpired portion of the lease

1.8 Investments

Investments are stated at cost, less provision for any impairment

Notes *(continued)*

1 Accounting policies (continued)

1 9 Goodwill

Goodwill represents the excess of the fair value of consideration over the fair value of the net assets acquired Goodwill is capitalised and amortised to nil by equal instalments over its estimated useful life of 20 years

1.10 Stocks

Stocks are valued 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

1.11 Financing costs

Bank fees incurred in order to secure bank loans are capitalised and offset against the loan creditor Amounts paid are amortised over the term of the loan

1.12 Pensions

The cost of providing pensions through defined contribution schemes is charged to the profit and loss account in the period in respect of which contributions become payable All contributions are paid into funds managed and held separately from the Group

1.13 Taxation

The charge for taxation is based on the profit for the period and takes into account deferred tax balances

Deferred taxation is recognised, with discounting where relevant, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except where otherwise required by FRS 19 "Deferred Tax"

1.14 Leases

The costs of operating leases in respect of land and buildings are charged to profit on ordinary activities on a straight line basis over the lease period Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors

1.15 Financial instruments

The group uses forward contracts to purchase US Dollars to reduce their exposure to changes in exchange rates The contracts allow management to fix the rates at which US Dollars are purchased Although management use the contracts to hedge foreign currency risk, they do not apply hedge accounting

Notes *(continued)*

2 Operating profit

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Turnover	**624 7**	638 4
Cost of sales	**(529 8)**	(545 8)
Gross profit	**94.9**	92 6
Administrative expenses	**(47 5)**	(46 6)
Operating profit	**47 4**	46 0

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Profit on ordinary activities before taxation is stated after charging		
Depreciation	**9 7**	9 0
Amortisation of goodwill	**24 9**	25 0
Profit on disposal of fixed assets	**(0.4)**	(0 3)
Operating lease payments – properties	**44.1**	42 8

Auditor's remuneration in respect of the statutory audit of the group was £0 1m (2011 £0 1m) Fees paid to the auditor and its associates in respect of non-audit services amounted to £0 1m (2011 £0 1m)

3 Staff costs and numbers

3 1 Employment costs of all employees

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Wages and salaries	**84 2**	77 4
Social security costs	**8.7**	8 0
Other pension costs	**1.7**	1 4
	94 6	86 8

Notes *(continued)*

3 Staff costs and numbers (continued)

3 2 Number of people employed

	52 weeks ended 28 July 2012 Number of employees	52 weeks ended 30 July 2011 Number of employees
Average·		
Production	**761**	643
Warehouse and transport	**710**	683
Selling and administration	**1,524**	1,358
	2,995	2,684
Period end :		
Production	**783**	695
Warehouse and transport	**732**	684
Selling and administration	**1,583**	1,413
	3,098	2,792

4 Net interest payable and similar charges

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Interest receivable		
Bank	**0.3**	0 3
Interest payable		
Senior secured notes	**(21.8)**	(24 0)
Profit realised on repurchase of senior secured notes	**2 0**	0 3
Bank fees	**(0.5)**	(0 5)
Fair value lease adjustment unwind	**(2.9)**	(2 8)
Parent company loan	**(0.3)**	(0 3)
	(23.5)	(27 3)
Net interest payable	**(23.2)**	(27 0)

Notes *(continued)*

5 Taxation on profit on ordinary activities

5 1 Analysis of charge for the period	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
UK corporation tax		
Current tax on income for the period	**11.7**	11 3
Adjustments in respect of prior periods	**2.5**	0 3
Total current tax charge	**14.2**	11 6
Deferred tax		
Current period	**0 7**	(0 1)
Total deferred tax charge/(credit) (note 15)	**0.7**	(0 1)
Total tax charge	**14.9**	11 5

5 2 Factors affecting the current tax charge for the period

The tax assessed for the period is higher than (2011 higher than) the standard rate of corporation tax in the UK of 25 33 % (2011 27 33%) The differences are explained below

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 25 33% (2011 27 33%)	**6 1**	5 2
Expenses not deductible for tax purposes	**0.1**	0 5
Amortisation of goodwill not deductible for tax purposes	**6 3**	6 8
Depreciation in excess of capital allowances	**0 3**	0 5
Other timing differences	**(0.3)**	(0 1)
Adjustments in respect of prior period	**2 5**	0 3
Group relief	**(0.8)**	(1 6)
Total current tax charge	**14 2**	11 6

5 3 Factors affecting the future tax charge

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effect from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively This will reduce the Company's future current tax charge accordingly The deferred tax asset at 28 July 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax accordingly

Notes *(continued)*

6 Parent company profit and loss account

The profit for the period in the financial statements of the parent company was £33 4m (2011 loss of £24 6m)

7 Intangible assets

	Group 2012 £m
Goodwill	
Cost	
As at 28 July 2012 and at 30 July 2011	**499.2**
Amortisation	
At beginning of period	**28 6**
Amortised during the year	**24 9**
As at 28 July 2012	**53.5**
Net book value	
As at 28 July 2012	**445.7**
As at 30 July 2011	470 6

Goodwill is to be amortised to nil by equal instalments over its estimated useful life of 20 years

Notes *(continued)*

8 Tangible assets

	Land and Buildings Freehold	Short leasehold	Plant and equipment	Motor vehicles	Total
	£m	£m	£m	£m	£m
Group					
Cost					
As at 30 July 2011	0 9	0 8	30 1	9 5	41 3
Additions	-	0 9	15 3	4 2	20 4
Disposals	-	-	(0 1)	(2 6)	(2 7)
As at 28 July 2012	**0 9**	**1 7**	**45 3**	**11.1**	**59.0**
Depreciation					
As at 30 July 2011	-	0 1	6 0	1 6	7 7
Provided during the period	-	0 1	5 8	3 8	9 7
Disposals	-	-	(0 1)	(2 4)	(2 5)
As at 28 July 2012	**-**	**0.2**	**11.7**	**3 0**	**14 9**
Net book value					
As at 28 July 2012	**0 9**	**1 5**	**33 6**	**8.1**	**44.1**
As at 30 July 2011	0 9	0 7	24 1	7 9	33 6

Included in the total net book value of motor vehicles is £0 2m (2011 £nil) in respect of assets held under finance leases Depreciation for the year on these assets was £nil (2011 £nil) The Company has no tangible fixed assets

9 Investments

	Shares in subsidiary undertakings
Company	**£m**
Cost and net book value	
As at 28 July 2012 and 30 July 2011	**514 0**

The following companies are incorporated in Great Britain, are wholly owned by the Group and have been consolidated

	Principal activity
DFS Furniture Company Limited	Intermediate holding company
DFS Trading Limited*	Furniture retailer
Northern Upholstery Limited*	Dormant
Galegrove Limited*	Dormant
New DFS Furniture Limited*	Dormant
CF Ward Limited*	Dormant

*Investment held by DFS Furniture Company Limited

Notes *(continued)*

10 Stocks

	Group 2012 £m	Group 2011 £m
Raw materials and consumables	3.2	2 2
Finished goods and goods for resale	15 4	11 3
	18 6	13 5

11 Debtors

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Trade debtors	9.4	5 3	-	-
Other debtors	-	6 2	-	-
Prepayments and accrued income	13.2	11 1	0.3	0 3
Deferred tax asset (see note 15)	7 6	8 3	-	-
	30.2	30 9	0.3	0 3

Included within other debtors for the Group in 2011 was £6 1m which related to deferred consideration for the sale of the Inverness store freehold

12 Creditors: amounts falling due within one year

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Payments received on account	19 4	15 5	-	-
Trade creditors	50.8	48 1	-	-
Amounts owed to subsidiary undertakings	-	-	134 0	121 6
Corporation tax	6.3	6 1	-	-
Other creditors including taxation and social security	19 7	12 5	-	-
Accruals and deferred income	25.7	22 4	0.9	1 1
Amounts owed to parent company	10.4	4 5	10 4	4 5
Obligations under finance leases	0.1	-	-	-
	132.4	109 1	145 3	127 2

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Senior secured notes	**186 6**	221 1	**186 6**	221 1
Accruals and deferred income	**20.2**	21 2	-	-
Other creditors	**22 0**	21 8	-	-
Obligations under finance leases	**0.1**	-	-	-
	228.9	264 1	**186 6**	221 1

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Maturity of senior secured notes				
Expiring between two and five years	**189 3**	225 0	**189.3**	225 0
Unamortised issue costs	**(2 7)**	(3 9)	**(2 7)**	(3 9)
	186 6	221 1	**186 6**	221 1

Included in unamortised issues costs are amounts falling due within one year of £0 5m, between one and two years of £0 5m and between two and five years of £1 7m

As at 28 July 2012, the Company have in issue £189 3m of senior secured notes listed on the Luxembourg Stock Exchange These notes have a maturity date of 15 July 2017 on which date all amounts will be repayable Interest of 9 75% is payable 6 monthly on 15 January and 15 July and has been accrued for the period to the year end The notes are secured on the share capital and substantially all of the assets of the issuer and guarantors (DFS Furniture Company Limited and DFS Trading Limited)

Notes *(continued)*

14 Provisions for liabilities and charges

	Guarantee provision £m
Group	
Liability as at 30 July 2011	11 6
Charged in the period to profit and loss account	3 5
Utilised in the period	(5 8)
Liability as at 28 July 2012	**9.3**

The guarantee provision reflects the estimated cost of the guarantee provided to retail customers

15 Deferred tax asset

	Group 2012 £m
Asset as at 30 July 2011	8 3
Charged in the period to the profit and loss account	(0 7)
Asset as at 28 July 2012	**7.6**

The deferred tax asset is included within debtors in note 11

Deferred taxation

The asset recognised for deferred taxation, calculated at a corporation tax rate of 23% (2011 25%), is set out below

	Group 2012 £m	Group 2011 £m
Accelerated capital allowances	**(0 3)**	(0 5)
Other timing differences	**2 3**	2 8
Fair value lease provision	**5.6**	6 0
Asset	**7 6**	8 3

The deferred tax asset relating to the fair value lease provision is recognised, after discounting, at a value of £5 6m If this asset were not discounted it would be recognised at a value of £18 6m

The Company does not have any deferred tax assets or liabilities at 28 July 2012

Notes *(continued)*

16 Called up share capital

Ordinary shares of £1 each	Number '000	2012 £m	Number '000	2011 £m
Issued, Alloted and Called Up	**197,275**	**197.3**	197,275	197 3

At the period end 197,275,001 ordinary shares of £1 each remained in issue, of which £332,784 (2011 £332,784) remains unpaid at the year end

The share capital of the Company forms part of the security for the secured loan notes (see note 13)

17 Reserves

	Profit and loss account £m
Group	
As at 30 July 2011	5 4
Profit for the period	9 3
Dividends paid on equity shares	(17 0)
As at 28 July 2012	**(2 3)**
Company	
As at 30 July 2011	(31 3)
Profit for the period	33 4
Dividends paid on equity shares	(17 0)
As at 28 July 2012	**(14.9)**

The Company declared an equity dividend of £17 0m on 8 December 2011 at which date the Company had distributable reserves of £17 0m

18 Contingent liabilities

Bank guarantees in favour of HM Customs & Excise amounting to £5,000 (2011 £5,000) have been counter-indemnified by DFS Trading Limited

Notes *(continued)*

19 Capital commitments

Capital commitments for which no provision has been made in these accounts were as follows

	Group 2012 £m	Group 2011 £m
Contracted	**3 5**	3 1

The Company did not have any capital commitments

20 Lease commitments

The annual commitments under operating leases in respect of land and buildings were

	Group 2012 £m	Group 2011 £m
Leases expiring		
Within one year	**0.6**	0 5
Two to five years	**4.7**	3 3
Over five years	**45.8**	40 3
	51.1	44 1

The Company did not have any commitments under operating leases

21 Pension commitments

The Group operates a number of defined contribution schemes 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 profit and loss account as they become payable under the rules of the scheme The total pension cost of the Group for the period was £1 7m (2011 £1 4m)

Notes *(continued)*

22 Group cash flow statement

22 1 Reconciliation of operating profit to net cash inflow from operating activities

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Operating profit	**47 4**	46 0
Depreciation	**9.7**	9 0
Amortisation of goodwill	**24 9**	25 0
Profit on disposal of fixed assets	**(0.4)**	(0 3)
(Increase)/decrease in stocks	**(5 1)**	0 1
(Increase)/decrease in debtors	**(6 2)**	4 4
Increase in creditors and provisions	**11.9**	4 1
Net cash inflow from operating activities	**82.2**	88 3

22 2 Returns on investments and servicing of finance

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Interest received	**0 3**	0 3
Interest paid	**(21.4)**	(22 8)
	(21 1)	(22 5)

22 3 Net capital expenditure

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Purchase of tangible fixed assets	**(20 4)**	(8 4)
Sale of fixed assets	**6 6**	1 3
	(13 8)	(7 1)

Included within sale of fixed assets in 2012 is £6 1m which relates to deferred consideration for the sale of the Inverness store freehold (Note 11)

Notes *(continued)*

22 Group cash flow statement (continued)

22 4 Acquisitions and disposals

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Acquisition of subsidiary undertakings (including deferred consideration)	-	(3 7)

22 5 Financing

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
Proceeds from issue of ordinary share capital	-	0 2
Repurchase of senior secured notes	(33.7)	(14 7)
	(33.7)	(14 5)

22 6 Analysis of changes in net debt

	As at 30 July 2011 £m	Amortisation of fees offset £m	Cash flow £m	As at 28 July 2012 £m
Cash in hand, at bank	38 9	-	(11.9)	27.0
Debt due after 1 year	(221.1)	0.8	33.7	(186.6)
Net debt	(182.2)	0.8	21 8	(159 6)

Notes *(continued)*

22 Group cash flow statement (continued)

22 7 Reconciliation of net cash flow to movement in net debt

	52 weeks ended 28 July 2012 £m	52 weeks ended 30 July 2011 £m
(Decrease)/increase in cash in the period	**(11 9)**	31 9
Cash outflow from decrease in debt financing	**33.7**	14 7
Amortisation of fees offset	**0.8**	(0 6)
Change in net debt	**22.6**	46 0
Net debt at the beginning of the period	**(182.2)**	(228 2)
Net debt at the end of the period	**(159 6)**	(182 2)

23 Directors' emoluments

Directors' emoluments have been paid by DFS Furniture Company Limited

	52 weeks ended 28 July 2012 £000	52 weeks ended 30 July 2011 £000
Emoluments	**2,061**	2,454
Pension contributions	**61**	85
	2,122	2,539

The remuneration of the highest paid director was as follows

	52 weeks ended 28 July 2012 £000	52 weeks ended 30 July 2011 £000
Emoluments	**677**	842

Two directors accrued retirement benefits under pension schemes in the period (2011 two) All of the directors' pension contributions are to defined contribution schemes One director waived his entitlement to pension contributions from the company and requested a charitable donation to be made as an alternative This amount of £50,000 is included in emoluments above

Notes *(continued)*

24 Financial instruments

The fair value of the forward contracts outstanding as at 28 July 2012 is a profit of £0 9m (2011 loss of £1 5m) The loss has not been recognised in these accounts as forward contracts mature over varying periods from the balance sheet date and the exchange rate is expected to fluctuate in the period up to maturity

25 Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(c) of FRS 8 "Related Party Transactions" not to disclose transactions with other Group companies

Mr Massey and Mr Barnes serve as directors of Delphi Properties Limited, a former fellow subsidiary company of Full Circle Future Limited, under an undertaking made by DFS Trading Limited at the time of the acquisition of the DFS Group by Advent International in 2010 The Group made arms length rental payments of £16 0m to Delphi Properties Limited on a property portfolio during the period (2011 £15 5m)

26 Ultimate controlling party

The Company is a direct subsidiary undertaking of Diamond Holdco Limited which is registered in England and Wales The largest group in which the results of the Company are consolidated is that headed by Diamond Holdco 1 Limited, incorporated in England and Wales The ultimate holding company and controlling party is Advent Diamond (Cayman) Limited which is registered in The Cayman Islands