

This document comprises a prospectus (the “**Prospectus**”) prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the “**FCA**”) made under section 73A of the Financial Services and Markets Act 2000 (as amended) (“**FSMA**”). This Prospectus has been approved by the FCA in accordance with section 87A of FSMA and made available to the public as required by PR 3.2 of the Prospectus Rules.

The Directors, whose names appear on page 31 of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and this Prospectus does not omit anything likely to affect the import of such information.

Application has been made to the FCA for all of the issued and to be issued Ordinary Shares to be admitted to the premium listing segment of the Official List maintained by the FCA and to the London Stock Exchange for such Ordinary Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities. Conditional dealings in the Ordinary Shares are expected to commence at 8.00 a.m. on 6 March 2015. It is expected that Admission will become effective, and that unconditional dealings will commence, at 8.00 a.m. on 11 March 2015. **All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a “when issued” basis and of no effect if Admission does not take place and will be at the sole risk of the parties concerned. No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or trading on any other stock exchange.**

Prospective investors should read the entirety of this Prospectus and, in particular, Part II (*Risk Factors*) for a discussion of certain factors that should be considered in connection with an investment in the Offer Shares. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if certain of the risks described in this Prospectus occur, investors may find their investment materially adversely affected. Accordingly, an investment in the Offer Shares is only suitable for investors who are particularly knowledgeable in investment matters and who are able to bear the loss of the whole or part of their investment.

## DFS Furniture plc

*(Incorporated under the Companies Act 2006 and registered in England and Wales with registered number 07236769)*

**Offer of between 79,044,857 and 107,082,375 Ordinary Shares at an Offer Price expected to be between £2.45 and £3.10 per Ordinary Share and admission to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange**

*Joint Sponsor, Joint Global Co-ordinator,  
Joint Bookrunner and Underwriter*

**Jefferies**

*Joint Sponsor, Joint Global Co-ordinator,  
Joint Bookrunner and Underwriter*

**UBS**

*Joint Bookrunner and Underwriter*

**Numis**

*Co-Lead Manager and Underwriter*

**Berenberg**

*Co-Lead Manager and Underwriter*

**HSBC**

**EXPECTED ISSUED ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION**  
(assuming that the Offer Price is set at the mid-point of the Offer Price Range)

**Issued and fully paid Ordinary Shares of £1.50 each**

**Number of issued Ordinary Shares**

**210,745,205**

**Nominal value of issued Ordinary Shares**

**£316,117,808**

Assuming that the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range: (i) the Company is offering 35,308,109 New Ordinary Shares, representing 16.8% of the issued Ordinary Shares on Admission, which would raise estimated net proceeds for the Company of £78 million; and (ii) the Selling Shareholders are offering to sell 57,412,575 Existing Ordinary Shares in aggregate, representing 27.2% of the issued Ordinary Shares on Admission, which would raise estimated gross proceeds for the Selling Shareholders of £159.3 million. This further assumes no exercise of the Over-allotment Option. The Company will not receive any of the proceeds from the sale of the Existing Ordinary Shares, all of which will be received by the Selling Shareholders.

It is currently expected that the Offer Price and the Offer Size will be set within the Offer Price Range and the Offer Size Range, respectively. The Offer Price Range and the Offer Size Range are indicative only and may change during the course of the Offer. The Offer Price may be set within, above or below the Offer Price Range and the Offer Size may be set above, within or, with the approval of the UK Listing Authority, below the Offer Size Range. The amount to be raised and the number of Ordinary Shares to be sold may be increased or decreased during the course of the Offer. A number of factors will be considered in determining the Offer Price, the Offer Size, the amount raised in the Offer and the basis of allocation, including the level and nature of demand for the Ordinary Shares during the book-building process, prevailing market conditions and the objective of establishing an orderly after-market in the Ordinary Shares. Unless required to do so by law or regulation, the Company does not envisage publishing any supplementary prospectus or a pricing statement, as the case may be, until announcement of the Offer Price and the Offer Size. A pricing statement containing the Offer Price and the Offer Size and certain other information (the “**Pricing Statement**”) is expected to be published on or about 6 March 2015.

If the Offer Price is set above the Offer Price Range (or the Offer Price Range is revised higher) and/or the Offer Size is set below or above the Offer Size Range, then an announcement will be made via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their offer to subscribe for or purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA. The arrangements for withdrawing offers to subscribe for or purchase Ordinary Shares will be made clear in the announcement.

The Company expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer (and the arrangements associated with it) will lapse and any monies received in respect of the Offer will be returned to investors without interest.

The Offer Shares will, upon Admission, rank equally in all respects with all other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission.

Prospective investors interested in participating in the Intermediaries Offer should apply for Ordinary Shares through an Intermediary by following their relevant application procedures by no later than 3 March 2015. The Company consents to the use of this Prospectus for subsequent resale or final placement of the Ordinary Shares by the Intermediaries appointed by the Company at the date of this Prospectus and any Intermediaries subsequently appointed by the Company in connection with the Intermediaries Offer in the UK, the Channel Islands and the Isle of Man: (i) in respect of Intermediaries who are appointed prior to the date of this Prospectus, from the date of this Prospectus; and (ii) in respect of Intermediaries who are appointed after the date of this Prospectus, from the date on which they are approved to participate in the Intermediaries Offer, in each case, until the closing of the Intermediaries Offer. The Company accepts responsibility for the information contained in this Prospectus with respect to subsequent resale or final placement of the Ordinary Shares by any Intermediaries who have received such consent. In each case, the consent to use this Prospectus is conditional upon compliance by the relevant Intermediary with the Intermediaries Terms and Conditions and the appointment of such Intermediary not having been terminated by the Company. **Any Intermediary that uses this Prospectus must state on its website that it uses this Prospectus in accordance with the Company’s consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any prospective investor who has expressed an interest in participating in the Intermediaries Offer to such Intermediary. Any application made by investors to any Intermediary is subject to the terms and conditions imposed by that Intermediary.**

Recipients of this Prospectus are authorised solely to use it for the purpose of considering the acquisition of the Ordinary Shares and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Ordinary Shares. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

The Ordinary Shares are subject to selling and transfer restrictions in certain jurisdictions. Prospective purchasers should read the restrictions contained in Part VI (*Details of the Offer*). Each purchaser of the Ordinary Shares will be deemed to have made the relevant representations made therein.

This Prospectus does not constitute an offer to sell or an invitation to purchase, or the solicitation of an offer to buy, any Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Prior to making any decision as to whether to invest in Ordinary Shares, prospective investors should read this Prospectus in its entirety. In making an investment decision, each prospective investor must rely upon his or her own examination, analysis and enquiries of the Company and the terms of this Prospectus, including the merits and risks involved.

Jefferies International Limited (“**Jefferies**”) has been appointed as Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Underwriter in connection with Admission and the Offer. UBS Limited (“**UBS**”) has been appointed as Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Underwriter in connection with Admission and the Offer. Numis Securities Limited (“**Numis**”) has been appointed as Joint Bookrunner and Underwriter in connection with Admission and the Offer. Joh. Berenberg, Gossler & Co. KG, London Branch (“**Berenberg**”) has been appointed as Co-Lead Manager and Underwriter in connection with Admission and the Offer. HSBC Bank plc (“**HSBC**”) has been appointed as Co-Lead Manager and Underwriter in connection with Admission and the Offer. Jefferies and Numis, each of which is authorised and regulated by the FCA in the UK, UBS and HSBC, each of which is authorised by the Prudential Regulation Authority (the “**PRA**”) and regulated by the FCA and PRA, and Berenberg, which is authorised by the German Federal Financial Supervisory Authority (BaFin) and subject to limited regulation by the FCA, are acting exclusively for the Company and no one else in connection with the Offer and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer or any transaction or arrangement referred to in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by FSMA or the regulatory regime established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters accepts any responsibility whatsoever, and makes no representation or warranty, express or implied, for the contents of this Prospectus, including its accuracy, completeness or for any related statement.

In connection with the Offer, each of the Underwriters and any of their respective affiliates, acting as an investor for its or their own account(s), may acquire Ordinary Shares, and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in Ordinary Shares and other securities of the Company or related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the Ordinary Shares being offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, dealing or placing by, each of the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s). None of the Underwriters intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

The Underwriters and their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to, the Company and the Selling Shareholders, for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Company, the Selling Shareholders and any of their respective affiliates in the future.

## **NOTICES TO OVERSEAS INVESTORS**

**This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares to any person in any jurisdiction to whom or in which jurisdiction such offer or solicitation is unlawful and, in particular, is not for distribution in Australia, Canada, Japan or South Africa. Neither the Company nor any of the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions. No action has been, or will be, taken in any jurisdiction other than the UK that would permit a public offering of the Ordinary Shares, or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or the Ordinary Shares in any jurisdiction where action for that purpose is required. The offer, sale and/or issue of the Ordinary Shares has not been, and will not be, qualified for sale under any applicable securities laws of Australia, Canada, Japan or South Africa. Subject to certain exceptions, the Ordinary Shares may not be offered, sold or delivered within Australia, Canada, Japan or South Africa, or to, or for the benefit of, any national, resident or citizen of Australia, Canada, Japan or South Africa.**

**The Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any state or other jurisdiction**

of the US and may not be offered or sold in the US except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in accordance with applicable securities laws of any state or other jurisdiction of the US. Accordingly, the Offer Shares are only being offered and sold: (i) in the US to qualified institutional buyers (“QIBs”) as defined in Rule 144A of the Securities Act (“Rule 144A”) pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; and (ii) in “offshore transactions” as defined in, and in reliance on, Regulation S of the Securities Act (“Regulation S”). Prospective investors in the US are hereby notified that the Company may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder.

The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Ordinary Shares or the accuracy or completeness of this Prospectus. Any representation to the contrary is a criminal offence in the US.

This Prospectus is being furnished by the Company in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling prospective investors to consider an investment in the Offer Shares described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. This Prospectus is being furnished on a confidential basis only to persons in the US who are QIBs and to other eligible persons outside the US. Any reproduction or distribution of this Prospectus, in whole or in part, in or into the US and any disclosure of its contents or use of any information herein in the US for any purpose, other than in considering an investment by the recipient in the Offer Shares offered hereby in accordance with the offer and sale restrictions described herein, is prohibited. Each prospective investor in the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing. The Offer Shares are being offered in the US to QIBs through the respective US registered broker-dealer affiliates of the Underwriters.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES, ANNOTATED (“RSA”) WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

The date of this Prospectus is 23 February 2015.

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## PART I

### SUMMARY

*Summaries are made up of disclosure requirements known as “**Elements**”. These Elements are numbered in Sections A-E (A.1—E.7).*

*This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element might be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in this summary with the mention of the words “not applicable”.*

Section A—Introduction and warnings		
A.1	<b>Introduction and warnings</b>	<p>This summary should be read as an introduction to the Prospectus.</p> <p>Any decision to invest in the Ordinary Shares should be based on consideration of the Prospectus as a whole by the investor.</p> <p>Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, key information to aid investors when considering whether to invest in the Ordinary Shares.</p>
A.2	<b>Consent for Intermediaries</b>	<p>The Company consents to the use of this Prospectus for subsequent resale or final placement of the Ordinary Shares by the Intermediaries appointed by the Company as at the date of this Prospectus and any Intermediaries subsequently appointed by the Company in connection with the Intermediaries Offer in the UK, the Channel Islands and the Isle of Man on the following terms:</p> <ul style="list-style-type: none"> <li>a) in respect of Intermediaries who are appointed prior to the date of this Prospectus, from the date of this Prospectus; and</li> <li>b) in respect of Intermediaries who are appointed after the date of this Prospectus, from the date on which they are approved to participate in the Intermediaries Offer,</li> </ul> <p>in each case, until the closing of the Intermediaries Offer. Prospective investors interested in participating in the Intermediaries Offer should apply for Ordinary Shares through an Intermediary by following their relevant application procedures by no later than 4 March 2015.</p> <p>Eligible Employees may also apply for Offer Shares through the Employee Offer Intermediary. The Employee Offer Intermediary appointed by the Company is Hargreaves Lansdown Asset Management Limited of One College Square South, Anchor Road, Bristol, BS1 5HL.</p> <p><b>Any Intermediary that uses this Prospectus must state on its website that it uses this Prospectus in accordance with the Company’s consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any prospective investor who has expressed an interest in participating in the Intermediaries Offer to such Intermediary. Any applications made by investors to any Intermediary are subject to the terms and conditions approved by that Intermediary.</b></p>

Section B—Issuer		
B.1	<b>Legal and commercial name</b>	DFS Furniture plc
B.2	<b>Domicile/ legal form/ legislation/ country of incorporation</b>	The Company is a public limited company, incorporated (and having its registered office) in England and Wales. The Company operates under the Companies Act 2006 (the “ <b>Companies Act</b> ”).
B.3	<b>Current operations/ principal activities and markets</b>	<p>According to Verdict,<sup>1</sup> the retail consultants, DFS is the leading retailer of upholstered furniture in the UK, with a 25.7% share of the estimated c.£3.0 billion upholstered furniture market in 2014. This share was over three times that of any other upholstered furniture retailer. DFS designs, manufactures, sells, delivers and installs for its customers an extensive range of upholstered and other furniture products. Its product offering is complemented by market-leading consumer financing options, in-store, online and call-centre customer service, a long-term structural product guarantee and ongoing comprehensive after-sales support in relation to the products it sells.</p> <p>Almost all of the upholstery products DFS sells are made-to-order and, as a result, DFS does not trade from stock and is exposed to minimal inventory risk. This, combined with other factors such as scale and specialism, allows it to have the broadest upholstery product range amongst national furniture retailers in the UK market in terms of styles and price points. It offers a variety of upholstered furniture product ranges, all of which are exclusive to the Group with each range typically consisting of different product units, including sofas, armchairs, reclining chairs and footstools.</p> <p>Since its establishment in 1969, DFS has developed a national footprint with 105 stores in the UK, the Republic of Ireland and the Netherlands, totalling approximately 1.6 million square feet of retail trading space. It has also recently acquired the Sofa Workshop and dwell brands to enhance its premium product proposition.</p> <p>DFS’s historical track record of high levels of expenditure on marketing activity has provided it with significant national brand recognition, thus allowing it to develop a successful retail business based on high footfall to a relatively small number of large retail stores.</p> <p>DFS seeks to engage with its customers through multiple channels of communication, comprising its stores, live chat service, telephone call centres, websites and software applications. DFS’s websites and mobile apps serve an important role as typically the first point of engagement with prospective customers and also as sales channels.</p> <p>The Directors’ strategy is to take DFS from being a great British business to a world class business by striving to deliver: the widest choice of sofas in the market; best value at every price point; and world class customer experience, in each case without compromising quality. To achieve this strategy, the Group has a number of proven and developing levers of growth:</p> <ul style="list-style-type: none"> <li>• clear progress in capturing the ‘Quality Seeker’ customer;</li> </ul>

<sup>1</sup> Source: Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict.

Section B—Issuer		
		<ul style="list-style-type: none"> <li>• UK DFS store roll-out;</li> <li>• international store roll-out;</li> <li>• additional retail space from conversion of onsite store warehouses; and</li> <li>• development of the online channel.</li> </ul>
B.4a	<b>Significant recent trends affecting the Group and the industry in which the Group operates</b>	<p>The Directors believe demand for upholstered furniture in the UK is predominantly driven by three factors:</p> <ul style="list-style-type: none"> <li>• <b>consumer confidence:</b> levels of consumer spending are influenced by general consumer confidence, which in turn is affected by several macroeconomic factors, including income and employment levels, household disposable income and interest rates;</li> <li>• <b>level of housing market activity:</b> research conducted on behalf of DFS suggests that approximately 21% of upholstery purchases are derived from moving home and are therefore underpinned by the strength of the prevailing housing market; and</li> <li>• <b>consumer credit availability:</b> upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling.</li> </ul> <p>Between 2002 and 2007, the UK upholstered furniture market grew by 3.0% on a compound annual growth basis<sup>1</sup>, peaking (according to Verdict) at £3.9 billion. Given the weakness in the three main drivers of the UK upholstered furniture market driven by general macroeconomic trends, the market declined to £2.9 billion in 2011 from where it has since stabilised to c.£3.0 billion in 2014. The market is forecast to reach c.£3.1 billion in 2015, and on the basis that the demand drivers have generally continued to show improvement, Verdict forecasts this momentum to continue with the UK upholstery market estimated to grow by c.3.0% on a compound annual basis between 2014 and 2017. Verdict also believes that the UK upholstery market is set to perform strongly due to its products being a “comfort” purchase, which encourages shoppers to prioritise this product over other durables.</p> <p>According to Verdict, the furniture and floorcoverings market in 2013 was dominated by store purchases constituting c.90.7% of total value versus online purchases of c.9.3%. The online channel for many UK upholstery retailers is predominantly an important element of an omnichannel approach; their online channels will typically be the first point of contact for potential customers and a source of potential inspiration prior to customers visiting a retail store. As a result, many furniture retailers have invested and developed their online proposition in recent years through responsive web sites hosting rich content including high resolution photos and video.</p>
B.5	<b>Group structure</b>	The Company is, and will following Admission be, the holding company for the Group.

<sup>1</sup> Upholstery market share data for 2002-2007 has been derived by DFS based on the relative size of the upholstered furniture market within the overall furniture market, with both market sizes sourced from Verdict estimates (Source: Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict. Statements describing DFS’s leading market position refer to the upholstered furniture market as defined by Verdict).

Section B—Issuer																																																																																																																																																		
B.6	Major Shareholders	<p>At the date of this Prospectus, the Company is wholly owned by the Advent Shareholder.</p> <p>Following completion of the Reorganisation and immediately prior to Admission, insofar as is known to the Company at the date of this Prospectus (assuming that the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range and assuming no exercise of the Over-allotment Option), the Advent Shareholder is expected to hold 89.43% of the Ordinary Shares and the EBT is expected to hold 4.38% of the Ordinary Shares as nominee for certain Shareholders. Richard Baker, who may be deemed to be acting in concert with the Advent Shareholder, is expected to hold 3.60% of the Ordinary Shares.</p> <p>All Ordinary Shares have the same voting rights.</p> <p>Under the Listing Rules, the Advent Shareholder (together with its associates, the Advent Companies and the Advent Funds) is a controlling shareholder of the Company. The Company has entered into the Relationship Agreement with the Advent Shareholder and Richard Baker to ensure that the Group can carry on an independent business as its main activity.</p> <p>The Company is not aware of any other person who, directly or indirectly, jointly or severally, will be able to exercise control over the Company following Admission.</p>																																																																																																																																																
B.7	Selected historical key financial information	<p>The selected financial information set out below has been extracted without material adjustment from the historical financial information relating to the Group:</p> <p><b>Consolidated income statement</b></p> <table><tr><th></th><th>13 weeks to 1 November 2014</th><th>13 weeks to 26 October 2013</th><th>53 weeks to 2 August 2014</th><th>52 weeks to 27 July 2013</th><th>52 weeks to 28 July 2012</th></tr><tr><th></th><th>£m</th><th>(unaudited) £m</th><th>£m</th><th>£m</th><th>£m</th></tr><tr><td>Gross sales . . . . .</td><td>197.0</td><td>175.6</td><td>853.4</td><td>804.3</td><td>748.7</td></tr><tr><td>Revenue . . . . .</td><td>152.7</td><td>134.9</td><td>656.8</td><td>614.4</td><td>567.9</td></tr><tr><td>Cost of sales . . . . .</td><td>(133.2)</td><td>(120.7)</td><td>(544.9)</td><td>(503.5)</td><td>(464.1)</td></tr><tr><td>Gross profit . . . . .</td><td>19.5</td><td>14.2</td><td>111.9</td><td>110.9</td><td>103.8</td></tr><tr><td>Administrative expenses . . . . .</td><td>(9.2)</td><td>(7.7)</td><td>(31.9)</td><td>(26.3)</td><td>(22.6)</td></tr><tr><td>Underlying operating profit before depreciation and amortisation . . . . .</td><td>10.3</td><td>6.5</td><td>80.0</td><td>84.6</td><td>81.2</td></tr><tr><td>Depreciation . . . . .</td><td>(3.3)</td><td>(3.0)</td><td>(12.3)</td><td>(11.4)</td><td>(9.4)</td></tr><tr><td>Amortisation . . . . .</td><td>(0.6)</td><td>(0.5)</td><td>(2.4)</td><td>(1.2)</td><td>(0.3)</td></tr><tr><td>Non-underlying items . . . . .</td><td>(1.7)</td><td>(0.5)</td><td>(4.4)</td><td>—</td><td>—</td></tr><tr><td>Operating profit . . . . .</td><td>4.7</td><td>2.5</td><td>60.9</td><td>72.0</td><td>71.5</td></tr><tr><td>Finance income . . . . .</td><td>—</td><td>—</td><td>0.2</td><td>0.2</td><td>0.3</td></tr><tr><td>Finance expenses . . . . .</td><td>(15.9)</td><td>(14.0)</td><td>(57.5)</td><td>(59.9)</td><td>(58.2)</td></tr><tr><td>Exceptional refinancing costs . . . . .</td><td>—</td><td>—</td><td>—</td><td>(22.4)</td><td>—</td></tr><tr><td>Profit/(loss) before tax . . . . .</td><td>(11.2)</td><td>(11.5)</td><td>3.6</td><td>(10.1)</td><td>13.6</td></tr><tr><td>Taxation . . . . .</td><td>0.8</td><td>1.4</td><td>(8.1)</td><td>(7.0)</td><td>(12.3)</td></tr><tr><td>Profit/(loss) for the period . . . . .</td><td>(10.4)</td><td>(10.1)</td><td>(4.5)</td><td>(17.1)</td><td>1.3</td></tr><tr><td>Attributable to:</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Owners of the Company . . . . .</td><td>(9.1)</td><td>(8.9)</td><td>(5.0)</td><td>(14.5)</td><td>1.4</td></tr><tr><td>Non-controlling interests . . . . .</td><td>(1.3)</td><td>(1.2)</td><td>0.5</td><td>(2.6)</td><td>(0.1)</td></tr><tr><td></td><td>(10.4)</td><td>(10.1)</td><td>(4.5)</td><td>(17.1)</td><td>1.3</td></tr><tr><td>Earnings per share</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Basic and diluted . . . . .</td><td>(21.2)p</td><td>(20.8)p</td><td>(11.7)p</td><td>(34.1)p</td><td>3.2p</td></tr></table>		13 weeks to 1 November 2014	13 weeks to 26 October 2013	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012		£m	(unaudited) £m	£m	£m	£m	Gross sales . . . . .	197.0	175.6	853.4	804.3	748.7	Revenue . . . . .	152.7	134.9	656.8	614.4	567.9	Cost of sales . . . . .	(133.2)	(120.7)	(544.9)	(503.5)	(464.1)	Gross profit . . . . .	19.5	14.2	111.9	110.9	103.8	Administrative expenses . . . . .	(9.2)	(7.7)	(31.9)	(26.3)	(22.6)	Underlying operating profit before depreciation and amortisation . . . . .	10.3	6.5	80.0	84.6	81.2	Depreciation . . . . .	(3.3)	(3.0)	(12.3)	(11.4)	(9.4)	Amortisation . . . . .	(0.6)	(0.5)	(2.4)	(1.2)	(0.3)	Non-underlying items . . . . .	(1.7)	(0.5)	(4.4)	—	—	Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5	Finance income . . . . .	—	—	0.2	0.2	0.3	Finance expenses . . . . .	(15.9)	(14.0)	(57.5)	(59.9)	(58.2)	Exceptional refinancing costs . . . . .	—	—	—	(22.4)	—	Profit/(loss) before tax . . . . .	(11.2)	(11.5)	3.6	(10.1)	13.6	Taxation . . . . .	0.8	1.4	(8.1)	(7.0)	(12.3)	Profit/(loss) for the period . . . . .	(10.4)	(10.1)	(4.5)	(17.1)	1.3	Attributable to:						Owners of the Company . . . . .	(9.1)	(8.9)	(5.0)	(14.5)	1.4	Non-controlling interests . . . . .	(1.3)	(1.2)	0.5	(2.6)	(0.1)		(10.4)	(10.1)	(4.5)	(17.1)	1.3	Earnings per share						Basic and diluted . . . . .	(21.2)p	(20.8)p	(11.7)p	(34.1)p	3.2p
	13 weeks to 1 November 2014	13 weeks to 26 October 2013	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012																																																																																																																																													
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## Section B—Issuer

### Consolidated statement of comprehensive income

	13 weeks to 1 November 2014	13 weeks to 26 October 2013	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	(unaudited) £m	£m	£m	£m
<b>(Loss)/profit for the year</b>	(10.4)	(10.1)	(4.5)	(17.1)	1.3
<b>Other comprehensive income</b>					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Effective portion of changes in fair value of cash flow hedges	3.8	(4.2)	(8.1)	2.8	3.4
Net change in fair value of cash flow hedges reclassified to profit or loss	1.1	(0.3)	2.4	(1.1)	(0.8)
Income tax on items that are or may be reclassified subsequently to profit or loss	(1.0)	0.9	1.2	(0.3)	(0.6)
<b>Other comprehensive income/(expense) for the period, net of income tax</b>	3.9	(3.6)	(4.5)	1.4	2.0
<b>Total comprehensive (expense)/income for the period</b>	(6.5)	(13.7)	(9.0)	(15.7)	3.3
<b>Attributable to:</b>					
Owners of the Company	(5.2)	(12.5)	(9.5)	(13.1)	3.4
Non-controlling interests	(1.3)	(1.2)	0.5	(2.6)	(0.1)
	(6.5)	(13.7)	(9.0)	(15.7)	3.3

### Consolidated balance sheet

	1 November 2014	26 October 2013	2 August 2014	27 July 2013	28 July 2012
	£m	(unaudited) £m	£m	£m	£m
<b>Non-current assets</b>					
Property, plant and equipment	53.4	49.5	50.9	47.7	42.1
Intangible assets	490.0	490.8	490.2	483.7	481.2
Other financial assets	—	—	0.1	0.2	—
Deferred tax assets	11.0	11.7	11.2	9.8	11.2
	554.4	552.0	552.4	541.4	534.5
<b>Current assets</b>					
Inventories	30.6	26.7	28.8	23.1	20.5
Other financial assets	1.9	0.1	—	2.5	1.0
Trade and other receivables	21.5	22.4	26.0	25.5	24.7
Cash and cash equivalents	33.0	22.0	53.8	38.4	27.0
	87.0	71.2	108.6	89.5	73.2
<b>Total assets</b>	641.4	623.2	661.0	630.9	607.7
<b>Current liabilities</b>					
Trade payables and other liabilities	(331.8)	(310.7)	(337.8)	(305.1)	(340.6)
Provisions	(6.0)	(6.0)	(5.8)	(6.0)	(6.4)
Other financial liabilities	—	(1.9)	(3.1)	—	—
Current tax liabilities	(5.5)	(5.2)	(7.3)	(6.6)	(6.3)
	(343.3)	(323.8)	(354.0)	(317.7)	(353.3)
<b>Non-current liabilities</b>					
Senior secured notes	(306.8)	(305.9)	(306.6)	(305.7)	(186.6)
Provisions	(4.4)	(4.5)	(4.4)	(4.5)	(4.8)
Other liabilities	(69.1)	(69.0)	(70.8)	(68.0)	(60.7)
	(380.3)	(379.4)	(381.8)	(378.2)	(252.1)
<b>Total liabilities</b>	(723.6)	(703.2)	(735.8)	(695.9)	(605.4)
<b>Net (liabilities)/assets</b>	(82.2)	(80.0)	(74.8)	(65.0)	2.3
<b>Equity</b>					
Share capital	42.6	42.6	42.6	42.6	42.6
Cash flow hedging reserve	1.9	(1.8)	(3.0)	2.7	1.0
Retained earnings	(124.5)	(118.0)	(113.5)	(108.7)	(41.9)
<b>Equity attributable to owners of the Company</b>	(80.0)	(77.2)	(73.9)	(63.4)	1.7
Non-controlling interests	(2.2)	(2.8)	(0.9)	(1.6)	0.6
<b>Total equity</b>	(82.2)	(80.0)	(74.8)	(65.0)	2.3

## Section B—Issuer

### Consolidated statement of changes in equity

	Share capital	Cash flow hedging reserve	Retained earnings	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m
<b>Balance at 31 July 2011</b> . . . . .	42.6	(1.6)	(42.7)	–	(1.7)
Profit/(loss) for the year . . . . .	–	–	1.4	(0.1)	1.3
Other comprehensive income . . . . .	–	2.6	(0.6)	–	2.0
Total comprehensive income for the period . . . . .	–	2.6	0.8	(0.1)	3.3
Issue of shares in subsidiary . . . . .	–	–	–	0.7	0.7
<b>Balance at 28 July 2012</b> . . . . .	42.6	1.0	(41.9)	0.6	2.3
Loss for the year . . . . .	–	–	(14.6)	(2.5)	(17.1)
Other comprehensive income/(expense) . . . . .	–	1.7	(0.3)	–	1.4
Total comprehensive income/(expense) for the period . . . . .	–	1.7	(14.9)	(2.5)	(15.7)
Issue of shares in subsidiary . . . . .	–	–	–	0.3	0.3
Dividends . . . . .	–	–	(51.9)	–	(51.9)
<b>Balance at 27 July 2013</b> . . . . .	42.6	2.7	(108.7)	(1.6)	(65.0)
Loss for the year . . . . .	–	–	(5.0)	0.5	(4.5)
Other comprehensive income/(expense) . . . . .	–	(5.7)	1.2	–	(4.5)
Total comprehensive income/(expense) for the period . . . . .	–	(5.7)	(3.8)	0.5	(9.0)
Issue of shares in subsidiary . . . . .	–	–	–	0.2	0.2
Dividends . . . . .	–	–	(1.3)	–	(1.3)
Capital contribution . . . . .	–	–	0.3	–	0.3
<b>Balance at 2 August 2014</b> . . . . .	42.6	(3.0)	(113.5)	(0.9)	(74.8)
Loss for the period . . . . .	–	–	(9.1)	(1.3)	(10.4)
Other comprehensive income/(expense) . . . . .	–	4.9	(1.0)	–	3.9
Total comprehensive income/(expense) for the period . . . . .	–	4.9	(10.1)	(1.3)	(6.5)
Dividends . . . . .	–	–	(0.9)	–	(0.9)
<b>Balance at 1 November 2014</b> . . . . .	42.6	1.9	(124.5)	(2.2)	(82.2)
<b>Balance at 27 July 2013</b> . . . . .	42.6	2.7	(108.7)	(1.6)	(65.0)
Loss for the period . . . . .	–	–	(8.9)	(1.2)	(10.1)
Other comprehensive income/(expense) . . . . .	–	(4.5)	0.9	–	(3.6)
Total comprehensive income/(expense) for the period . . . . .	–	(4.5)	(8.0)	(1.2)	(13.7)
Dividends . . . . .	–	–	(1.3)	–	(1.3)
<b>Balance at 26 October 2013 (Unaudited)</b> . . . . .	42.6	(1.8)	(118.0)	(2.8)	(80.0)

### Consolidated cash flow statement

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
<i>Adjustments for:</i>					
Depreciation, amortisation and impairment . . . . .	3.9	3.5	14.7	12.6	9.7
Gain on sale of property, plant and equipment . . . . .	(0.1)	(0.1)	(0.7)	(0.6)	(0.4)
Share based payment expense . . . . .	–	–	0.3	–	–
Increase in trade and other receivables . . . . .	4.5	3.8	0.2	(0.4)	(6.1)
Increase in inventories . . . . .	(1.8)	(2.9)	(5.0)	(2.5)	(5.1)
Increase in trade and other payables . . . . .	5.1	14.8	13.2	3.3	14.8
Decrease in provisions . . . . .	0.1	(0.1)	(0.4)	(0.9)	(2.4)
	16.4	21.5	83.2	83.5	82.0
Tax paid . . . . .	(1.7)	(1.4)	(8.0)	(5.7)	(11.3)
<b>Net cash from operating activities</b> . . . . .	<b>14.7</b>	<b>20.1</b>	<b>75.2</b>	<b>77.8</b>	<b>70.7</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment . . . . .	0.1	0.1	0.8	0.7	6.6
Interest received . . . . .	–	–	0.2	0.2	0.3
Acquisition of subsidiaries . . . . .	–	(1.4)	(1.4)	(0.6)	–
Acquisition of property, plant and equipment . . . . .	(5.3)	(4.1)	(12.9)	(14.9)	(18.4)
Acquisition of other intangible assets . . . . .	(0.4)	(1.2)	(2.5)	(3.2)	(1.8)
<b>Net cash from investing activities</b> . . . . .	<b>(5.6)</b>	<b>(6.6)</b>	<b>(15.8)</b>	<b>(17.8)</b>	<b>(13.3)</b>
<b>Cash flows from financing activities</b>					
Proceeds from new loan . . . . .	–	–	–	310.0	–
Interest paid . . . . .	(28.7)	(28.5)	(42.1)	(117.2)	(35.6)
Repayment of borrowings . . . . .	–	–	–	(189.3)	(33.7)
Payment of finance lease liabilities . . . . .	(0.3)	(0.1)	(0.6)	(0.2)	–
Dividends paid . . . . .	(0.9)	(1.3)	(1.3)	(51.9)	–
<b>Net cash from financing activities</b> . . . . .	<b>(29.9)</b>	<b>(29.9)</b>	<b>(44.0)</b>	<b>(48.6)</b>	<b>(69.3)</b>
Net (decrease)/increase in cash and cash equivalents . . . . .	(20.8)	(16.4)	15.4	11.4	(11.9)
Cash and cash equivalents at beginning of period . . . . .	53.8	38.4	38.4	27.0	38.9
<b>Cash and cash equivalents at end of year</b> . . . . .	<b>33.0</b>	<b>22.0</b>	<b>53.8</b>	<b>38.4</b>	<b>27.0</b>

## Section B—Issuer

### Non-IFRS Measures

Presented in this Prospectus are various non-IFRS measures, including Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation, and Cash Conversion.

The following tables show how such key measures are derived from the historical financial information of the Group contained in Part XI (*Historical financial information*).

#### Gross Sales

The following table shows how Gross Sales are derived from the historical financial information of the Group contained in Part XI (*Historical financial information*).

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	(unaudited)				
	£m	£m	£m	£m	£m
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
Value added and other sales taxes . . . . .	30.6	27.3	131.8	124.2	116.3
Cost of interest-free credit and aftercare services	13.7	13.4	64.8	65.7	64.5
<b>Gross Sales . . . . .</b>	<b>197.0</b>	<b>175.6</b>	<b>853.4</b>	<b>804.3</b>	<b>748.7</b>

#### EBITDA

The following table shows how EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*).

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	(unaudited)				
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
<b>EBITDA . . . . .</b>	<b>8.6</b>	<b>6.0</b>	<b>75.6</b>	<b>84.6</b>	<b>81.2</b>

#### Underlying EBITDA and Underlying EBITDA Margin

The following table shows how Underlying EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Underlying EBITDA Margin is derived from such figures.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	(unaudited)				
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
EBITDA . . . . .	8.6	6.0	75.6	84.6	81.2
Non-underlying items . . . . .	1.7	0.5	4.4	—	—
<b>Underlying EBITDA . . . . .</b>	<b>10.3</b>	<b>6.5</b>	<b>80.0</b>	<b>84.6</b>	<b>81.2</b>
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
<b>Underlying EBITDA Margin . . . . .</b>	<b>6.8%</b>	<b>4.8%</b>	<b>12.2%</b>	<b>13.7%</b>	<b>14.3%</b>

## Section B—Issuer

### *Adjusted EBITDA and Adjusted EBITDA Margin*

The following table shows how Adjusted EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Adjusted EBITDA Margin is derived from such figures.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	(unaudited)				
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
EBITDA . . . . .	8.6	6.0	75.6	84.6	81.2
Non-underlying items . . . . .	1.7	0.5	4.4	–	–
Underlying EBITDA . . . . .	10.3	6.5	80.0	84.6	81.2
<i>Adjusted items</i>					
Enhanced staff rewards re prior periods . . . . .	–	0.8	0.8	(0.8)	–
Losses in initial period of ownership . . . . .	0.1	0.2	1.5	–	–
<b>Adjusted EBITDA . . . . .</b>	<b>10.4</b>	<b>7.5</b>	<b>82.3</b>	<b>83.8</b>	<b>81.2</b>
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
<b>Adjusted EBITDA Margin . . . . .</b>	<b>6.8%</b>	<b>5.6%</b>	<b>12.5%</b>	<b>13.6%</b>	<b>14.3%</b>

### *Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion*

The following table shows how Gross Capital Expenditure and Change in Working Capital are derived from the historical financial information of the Group contained in Part XI (*Historical Financial Information*). It also shows how Free Cash Flow Generation and Cash Conversion are derived from such figures.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	(unaudited)				
	£m	£m	£m	£m	£m
<b>Adjusted EBITDA . . . . .</b>	<b>10.4</b>	<b>7.5</b>	<b>82.3</b>	<b>83.8</b>	<b>81.2</b>
Share based payment expense . . . . .	–	–	0.3	–	–
Increase in trade and other receivables . . . . .	4.5	3.8	0.2	(0.4)	(6.1)
Increase in inventories . . . . .	(1.8)	(2.9)	(5.0)	(2.5)	(5.1)
Increase in trade and other payables . . . . .	5.1	14.8	13.2	3.3	14.8
Decrease in provisions . . . . .	0.1	(0.1)	(0.4)	(0.9)	(2.4)
<b>Change in Working Capital . . . . .</b>	<b>7.9</b>	<b>15.6</b>	<b>8.3</b>	<b>(0.5)</b>	<b>1.2</b>
Acquisition of property, plant and equipment . . . . .	(5.3)	(4.1)	(12.9)	(14.9)	(18.4)
Acquisition of other intangible assets . . . . .	(0.4)	(1.2)	(2.5)	(3.2)	(1.8)
<b>Gross Capital Expenditure . . . . .</b>	<b>(5.7)</b>	<b>(5.3)</b>	<b>(15.4)</b>	<b>(18.1)</b>	<b>(20.2)</b>
<b>Free Cash Flow Generation . . . . .</b>	<b>12.6</b>	<b>17.8</b>	<b>75.2</b>	<b>65.2</b>	<b>62.2</b>
<b>Cash Conversion . . . . .</b>	<b>121.2%</b>	<b>237.3%</b>	<b>91.4%</b>	<b>77.8%</b>	<b>76.6%</b>

Set out below are details of significant changes in the financial condition and operating results of the Group during the period covered by the audited annual report and accounts Financial Year 2012, Financial Year 2013 and Financial Year 2014.

- Revenue increased by £88.9 million, or 15.6%, from £567.9 million in Financial Year 2012 to £656.8 million in Financial Year 2014. This increase reflected a corresponding increase in Gross Sales which rose by £104.7 million, or 14.0%, from £748.7 million in Financial Year 2012 to £853.4 million in Financial Year 2014. The increase in revenue included £22.1 million contributed by businesses which were acquired in June 2013 (dwell) and October 2013 (Sofa Workshop). The remainder of the increase reflected the continuing impact of DFS's store opening programme (including the integration of new stores which opened in Financial Year 2012 but which only contributed a full year's trading in Financial Year 2013), existing store growth and development of its online channel.

## Section B—Issuer

- Administrative expenses increased by £9.3 million, or 41.1%, from £22.6 million for Financial Year 2012 to £31.9 million for Financial Year 2014. This increase was due to a rise in the numbers of the Group's management team and its corporate staff based in the Doncaster headquarters and employed to develop strategic growth initiatives, as well as the related overhead costs. These appointments reflect the implementation of the Group's expansion plans developed since the Advent Shareholder's acquisition of the Group in 2010 (including the acquisition of Sofa Workshop and dwell).

Save as set out above, there has been no significant change in the financial condition and operating results of the Group during or after the period covered by the historical key financial information of the Group set out in this Prospectus.

B.8

### Selected key pro forma financial information

The unaudited pro forma statement of financial position set out below has been presented to illustrate the effect of the use of the net proceeds of the Offer and the Reorganisation on the Group's statement of financial position as if they had taken place on 1 November 2014. This unaudited pro forma financial information is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the actual financial position or results of the Group, nor is it indicative of results that may or may not be achieved in the future. The unaudited pro forma financial information is compiled on the basis set out below in accordance with the accounting policies of the Group as set out in Part XI (*Historical Financial Information*) and in accordance with Annex II to the PD Regulation.

### Unaudited pro forma statement of financial position

	Historical net assets at 1 November 2014 Note 1	Adjustments				
		Reorganisation Note 2	Net proceeds of the offer Note 3	New Senior Facilities Note 4	Repayment of Existing Facilities Note 5	Pro forma
	£m	£m	£m	£m	£m	£m
<b>Non-current assets</b>						
Property, plant and equipment . . . . .	53.4	–	–	–	–	53.4
Intangible assets . . . . .	490.0	–	–	–	–	490.0
Other financial assets . . . . .	–	–	–	–	–	–
Deferred tax assets . . . . .	11.0	–	–	–	–	11.0
	<u>554.4</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>554.4</u>
<b>Current assets</b>						
Inventories . . . . .	30.6	–	–	–	–	30.6
Other financial assets . . . . .	1.9	–	–	–	–	1.9
Trade and other receivables . . . . .	21.5	(2.3)	–	–	–	19.2
Cash and cash equivalents . . . . .	33.0	2.3	78.0	200.0	(313.0)	0.3
	<u>87.0</u>	<u>–</u>	<u>78.0</u>	<u>200.0</u>	<u>(313.0)</u>	<u>52.0</u>
<b>Total assets</b> . . . . .	<u>641.4</u>	<u>–</u>	<u>78.0</u>	<u>200.0</u>	<u>(313.0)</u>	<u>606.4</u>
<b>Current liabilities</b>						
Trade payables and other liabilities . . . . .	(331.8)	183.9	–	–	3.0	(144.9)
Provisions . . . . .	(6.0)	–	–	–	–	(6.0)
Other financial liabilities . . . . .	–	–	–	–	–	–
Current tax liabilities . . . . .	(5.5)	–	–	–	–	(5.5)
	<u>(343.3)</u>	<u>183.9</u>	<u>–</u>	<u>–</u>	<u>3.0</u>	<u>(156.4)</u>
<b>Non-current liabilities</b>						
Senior secured notes . . . . .	(306.8)	–	–	–	306.8	–
Bank loans . . . . .	–	–	–	(200.0)	–	(200.0)
Provisions . . . . .	(4.4)	–	–	–	–	(4.4)
Other liabilities . . . . .	(69.1)	–	–	–	–	(69.1)
	<u>(380.3)</u>	<u>–</u>	<u>–</u>	<u>(200.0)</u>	<u>306.8</u>	<u>(273.5)</u>
<b>Total liabilities</b> . . . . .	<u>(723.6)</u>	<u>183.9</u>	<u>–</u>	<u>(200.0)</u>	<u>309.8</u>	<u>(429.9)</u>
<b>Net (liabilities)/assets</b> . . . . .	<u>(82.2)</u>	<u>183.9</u>	<u>78.0</u>	<u>–</u>	<u>(3.2)</u>	<u>176.5</u>

#### Notes

- The financial information as at 1 November 2014 has been extracted, without material adjustment, from the audited consolidated historical financial information of the Company as set out in Part XI (*Historical Financial Information*).
- Pursuant to steps comprising the Reorganisation of the Group prior to Admission, as described in paragraph 5 of Part XIV (*Additional Information*), the principal and accrued but unpaid interest on loans from parent companies amounting to £183.9 million will be capitalised by the issue of shares in the Company. A debtor of £2.3 million relating to unpaid share capital due to the Group will also be settled.

Section B—Issuer		
		<p>3. The adjustment reflects the receipt by the Company of net proceeds from the Offer of £78.0 million and total gross proceeds from the Offer of £98.0 million (in each case, through the issue of New Ordinary Shares). The fees and expenses relating to the Offer are expected to be approximately £20.0 million. The gross proceeds of the Offer, the net proceeds of the Offer and the fees and expense of the Offer are based on the assumption that the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range.</p> <p>4. Following Admission, the Company will draw down £200.0 million under the New Senior Facilities Agreement.</p> <p>5. The Company intends to use £78.0 million of the net proceeds it receives from the Offer plus £2.3 million relating to the previously unpaid share capital, together with £200.0 million drawn down under the New Senior Facilities Agreement and approximately £32.7 million of the Company's cash, to redeem the Notes in full together with £3.0 million of accrued but unpaid interest on the Notes as at 1 November 2014.</p> <p>This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act.</p> <p>No adjustment has been made to reflect the trading results of the Group since 1 November 2014 or any other change in financial position in that period.</p>
B.9	<b>Profit forecast/estimate</b>	Not applicable: no profit forecasts or estimates have been made.
B.10	<b>Audit report qualifications</b>	Not applicable: there are no qualifications in the accountant's report on the consolidated historical financial information.
B.11	<b>Insufficient working capital</b>	Not applicable: the Company is of the opinion that, taking into account the net proceeds of the Offer receivable by the Company and the facilities available to the Group, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of the publication of this Prospectus.

Section C—Securities		
C.1	<b>Description of type and class of securities being offered</b>	When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BTC0LB89 and SEDOL number BTC0LB8, and it is expected that the Ordinary Shares will be traded under ticker symbol DFS. The Ordinary Shares will, on Admission, comprise the entire issued share capital of the Company.
C.2	<b>Currency of issue</b>	The Ordinary Shares are denominated in pounds sterling.
C.3	<b>Number of shares issued and par value</b>	<p>As at 22 February 2015 (being the latest practicable date prior to the date of this Prospectus), the nominal value of the issued share capital of the Company was £235,323,222 divided into 156,882,148 fully paid Ordinary Shares of £1.50 each.</p> <p>On Admission, there will be up to 214,181,070 Ordinary Shares of £1.50 each in issue. The exact number of Ordinary Shares that will be in issue on Admission is dependent on the Offer Price (which will determine the number of New Ordinary Shares to be issued by the Company pursuant to the Offer and will be announced in the Pricing Statement). All Ordinary Shares in issue on Admission will be fully paid.</p>
C.4	<b>Rights attaching to the Ordinary Shares</b>	<p>The Ordinary Shares rank equally for voting purposes. On a show of hands each Shareholder has one vote, and on a poll each Shareholder has one vote per Ordinary Share held.</p> <p>Each Ordinary Share ranks equally for any dividend declared and for any distribution made on a winding-up.</p> <p>Each Ordinary Share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves.</p> <p>The Ordinary Shares are not redeemable.</p>
C.5	<b>Restrictions on transfer</b>	Not applicable: the Ordinary Shares will be freely transferable on Admission.

Section C—Securities		
C.6	Admission to trading	Application has been made for the Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities, which is a regulated market.
C.7	Dividend policy	<p>Strong cash generation has meant that the Group has consistently returned cash to stakeholders. Assuming that sufficient distributable reserves are available at the time, the Board intends to adopt a progressive dividend policy which reflects the long-term earnings and cash flow potential of the Group, with a dividend pay-out ratio of around 40-50% of profit after tax, split approximately one-third and two-thirds between interim and final dividends respectively.</p> <p>The Directors expect that the first dividend to be declared following Admission will be the final dividend in respect of the financial year ending July 2015 which is expected to be paid in January 2016.</p> <p>The Company may revise its dividend policy from time to time.</p>

Section D—Risks		
D.1	Key information on the key risks that are specific to the Group or its industry	<p><i>Upholstered furniture purchases represent a significant discretionary expenditure for consumers and thus a reduction in consumer spending levels for any reason could negatively affect the results of the Group's operations</i></p> <p>Demand for upholstered furniture is influenced by prevailing economic conditions, such as consumer spending levels (which in turn are determined by, among other factors, consumer confidence, income levels and interest rates), the availability of consumer credit and the level of housing market transactions.</p> <p>Due to the discretionary nature and timing of most furniture purchases and the fact that such purchases often represent a significant expenditure, consumers are more likely to defer the purchase of upholstered furniture in times of economic uncertainty, personal economic hardship or in environments of constrained consumer credit. Given that at present the Group derives substantially all of its revenue and profits from the UK and the Republic of Ireland, its results are, and have been, impacted by the prevailing economic climate in those countries.</p> <p><i>The size of the Group's market is partly linked to the number of transactions occurring within the UK residential property market</i></p> <p>Increases in UK residential property transactions and new housing construction have historically been a significant driver of upholstered furniture sales volumes. Adverse changes to economic and credit market conditions, house prices, volumes of homes and buildings being bought and sold, government policies, prevailing interest rates, inflation, deflation, levels of private and government expenditure, the availability and affordability of financing for residential construction projects or residential property purchases, employment and demographic trends could adversely affect the UK residential property market.</p> <p><i>Any events that negatively impact the reputation of, or value associated with, the Group's brand or the upholstered furniture industry could adversely affect the Group's business</i></p> <p>The DFS brand and level of brand recognition are important assets of the Group's business. Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of its business. Unfavourable publicity directly or indirectly concerning the Group, its products, employees, pricing policies or any of its retail stores or manufacturers (both internal and external), or a substantial erosion in the reputation of its brand, could adversely affect its business, financial condition or results of operations.</p> <p><i>The retail upholstered furniture industry in the UK is highly competitive and the Group's failure to compete effectively could erode its market share and, in turn, adversely affect its profitability</i></p> <p>The upholstered furniture market in the UK and the Republic of Ireland is highly competitive. Competition is generally based on product style, quality, brand name recognition, price and affordability (including the availability and terms of customer finance) and service, as well as the number and location of stores and quality of online offering. DFS's principal competitors are other retailers of upholstered furniture, comprising primarily upholstered furniture retailers, general furniture retailers, independent furniture stores, homeware stores, department stores and online retailers. Such competitors may adopt aggressive pricing policies, expand their store portfolios or online offering, undertake more extensive marketing and advertising campaigns or sell products which may be more attractive than the Group's to customers. Further, more recent entrants to the retail upholstered furniture market, such as homeware stores, department stores and other large retailers, could increase competition in the market, particularly if their buying power, store network and brand strength is similar to or greater than the Group's.</p>

## Section D—Risks

***DFS may not be able to accurately predict consumer preferences or demand***

Upholstered furniture products are subject to changing consumer tastes and trends. Although some of DFS's traditional product ranges are less sensitive to consumer trends, its success depends in part on its ability to effectively predict and respond to changing consumer tastes, in particular with respect to its contemporary product ranges, and to translate consumers' preferences effectively into marketable designs. Given DFS's made-to-order business model, it is less exposed to finished goods inventory risk than those retailers in the sector that carry stock. Nevertheless, if DFS is unable to successfully and rapidly lead and/or respond to changes in consumer tastes and trends (such as short delivery lead times), its sales may decline.

***The Group's business could suffer as a result of weak sales during peak promotional periods and/or its failure to deliver effective promotional campaigns***

The Group's business is subject to promotional peaks, with a large proportion of its sales being generated during specific promotional periods. Given the discretionary nature and cost of upholstered furniture, the Group relies on the effectiveness of its promotional campaigns to drive sales volumes during these and other periods. If sales during the Group's peak promotional periods are significantly lower than expected, the Group may be unable to reduce its costs in the short term to offset lower revenue. Conversely, any failure by the Group to ensure appropriate sales or logistics staff availability and put in place manufacturing plans to meet demand and maintain attractive delivery lead times during these periods could negatively impact the Group's customer goodwill, brand image and profitability.

***The retail upholstered furniture industry's and hence the Group's order intake may be negatively impacted by adverse weather conditions, popular events, as well as disruptive or catastrophic events***

Upholstered furniture products are typically a discretionary and considered purchase by consumers. The Group's order intake may therefore be adversely affected by either periods of extreme adverse weather or warm weather which could discourage customers from visiting stores. In addition, the Group's sales and results of operations may be adversely affected by various popular events, such as major sports events, as well as disruptive or catastrophic events such as floods, fires, earthquakes, pandemics or epidemics, terrorist and war activities in the regions where the Group operates or elsewhere. Each of such events could discourage customers from visiting the Group's stores.

***The Group may not be granted, or may be granted subject to restrictions, permission to carry on regulated consumer credit activities***

Certain companies in the Group are authorised to promote and arrange credit for customers from third party finance providers and have, since April 2014 and in common with all upholstery industry competitors, operated under an interim permission regime. Such interim permission from the FCA to carry on consumer credit-related regulated activities will need to be replaced with a limited permission. There is a risk that this permission may not be granted or may only be granted subject to restrictions, with which the Group will need to comply.

The Directors believe that DFS's interest-free credit ("IFC") consumer financing is a fundamental part of its customer proposition, and has been a consistent feature of the UK upholstery market since its introduction in the UK in 1986. IFC allows customers to spread the cost of purchase of higher priced furniture over manageable monthly payments with no interest or fees, and it can also facilitate incremental purchases such as additional furniture items or material upgrades. According to an independent survey conducted on behalf of DFS, c.15% of DFS's customers cite IFC as a key reason for coming to DFS and approximately 65% of DFS's sales by value are financed using DFS's IFC. Thus any restriction by the FCA on the Group's consumer credit activities could negatively affect the Group's customer proposition, which in turn would adversely affect its business, financial condition, results of operation and brand reputation.

***The Group may not be granted, or may be granted subject to restrictions, permission to carry on regulated insurance mediation activities***

The Group offers enhanced product warranty insurance. The Group currently does not need to be authorised by the FCA in relation to the sales of the warranty insurance. However, once the relevant Group companies obtain limited permission from the FCA in relation to their consumer credit activities, they may no longer benefit from this exemption. The Group may, therefore, need to be either authorised for insurance mediation activities, or be an appointed representative of an authorised firm. In the latter case, amendments to the Group's existing agreements in relation to sofa care insurance products would be required to ensure that they comply with the FCA's prescribed terms for appointed representative agreements. As the provision of enhanced product warranty insurance is a material aspect of the Group's business, any failure by the Group to become an appointed representative or to become authorised for insurance mediation activities by the FCA could negatively affect the Group's customer proposition. In addition, this would adversely affect the Group's business, financial condition and results of operations.

Section D—Risks		
		<p><b><i>Consumer-related legislation and various government regulations could affect the Group's trading operations</i></b></p> <p>In the UK, the Group is subject to regulation by, <i>inter alia</i>, the FCA, the Competition and Markets Authority (the “CMA”), the Advertising Standards Authority (the “ASA”) and the Information Commissioners Office (the “ICO”) and must comply with consumer related legislation in terms of advertising style and content, the nature of products supplied, customer service approach and processes and data protection. A regulator may determine that the Group has failed to comply with applicable laws, regulations or rules or that it has not undertaken corrective action required by that regulator. The impact of being found to be non-compliant in any such inquiry and/or investigation is difficult to assess or quantify and would depend on which regulatory regime was involved and the disciplinary/enforcement powers of the regulator responsible for the supervision of that particular business. Such inquiries or investigations could result in adverse publicity for, or negative perceptions being created regarding, DFS's business and affect its relationships with regulators and current and potential customers and suppliers, as well as diverting management's attention.</p> <p>As approximately 65% of DFS's sales by value are to customers who utilise its IFC offering, any change in law or regulation or in interpretation of law or regulation by the FCA could have a material adverse effect on its business, prospects, financial condition and results of its operations.</p> <p><b><i>DFS's agreements with its consumer credit providers contain termination provisions which may adversely affect the Group's ability to ensure continuity of its customer financing supply</i></b></p> <p>DFS has recently entered into long-term agreements with two consumer credit providers. These agreements are multi-year and not co-terminous and provide contractual confirmation that capacity to finance all of DFS's current sales volumes in the UK will be maintained for the duration of the relevant contract. DFS also has short-term formal contracts or informal arrangements with a further three consumer credit providers.</p> <p>Should such contractual agreements be terminated or breached by any of DFS's consumer credit providers or by DFS, or if any of such consumer credit providers ceases to offer customer finance for any reason, DFS would have reduced or no contractual rights enabling it to provide consumer credit and cannot guarantee that it will be able to find suitable alternative sources of customer finance on commercially acceptable terms or at all. A reduction in the supply of customer finance may make it more difficult for DFS to replace its existing sources of customer finance or to provide IFC at a reasonable cost or at all.</p>
D.3	<b>Key information on the key risks that are specific to the Ordinary Shares</b>	<p>Insofar as is known to the Company as at the date of this Prospectus, following Admission and assuming: (i) that the Offer Price is set at the mid-point of the Offer Price Range; (ii) that the Offer Size is set at the mid-point of the Offer Size Range; and (iii) no exercise of the Over-allotment Option; and (iv) that the Advent Shareholder sells 33.45%, Richard Baker sells 20% and each of the other Selling Shareholders sells 30% of their respective Existing Ordinary Shares pursuant to the Offer, the Advent Shareholder is expected to be interested in approximately 49.5% of the Company's issued share capital. The interests of the Advent Shareholder and the other Shareholders may not be aligned. For example, the Advent Shareholder and its affiliates (including the Advent Funds and the Advent Companies) may make acquisitions of or investments in other businesses in the same sectors as the Group. These businesses may be, or may become, the Group's competitors. Although applicable law, the terms of the Directors' appointments and the Relationship Agreement contain provisions seeking to restrict Directors appointed by the Advent Shareholder from voting on matters where there are conflicts of interest and from using information obtained in the course of their appointments, these and other measures may not be sufficient to safeguard the interests of other Shareholders.</p>

Section E—Offer		
E.1	<b>Net proceeds/expenses</b>	<p>Through the issue of New Ordinary Shares pursuant to the Offer, the Company expects to raise gross proceeds of approximately £98.0 million, resulting in net proceeds of approximately £78.0 million. The aggregate underwriting commissions and other fees, taxes and expenses incurred in connection with the Offer and Admission which are to be borne by the Company are estimated to be approximately £20.0 million. The Company intends to pay this amount out of the gross proceeds of the Offer.</p> <p>Through the sale of Ordinary Shares pursuant to the Offer, the Company expects the Selling Shareholders to raise in aggregate approximately £153.7 million after deducting underwriting commissions and other estimated expenses of approximately £5.6 million (assuming that the Offer Price is set at the mid-point of the Offer Price Range, the Offer Size is set at the mid-point of the Offer Size Range and no exercise of the Over-allotment Option).</p>

Section E—Offer																								
E.2a	<b>Reasons for the Offer/ use of proceeds</b>	<p>The Directors believe that the Offer and Admission are the natural next step in the Group's development, and will:</p> <ul style="list-style-type: none"> <li>(a) provide a strong platform from which the Group can pursue its growth strategy;</li> <li>(b) provide access to the capital markets;</li> <li>(c) enhance the Group's public profile and brand recognition;</li> <li>(d) assist in the recruitment, retention and incentivisation of management and employees in the long term; and</li> <li>(e) provide the Selling Shareholders with a partial realisation of their investment in the Company.</li> </ul> <p>The Company intends to use approximately £78.0 million of net proceeds receivable by it from the Offer to repay the Notes.</p>																						
E.3	<b>Terms and conditions of the Offer</b>	<p>Under the Offer, all Offer Shares will be issued or sold at the Offer Price, which will be determined by the Company and the Advent Shareholder in consultation with the Joint Global Co-ordinators. It is currently expected that the Offer Price will be within the Offer Price Range and that the Offer Size will be within the Offer Size Range. The Offer Price Range is between £2.45 and £3.10 and the Offer Size Range is between 79,044,857 and 107,082,375 Ordinary Shares.</p> <p>The following table sets out the approximate numbers of New Ordinary Shares likely to be issued by the Company, the likely Offer Size and the approximate number of Ordinary Shares in issue following Admission, based on various Offer Prices and the Company's current assumption of the number of Existing Ordinary Shares to be sold by the Selling Shareholders pursuant to the Offer (and assuming that the Over-allotment Option is not exercised).</p> <table> <tr> <th>Offer Price</th><th>Assumed percentage of Ordinary Shares held by public immediately following Admission</th><th>Number of New Ordinary Shares</th><th>Offer Size (number of Offer Shares)</th><th>Approximate number of Ordinary Shares in issue following Admission</th></tr> <tr> <td>£3.10 . . . . .</td><td>50%</td><td>31,606,453</td><td>104,008,428</td><td>208,029,755</td></tr> <tr> <td>£2.78 . . . . .</td><td>44%</td><td>35,308,109</td><td>92,720,684</td><td>210,745,205</td></tr> <tr> <td>£2.45 . . . . .</td><td>38%</td><td>39,991,838</td><td>81,380,645</td><td>214,181,070</td></tr> </table> <p>A number of factors will be considered in deciding the Offer Price, the Offer Size and the bases of allocation under the Offer, including the level and nature of demand for Ordinary Shares in the book-building process, the level of demand in the Intermediaries Offer, prevailing market conditions and the objective of encouraging the development of an orderly and liquid after-market in the Ordinary Shares.</p> <p>The Offer Price and the Offer Size are expected to be announced on or around 6 March 2015. The Pricing Statement, which will contain, among other things, the Offer Price and the Offer Size, will (subject to certain restrictions) be published online at <a href="http://www.dfscorporate.co.uk">www.dfscorporate.co.uk</a> and be available in printed form at the Company's registered office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA, until 14 days after Admission.</p> <p>If the Offer Price is set above the Offer Price Range (or the Offer Price Range is revised higher) and/or the Offer Size is set below or above the Offer Size Range, then an announcement will be made via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their offer to subscribe for or purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA. The arrangements for withdrawing offers to subscribe for or purchase Ordinary Shares will be made clear in the announcement.</p> <p>The Offer comprises the Institutional Offer and the Intermediaries Offer. Under the Institutional Offer, the Offer Shares are being offered to certain institutional and professional investors in the UK and elsewhere outside the US in reliance on Regulation S and to QIBs in the US in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.</p> <p>Under the Intermediaries Offer, the Offer Shares are being offered to Intermediaries appointed by the Company in the UK, the Channel Islands and the Isle of Man who will facilitate the participation of: (i) their retail investor clients located in the UK, the Channel Islands and the Isle of Man; and (ii) Eligible Employees (in the latter case, only by the Employee Offer Intermediary). Eligible Employees who make an application through the Intermediaries Offer and the Employee Offer Intermediary will be entitled to a preferential allocation of Offer Shares.</p> <p>In addition, the Over-allotment Shares (representing up to 15% of the number of Offer Shares) will be made available by the Advent Shareholder pursuant to the Over-allotment Option.</p>			Offer Price	Assumed percentage of Ordinary Shares held by public immediately following Admission	Number of New Ordinary Shares	Offer Size (number of Offer Shares)	Approximate number of Ordinary Shares in issue following Admission	£3.10 . . . . .	50%	31,606,453	104,008,428	208,029,755	£2.78 . . . . .	44%	35,308,109	92,720,684	210,745,205	£2.45 . . . . .	38%	39,991,838	81,380,645	214,181,070
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Section E—Offer		
		<p>It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. on 6 March 2015. The earliest date for settlement of such dealings will be 11 March 2015. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a “when issued basis”, will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.</p> <p>Admission is expected to become effective, and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange, at 8.00 a.m. on 11 March 2015.</p> <p>The Offer is subject to the satisfaction of conditions which are customary for transactions of this type contained in the Underwriting Agreement, including completion of the Reorganisation, Admission becoming effective no later than 8.00 a.m. on 11 March 2015 (or such later date and time, not being later than 8.00 a.m. on 31 March 2015, as the Joint Global Co-ordinators may agree with the Advent Shareholder and the Company) and the Underwriting Agreement not having been terminated prior to Admission.</p> <p>None of the Ordinary Shares may be offered for sale or purchase or be sold or delivered, and this Prospectus and any other offering material in relation to the Ordinary Shares may not be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.</p> <p>The Institutional Offer and the Intermediaries Offer have been fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement.</p>
E.4	<b>Material interests</b>	<p>The Company considers that each of the Advent Shareholder, the EBT (which holds the legal interest in certain Ordinary Shares as nominee for certain Shareholders) and Richard Baker has an interest that is material to the Offer by virtue of the size of its or his shareholding in the Company.</p> <p>The Company does not consider this to be a conflicting interest, and does not consider that there are any other interests, including conflicts of interest, that are material to the Offer.</p>
E.5	<b>Selling Shareholders and lock-up agreements</b>	<p>57,412,575 Existing Ordinary Shares (representing approximately 27.2% of the issued share capital of the Company immediately following Admission) will be sold in the Offer by the Selling Shareholders (assuming the Offer Price is set at the mid-point of the Price Range, the Offer Size is set at the mid-point of the Offer Size Range and that the Over-allotment Option is not exercised).</p> <p>For 180 days from and including the date of Admission, the Advent Shareholder will not, without the prior written consent of the Joint Global Co-ordinators, dispose of any interest in the Ordinary Shares held by it immediately following Admission.</p> <p>For 365 days from and including the date of Admission, the Directors, the Senior Managers and the Selling Shareholders (other than the Advent Shareholder) will not, without the prior written consent of the Joint Global Co-ordinators, dispose of any interest in the Ordinary Shares held by them immediately following Admission.</p> <p>For 365 days from and including the date of Admission, the Company will not, without the prior written consent of the Joint Global Co-ordinators, issue any new Ordinary Shares.</p> <p>All lock-up arrangements are subject to certain customary exceptions.</p>
E.6	<b>Dilution</b>	<p>Assuming that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range, the New Ordinary Shares will represent 16.8%, and the Existing Ordinary Shares will represent 83.2%, of the issued share capital of the Company immediately following Admission and the Existing Ordinary Shares sold by the Selling Shareholders under the Offer will represent 27.2% of the issued share capital of the Company immediately following Admission.</p>
E.7	<b>Estimated expenses charged to investor(s)</b>	<p>Not applicable: there are no commissions, fees, expenses or taxes to be charged to investors by the Company under the Offer. All expenses incurred by any Intermediary are for its own account. Investors should confirm separately with any Intermediary whether there are any commissions, fees or expenses that will be applied by such Intermediary in connection with any application made through that Intermediary pursuant to the Intermediaries Offer. The Intermediaries Terms and Conditions restrict the level of commission that Intermediaries are able to charge retail investors.</p>

## PART II

### RISK FACTORS

*Any investment in the Offer Shares is subject to a number of risks. Prior to investing in the Offer Shares, you should consider carefully the factors and risks associated with any such investment, the Group's business and the industry in which the Group operates, together with all other information contained in this Prospectus including, in particular, the risk factors described below. You should note that the risks relating to DFS, the Group, its industry and the Ordinary Shares summarised in Part I (Summary) are the risks that the Directors believe to be the most essential to an assessment by you of whether to consider an investment in the Offer Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, you should consider not only the information on the key risks summarised in Part I (Summary) but also, among other things, the risks and uncertainties described below.*

*The following is not an exhaustive list or explanation of all risks that you may face when making an investment in the Offer Shares and should be used as guidance only. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materialising, of the potential significance of the risks or of the scope of any potential harm to the Group's business, prospects, results of operation and financial position. Additional risks and uncertainties relating to the Group that are not currently known to it, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on its business, prospects, results of operations and financial condition and, if any such risk should occur, the price of the Ordinary Shares may decline and you could lose all or part of your investment. You should consider carefully whether an investment in the Offer Shares is suitable for you in light of the information in this Prospectus and your personal circumstances.*

#### **Risks relating to the Group's business and the industry in which it operates**

***Upholstered furniture purchases represent a significant discretionary expenditure for consumers and thus a reduction in consumer spending levels for any reason could negatively affect the results of the Group's operations***

Demand for upholstered furniture is influenced by prevailing economic conditions. In particular, such demand is influenced by consumer spending levels (which in turn are determined by, among other factors, consumer confidence, income levels and interest rates), the availability of consumer credit and the level of housing market transactions.

Due to the discretionary nature and timing of most furniture purchases and the fact that such purchases often represent a significant expenditure, consumers are more likely to defer the purchase of upholstered furniture in times of economic uncertainty, personal economic hardship or in environments of constrained consumer credit. Given that at present the Group derives substantially all of its revenue and profits from the UK and the Republic of Ireland, its results are, and have been, impacted by the prevailing economic climate in those countries.

Further adverse changes or increased uncertainty in the macroeconomic or political climate, such as the breakup of the Eurozone, the prospect of a referendum on the UK's participation in the EU, the result of the upcoming UK general election or a decline in economic results in the UK or the Republic of Ireland, could have an additional adverse impact on the macroeconomic environment. As a result of the above, orders for the Group's products may decline, and/or it may experience an over or undersupply of components, raw materials and/or production capacity, each of which could have a material adverse effect on its business, results of operations, financial condition and prospects.

***The size of the Group's market is partly linked to the number of transactions occurring within the UK residential property market***

Increases in UK residential property transactions and new housing construction have historically been a significant driver of upholstered furniture sales volumes. For example, many consumers purchase upholstered furniture when renovating their home, which often occurs when a consumer has just purchased a residential property. Adverse changes to economic and credit market conditions, house prices, volumes of homes and buildings being bought and sold, government policies, prevailing interest rates, inflation, deflation, levels of private and government expenditure, the availability and affordability of financing for residential construction projects or residential property purchases, employment and demographic trends could adversely affect the UK residential property market and could therefore have a material adverse effect on the Group's business, financial condition or results of operations. More specifically, government policy and spending could have a more general negative impact on the Group's

business if, for example, certain government policies or schemes (such as the UK “Help to Buy” scheme) were to be revoked or narrowed.

***Any events that negatively impact the reputation of, or value associated with, the Group’s brand or the upholstered furniture industry could adversely affect the Group’s business***

The DFS brand and level of brand recognition are important assets of the Group’s business. Maintaining the reputation of, and value associated with, the Group’s brands and product offering is central to the success of its business. As a result, the Group’s ability to maintain the reputation of its brand with respect to the quality, value and design of its products and high levels of customer service are important factors in earning and maintaining customer goodwill. Unfavourable publicity concerning the Group, its products, employees, pricing policies or any of its retail stores or manufacturers (both internal and external), or a substantial erosion in the reputation of its brand, could adversely affect its business, financial condition or results of operations.

Furthermore, given the Group’s high market share, its brands and products can be associated by consumers or the media with issues (for example in relation to the furniture market generally) that do not directly relate to the Group’s operations or products. Any perceived or actual concerns related to the Group’s products or competitors may be widely disseminated online or otherwise, and, consequently, could result in new or existing customers and trading partners becoming less willing to conduct business with the Group.

Current methods of dissemination of information (including the ability of reports to “go viral” online) mean that potential threats to reputation can occur in a very short period of time and reach a far broader audience than historically was the case, making them far more difficult to address effectively.

***The retail upholstered furniture industry in the UK and the Republic of Ireland is highly competitive and the Group’s failure to compete effectively could erode its market share and, in turn, adversely affect its profitability***

The upholstered furniture market in the UK and the Republic of Ireland is highly competitive. Competition is generally based on product style, quality, brand name recognition, price and affordability (including the availability and terms of customer finance) and service, as well as the number and location of stores and quality of online offering. The Group’s principal competitors are other retailers of upholstered furniture, comprising primarily upholstered furniture retailers, general furniture retailers, independent furniture stores, homeware stores, department stores and online retailers. See Section B (*Industry Overview*) of Part VII (*Information on the Group and the industry in which it operates*) for more information. Such competitors may adopt aggressive pricing policies, expand their store portfolios or online offering, undertake more extensive marketing and advertising campaigns or sell products which may be more attractive to customers than the Group’s products. Further, more recent entrants to the retail upholstered furniture market, such as homeware stores, department stores and other large retailers, could increase competition in the market, particularly if their buying power, store network and brand strength is similar to or greater than the Group’s. Any of these actions taken by the Group’s current or future competitors may have an adverse effect on the Group’s business, financial condition and results of operations.

The Group also competes with other retailers to secure effective advertising and marketing campaigns. As the importance of such campaigns increase some of the Group’s competitors may have the ability to engage more resources and increase their advertising budget. This may lead to higher advertising costs that the Group is not able to pass on to its consumers; these costs could adversely affect the Group’s profitability.

***DFS may not be able to accurately predict consumer preferences or demand***

Upholstered furniture products are subject to changing consumer tastes and trends. Although some of DFS’s traditional product ranges are less sensitive to consumer trends, its success depends in part on its ability to effectively predict and respond to changing consumer tastes, in particular with respect to its contemporary product ranges, and to translate consumers’ preferences effectively into marketable designs. Given DFS’s made-to-order business model, it is less exposed to finished goods inventory risk than those retailers in the sector that carry stock. Nevertheless, if DFS is unable to successfully and rapidly lead and/or respond to changes in consumer tastes and trends (such as short delivery lead times), its sales may decline. This could have a material adverse effect on the Group’s business, financial condition and results of operations.

***The Group's business could suffer as a result of weak sales during peak promotional periods and/or its failure to deliver effective promotional campaigns***

The Group's business is subject to promotional peaks, with a large proportion of its sales being generated during specific promotional periods. Historically, DFS's most important trading periods (in terms of order generation and subsequent realisation of sales, operating profit and cash flow) have been the post-Christmas winter sale, Easter, pre-Christmas guaranteed delivery and other public bank holiday promotional periods. Given the discretionary nature and cost of upholstered furniture, the Group relies on the effectiveness of its promotional campaigns to drive sales volumes during these and other periods. If sales during the Group's peak promotional periods are significantly lower than expected, the Group may be unable to reduce its costs in the short term to offset lower revenue. Conversely, any failure by the Group to ensure appropriate sales or logistics staff availability and put in place manufacturing plans to meet demand and maintain attractive delivery lead times during these periods could negatively impact the Group's customer goodwill, brand image and profitability. The Group's sales and profits can be highly volatile as a result of these factors, which may result in lost sales and its business, financial condition and results of operations could be materially adversely affected.

***The retail upholstered furniture industry's and hence the Group's order intake may be negatively impacted by adverse weather conditions, popular events, as well as disruptive or catastrophic events***

Upholstered furniture products are typically a discretionary and considered purchase by consumers. The Group's order intake may therefore be adversely affected by either periods of extreme adverse weather or warm weather which could discourage customers from visiting stores. In addition, the Group's sales and results of operations may be adversely affected by various popular events, such as major sports events, as well as disruptive or catastrophic events such as floods, fires, earthquakes, pandemics or epidemics, terrorist and war activities in the regions where the Group operates or elsewhere. Each of such events could discourage customers from visiting the Group's stores.

***A large portion of DFS's products are supplied by a small number of manufacturers, some of whom are located outside the UK***

DFS has a high degree of supplier concentration with c.88% of DFS's externally sourced orders for upholstery ranges (by volume) in Financial Year 2014 coming from its top 5 external manufacturers. In addition, DFS's largest external supplier accounted for approximately 18% of goods sold in this period. Any significant disruption or other adverse event affecting any of DFS's key suppliers or its relationship with any of them could have a material adverse effect on its business, financial condition and results of operations. In addition, DFS's internal manufacturing operations supplied approximately 29% of the total volume of goods sold in Financial Year 2014 and currently only manufacture fabric covered products. To the extent that any of its key suppliers fail to satisfy their delivery obligations (for example, due to transportation or logistics interruptions, accidents, equipment breakdowns or work stoppages), particularly during a peak delivery period, this could adversely affect DFS's business. If DFS is required to replace any of its key manufacturers for any reason, it may face risks and costs associated with a transfer of operations, and the failure to replace any of its key manufacturers on commercially reasonable terms, or at all, could have a material adverse effect on its business, financial condition or results of operations.

A significant portion of DFS's products are manufactured by external manufacturers in continental Europe and Asia. The Group faces a variety of risks generally associated with doing business in foreign markets and importing products from these regions, including, among others, political instability; increased security requirements applicable to foreign goods; the imposition of taxes, duties, other charges and restrictions on imports; currency and exchange rate fluctuations; risks related to labour practices, environmental matters or other issues in the foreign countries or factories in which DFS's products are manufactured; delays in shipping; and increased costs of transportation. There is also a risk of the Group's suppliers experiencing financial distress or insolvency, with the potential for significant and prolonged disruption to one or more of its trading relationships. Further, the ability of the Group's suppliers to rely on credit insurance to protect against purchaser payment default (including by DFS) may from time to time be limited depending on the economic climate, which may restrict the ability of the Group's suppliers to do business with their respective customers, including the Group, or affect such suppliers' financial position. Finally, although DFS audits its supplier base, any controversy surrounding the unethical sourcing of its suppliers' materials may have an indirect impact on DFS. Any of these risks, in isolation or in combination, could adversely affect DFS's reputation, financial condition and results of operations.

***Material adverse trends in the factors affecting the Group's offering of interest-free credit options to its customers, including increases in the London Interbank Offered Rate ("LIBOR") and further tightening of credit standards, could have a significant negative impact on the Group's future financial performance***

DFS offers IFC on all of its products and approximately 65% of its sales by value are to customers who utilise DFS's IFC offering, which enables them to purchase products by paying for them in monthly, interest-free instalments over typical terms of up to 48 months with potentially a deferred payment period upfront. DFS currently offers IFC options through five consumer credit providers who, in return for an up-front fee, advance credit to the customer and bear the risk of customer default and changes in interest rate. DFS has written long-term contracts in place with two of these providers and short-term formal contracts or informal arrangements with the other three. The fee payable by DFS to these consumer credit providers is generally a function of the length of the interest-free and deferred payment period agreed by a customer and the prevailing 12-month or other benchmark LIBOR rate. It is also influenced by the general appetite of consumer credit providers to provide credit to DFS's customers. Rises in LIBOR, decreases in consumer credit providers' risk appetite or a perceived decrease in the creditworthiness of customers could therefore lead to an increase in such fees.

An increase in the fees for IFC payable by the Group may limit its ability to provide such IFC on commercially acceptable terms to its customers. This may negatively affect DFS's customers' ability to purchase its products, which in turn would adversely affect the Group's business, financial condition and results of operations.

Although the Group is not exposed to the risk of customer defaults with respect to their credit agreements with these consumer credit providers, any increase in the number of customer defaults may cause certain consumer credit providers to tighten their credit standards and/or increase their charges for the provision of credit.

***DFS's agreements with its consumer credit providers contain termination provisions which may adversely affect the Group's ability to ensure continuity of its customer financing supply***

DFS has recently entered into long-term agreements with two consumer credit providers. These agreements are multi-year and not co-terminous and provide contractual confirmation that the capacity to finance all of DFS's current sales volumes in the UK will be maintained for the duration of the relevant contract. DFS also has short-term formal contracts or informal arrangements with a further three consumer credit providers.

Should such contractual agreements be terminated or breached by any of DFS's consumer credit providers or by DFS, or if any of such consumer credit providers ceases to offer customer finance for any reason, DFS would have reduced or no contractual rights enabling it to provide consumer credit and cannot guarantee that it will be able to find suitable alternative sources of customer finance on commercially acceptable terms or at all. A reduction in the supply of customer finance may make it more difficult for DFS to replace its existing sources of customer finance or to provide IFC at a reasonable cost or at all.

The consumer credit activities of the Group and consumer credit providers are regulated by the FCA. Any change in law or regulation or in interpretation of law or regulation by the FCA could have a material adverse effect on the ability of the Group's consumer credit providers to provide customer finance.

Such a reduction in available sources of customer finance, or increases in the fee payable to consumer credit providers for the provision of customer finance, could have a material adverse effect on the Group's customer proposition, business, financial condition or results of operations.

***The Group does not recognise revenue on sales until it delivers its products to customers' homes. Interruptions at any stage of the manufacturing, distribution and delivery processes could have a material adverse effect on the Group's results of operations***

The Group does not recognise revenue on sales until it delivers and installs its products in customers' homes. Any material employee industrial action, major breakdown of plant or equipment, or accident such as a serious fire, in any or all of the Group's (or its external suppliers') distribution centres, warehouses, stores, factories or delivery vehicles, as well as disruptive or catastrophic events such as severe weather conditions, floods, fires, earthquakes, pandemics or epidemics, terrorist and war activities in the regions where the Group operates or elsewhere might significantly impact the Group's ability to distribute products to its customers, and thus could have a material adverse effect on its business, financial conditions and results of operations.

The Group cannot accurately predict the extent to which such events may affect it, directly or indirectly, in the future. It also cannot provide assurances that it will be able to obtain or choose to purchase any insurance coverage with respect to occurrences of natural disasters, severe weather conditions, terrorist acts or other catastrophic events and any losses that could result from these acts or events. If there is a prolonged disruption at its properties due to natural disasters, severe weather conditions, terrorist attacks or other catastrophic events, the Group's results of operations and financial condition could be materially adversely affected.

***The Group cannot ensure that the proposed introduction of customer distribution centres will be successful***

As part of its strategy, DFS is currently trialling a number of Customer Distribution Centres ("CDCs") to partly replace its in-store warehouse model. CDCs are dedicated warehousing facilities that serve a number of stores in a given region. It is expected that the move to CDCs will allow the release of incremental retail space (c.400,000 sq. ft. in total) from existing in-store warehouses and allow DFS to increase warehousing and delivery efficiency, while also bringing significant distribution operational efficiencies, including potentially lower headcount and materially lower warehouse rents. It is estimated that 80% of DFS's stores have locations suitable for conversion to a CDC approach. The Group's ability to convert to this approach successfully depends on a number of factors, including its ability to identify and introduce suitable warehouse space on a timely and cost-effective basis and to successfully utilise its increased retail space to increase sales. There can be no assurance that the Group will successfully implement the CDC network and failure to do so could materially adversely affect its business, results of operations, financial condition or prospects.

***The Group cannot guarantee that any expansion of its retail store portfolio and introduction of smaller format locations will be successful***

As part of the Group's growth strategy, it intends to continue increasing the number of its retail stores in the UK and the Republic of Ireland. The success of any expansion of its retail store portfolio will depend in part upon its ability to open and operate new stores in a timely and cost-effective manner while minimising cannibalisation (i.e. the reduction in the Group's sales as a result of the introduction of new stores competing with the Group's existing store and online portfolio).

Successful execution of any new store roll-out also depends upon a number of other factors, including the identification of suitable available store sites in optimal locations; the negotiation of acceptable financial terms; the hiring, training and retention of skilled personnel; the level of existing and future competition in areas where new stores are to be located; the Group's ability to integrate new stores into its operations on an economically acceptable basis; the capability of the Group's existing information technology and distribution systems to accommodate new stores; and general macroeconomic conditions in the UK and the Republic of Ireland. Historically there has been, and the Directors anticipate that in the future there will continue to be, significant competition among retailers for desirable store sites, which may impact the speed with which the Group can locate new store sites and increase the rents payable for such new stores. There can be no assurances that the Group will be able to open new stores on a timely or profitable basis or that it will be able to secure store sites on acceptable terms or at all.

The Group's growth strategy also involves the roll-out of smaller format stores, displaying fewer products than are generally displayed across its current retail store network. The Group's ability to expand its network successfully by opening smaller format stores that prove to be profitable depends on its ability to select appropriate product ranges for display, effectively market its products within smaller retail locations and identify customer demand in different geographic areas. There can be no assurance that the Group will successfully implement this expansion and failure to do so could materially adversely affect its business, results of operations, financial condition or prospects. The opening of such smaller format stores could also result in the diversion of sales from the Group's existing stores creating an over-saturation of the market, which may cause a reduction in sales at affected stores.

***The Group cannot ensure that its brand expansion strategy will be successful***

As part of its strategy, the Group has recently expanded its brand portfolio, both through acquisitions of brands such as Sofa Workshop and dwell and external partnerships, and has strategies in place for further investment. DFS's ability to further expand its brand offering successfully depends on its ability to effectively market its brand portfolio in accordance with customer demand and select appropriate brand partners and products. There can be no assurance that either existing or future brand partnerships will be

successfully maintained or implemented and failure to do so could materially adversely affect the Group's business, results of operations, financial condition or prospects.

***The Group cannot ensure that any expansion into new jurisdictions will be successful***

As part of its growth strategy, the Group may explore expansion opportunities in new markets outside the UK and the Republic of Ireland. It has recently opened a store in the Netherlands. It is also initially reviewing, and has taken preliminary steps in respect of, expansion opportunities in certain other jurisdictions.

Any expansion into markets outside existing markets would expose the Group to a variety of risks, including: different regulatory requirements; different customer preferences; complications with staffing and managing foreign operations; weak lender appetite for consumer credit offering; fluctuations in currency exchange rates; potential political and economic instability; potential difficulties in enforcing contracts and intellectual property rights; and the potential for higher rates of fraud and adverse tax consequences. DFS's management has limited experience with the legal and regulatory regimes of jurisdictions other than the UK and the Republic of Ireland and their consequences for the Group's business. Moreover, the Group may be unable to foster and maintain its culture in connection with any expansion of its operations into markets outside the UK and the Republic of Ireland.

There is also a risk that markets outside the UK and the Republic of Ireland, and in particular the retail upholstered furniture market, may not develop as quickly as anticipated, or at all. The development of such markets is subject to political, social, regulatory and economic forces beyond the Group's control. The Group's estimates of the potential future traffic and conversion rates in new geographic markets are based on a variety of assumptions which may prove to be inaccurate. To the extent that the Group overestimates the potential of a new geographic market, incorrectly judge the timing of the development of a new geographic market or fails to anticipate the differences between a new geographic market and the UK and the Republic of Ireland, its attempts to expand into new geographic markets may be unsuccessful and may have a material adverse effect on its business, financial condition and results of operations.

***DFS generally has limited contractual arrangements with its external furniture manufacturers, which could limit DFS's ability to seek damages or make other legal claims against them or to ensure continuity of supply***

DFS has recently rolled out a programme of entry into quality level agreements ("QLAs") with 13 of its external furniture manufacturers. These agreements define DFS's quality requirements and are intended to be renewed annually and apply for the Group's financial year. However, although DFS places a high value on long-term relationships with its suppliers, generally it does not enter into any formal contractual or volume arrangements with external furniture manufacturers, who in Financial Year 2014 produced approximately 71% of the products that its customers bought (by volume). Given the absence of any contractual agreements on price and volume, DFS negotiates fixed prices with these manufacturers on a per-model basis, and then pays for finished products as customer orders are delivered to DFS. DFS has no contractual remedy if it suffers economic loss pursuant to these arrangements with manufacturers. Further, as DFS's relationships with many of its suppliers are not contractual, they could terminate at any time. If one of the suppliers from whom DFS sources a large percentage of its materials decides not to continue to engage in business with DFS, the Group may suffer material disruptions to continuity of supply and a resulting negative impact on its ability to meet demand or efficiently fill orders.

***The Group is dependent upon the availability of raw materials and the ability of its third party manufacturers in continental Europe and Asia to meet its requirements; any failures by these producers to meet such requirements, or the unavailability of suitable producers or raw materials at reasonable prices or at all may negatively impact the Group's ability to deliver quality products to its customers on a timely basis or result in higher costs or reduced sales***

In Financial Year 2014, DFS sourced c.60% of its products from third party manufacturers located in continental Europe and Asia. Although DFS places a high value on long-term relationships with its suppliers, generally it does not seek to have long-term contracts but, instead, conducts business on an order-by-order basis. Therefore, it competes with other companies for the production capacity of independent manufacturers. DFS regularly depends upon the ability of third party manufacturers to secure a sufficient supply of raw materials, adequately finance the production of goods ordered and maintain sufficient manufacturing and shipping capacity. Although DFS monitors production in third party manufacturing locations, it cannot be certain that it will not experience operational difficulties with its manufacturers, such as the reduction of availability of production capacity, errors in complying with

product specifications, insufficient quality control, failures to meet production deadlines or increases in manufacturing costs. Such difficulties may negatively impact DFS's ability to deliver quality products to its customers on a timely basis, which may, in turn, have a negative impact on its customer relationships and result in lower sales.

DFS and its manufacturers purchase substantial amounts of timber, fabric, leather, upholstery filling material/foam, hardware, dye/finishing materials and other raw materials for use in the manufacturing of DFS's furniture products. Many of the raw materials used are available from a number of suppliers. However, the producers of some of these raw materials enjoy significant pricing power. The price and availability of certain raw materials have fluctuated in the past, and may fluctuate in the future, depending on a variety of factors, including crop yields, weather, supply conditions, government regulation, war, terrorism, labour unrest, global health concerns, the economic climate, global demand for raw materials, the cost of petroleum and other unpredictable factors. Additionally, costs of third party providers or DFS's transportation costs may increase due to these same factors. Any significant increase in the price of raw materials or decrease in the availability of raw materials could cause delays in product deliveries to DFS's customers, which could have an adverse impact on its customer relationships and/or increase its costs, some or all of which it may be unable to pass on to its customers.

The occurrence of any of the above could negatively affect the cost of the Group's production, which in turn would adversely affect its business and brand reputation.

***A loss of key personnel or of the Group's ability to attract and retain experienced employees, as well as the associated higher labour costs, could adversely affect its business***

The Group's business is highly dependent upon key senior management personnel who have extensive experience and knowledge of the UK retail and manufacturing industry. The successful implementation of its strategy depends on the continuing availability of senior management and its ability to continue to attract, motivate and retain other highly qualified and dependable employees, for whom it competes with other retailers. If members of the Group's senior management depart, DFS may not be able to find effective replacements in a timely manner, or at all, and its business may be disrupted or damaged. In addition, the loss of key members of senior management to competitors could have a material adverse effect on the Group's competitive position within the upholstered furniture retail market.

The Group also faces the challenge of attracting, developing and retaining the right calibre of staff for its product design team, retail stores, manufacturing plants, distribution centres and aftermarket services teams while controlling its labour costs. The turnover rate in the retail manufacturing and distribution industry is relatively high, and individuals of the required quality to fill positions may be in short supply in some areas. The Group's ability to support its strategy may be limited by its ability to employ, train, motivate and retain sufficient skilled personnel such as manufacturing staff, store managers, aftermarket service providers and product designers. There can be no assurance that any of these key personnel will continue to be employed by the Group or that it will be able to attract and retain qualified personnel in the future. The Group's ability to meet its labour needs, while controlling labour costs, is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, prevailing wage rates, minimum wage laws, health and other insurance costs, union membership levels and activity among its employees and changes in employment and labour laws or other workplace regulation. The failure to recruit and retain key senior management and other skilled or semi-skilled personnel could adversely impact the Group's sales performance, increase its wage costs, and adversely affect its business, results of operations, financial condition, or prospects. The supply of such employees is limited and competition to hire and retain them results in higher labour costs, which could adversely affect the Group's profitability.

Furthermore, one of the Group's employee training programmes is part government funded. Changes in governmental policy affecting the provision of such funding could lead to higher funding costs that the Group may not be able to pass on to its consumers. As a result, if the Group wished to continue with the government funded elements of the scheme, it would have to make up these costs to continue its training programme, which in turn could adversely affect its profitability.

***Currency fluctuations and hedging risks could materially adversely affect the Group's earnings and cash flow***

The Group's business is subject to risks due to fluctuations in currency exchange rates. 25% of DFS's product purchases are paid in foreign currencies. US dollars accounted for 24% of total purchases in Financial Year 2014, with some purchases also made in Euro (1% of total purchases in Financial Year

2014). DFS's sales are denominated primarily in pounds sterling, and it reports its consolidated financial results in pounds sterling. The exchange rate between US dollars or Euro and pounds sterling has fluctuated in recent years and may fluctuate significantly in the future and the Group could be adversely affected by any future unfavourable shifts in currency exchange rates. Although it engages in foreign currency hedging and makes some sales in Euros, this may not adequately protect its operating results from the effects of exchange rate fluctuations or may limit any benefit that it might otherwise receive from favourable movements in exchange rates.

***The Group may not be granted, or may be granted subject to restrictions, permission to carry on regulated consumer credit activities***

Certain companies in the Group, at present DFS Trading Limited and Sofa Workshop, are authorised to promote and arrange credit for customers from third party finance providers. Following transfer of responsibility for the regulation of consumer credit activities from the Office of Fair Trading (the "OFT") to the FCA in April 2014 and in common with all upholstery industry competitors, the Group has operated under an interim permission regime that allows companies that have previously been regulated by the OFT to continue trading while transitioning across to the FCA regime. The Group's interim permission from the FCA to carry on consumer credit-related regulated activities will need to be replaced with a limited permission. There is a risk that this permission may not be granted or may only be granted subject to restrictions, with which the Group will need to comply.

The FCA will monitor the Group's ongoing compliance with both the FCA requirements relating to consumer credit related activities and the requirements that apply under the Consumer Credit Act 1974. If these requirements are not met this could lead to the FCA imposing restrictions on or terminating the Group's limited permission.

The Directors believe DFS's IFC consumer financing is a fundamental part of its customer proposition, and has been a consistent feature of the UK upholstery market since its introduction in the UK in 1986. IFC allows customers to spread the cost of purchase of higher priced furniture over manageable monthly payments with no interest or fees, and it can also facilitate incremental purchases such as additional furniture items and material upgrades. According to an independent survey conducted on behalf of DFS, c.15% of DFS's customers cite IFC as a key reason for coming to DFS and approximately 65% of DFS's sales by value are financed using DFS's IFC. Thus any restriction by the FCA on the Group's consumer credit activities, or on its insurance mediation activities, could negatively affect the Group's customer proposition, which in turn would adversely affect its business, financial condition, results of operation and brand reputation.

***The Group may not be granted, or may be granted subject to restrictions, permission to carry on regulated insurance mediation activities***

The Group offers enhanced product warranty insurance. Under applicable law, whilst sofa care products are insurance products, the sale of such products is not regulated by the FCA as long as the entities offering it do not otherwise carry on a regulated activity. Therefore, the Group currently does not need to be authorised by the FCA in relation to the sales of the warranty insurance. However, once the relevant Group companies obtain limited permission from the FCA in relation to their consumer credit activities, they may no longer benefit from this exemption. The Group may, therefore, need to be either authorised for insurance mediation activities, or be an appointed representative of an authorised firm. In the latter case, amendments to the Group's existing agreements in relation to sofa care insurance products would be required to ensure that they comply with the FCA's prescribed terms for appointed representative agreements. As the provision of enhanced product warranty insurance is a material aspect of the Group's business, any failure by the Group to become an appointed representative or to become authorised for insurance mediation activities by the FCA could negatively affect the Group's customer proposition. In addition, this would adversely affect the Group's business, financial condition and results of operations.

***Consumer-related legislation and various government regulations could affect the Group's trading operations***

In the UK, the Group is subject to regulation by, *inter alia*, the FCA, the CMA, the ASA and the ICO and must comply with consumer related legislation in terms of advertising style and content, the nature of products supplied, customer service approach and processes and data protection. In 2013 DFS was investigated by the OFT (the predecessor of the CMA in this regulatory role) in relation to the promotional pricing of DFS's products. The investigation did not lead to any adverse findings (with DFS

confirming its commitment to existing pricing practices) and resulted in no action being taken against the Group. Such investigations can be a result of adverse actions by or publicity in respect of another participant in the same market as the Group and might not necessarily result from any action or omission of the Group. A regulator may determine that the Group has failed to comply with applicable laws, regulations or rules or that it has not undertaken corrective action required by that regulator. The impact of being found to be non-compliant in any such inquiry and/or investigation is difficult to assess or quantify and would depend on which regulatory regime was involved and the disciplinary/enforcement powers of the regulator responsible for the supervision of that particular business. Such inquiries or investigations could result in adverse publicity for, or negative perceptions being created regarding, the Group's business and affect its relationships with regulators and current and potential customers and suppliers, as well as diverting management's attention.

As approximately 65% of DFS's sales by value are financed through its IFC offering, any change in law or regulation or in interpretation of law or regulation by the FCA could have a material adverse effect on its business, prospects, financial condition and results of its operations. Furthermore, any changes in the consumer credit regulatory landscape could expose it to the risk of breach and regulatory proceedings could result in a public reprimand, substantial monetary fines or other sanctions.

In July 2014 the FCA published the final findings of its market study of the general insurance add-on market. The general insurance add-on market comprises the sale of general insurance products which are sold alongside other products as an 'add-on'. The FCA's findings were that competition in the markets for general insurance add-ons is not effective and that they intend to intervene in respect of the supply of general insurance add-ons. The FCA will begin consultation on proposed remedies in early 2015. DFS commonly offers 'add-ons' of enhanced product warranty insurance policies to consumers when selling upholstered furniture. This is a sales method which contributes to the Group's profitability. Regulation of the use of such add-ons by the FCA or another comparable regulatory authority could have a negative effect on the Group's business, prospects, financial condition and results of operations.

DFS's operations are also subject to governmental regulation concerning, among other things, export and import quotas and other customs regulations; consumer protection; the advertisement, promotion and sale of merchandise; product safety (including fire retardancy); the health, safety and working conditions of the Group's employees; the safety of the Group's stores and their accessibility for the disabled; and DFS's competitive and marketplace conduct.

The Group's failure to comply with the provisions of such laws, rules or regulations may give rise to civil or criminal liability (with consequences including public censure or financial penalties), result in the imposition of disciplinary sanctions by such governmental authorities, impair the enforceability of certain consumer agreements or give rise to the loss of permission from the FCA, and more generally may impair the Group's reputation in the upholstered furniture retail market in the UK. See Section C (*Regulatory Overview*) of Part VII (*Information on the Group and the Industry in which it operates*). Furthermore, if the relevant laws, regulations, codes of practice or regulators' practice were to change to offer consumers greater rights and remedies, or place new or enhanced obligations or restrictions on the Group, its business, financial condition, results of operations and cash flows could be adversely affected.

***Changes to search engines' algorithms or terms of services could cause the Group's websites to be excluded from or ranked lower in natural search results***

In October 2014, c.30% of DFS's online customers accessed DFS's websites by clicking on a link contained in search engines' "natural" listings (i.e., listings not dependent on advertising or other payments). Search engines typically do not accept payments to rank websites in their natural listings and instead rely on algorithms to determine which websites are included in the results of a search query. The Group endeavours to enhance the relevancy of its websites to common consumer search queries and thereby improve the rankings of the Group's websites in natural listings, a process known as search engine optimisation ("SEO"). Search engines frequently modify their algorithms and ranking criteria to increase the relevance of their natural listings. These algorithms and ranking criteria may be confidential or proprietary information, and the Group may not have complete information on the methods used to rank its websites. If the Group is unable to recognise and adapt quickly to such modifications in search engine algorithms, or if the effectiveness of the Group's SEO activities is affected for any other reason, the Group could suffer a significant decrease in traffic to its websites and, in turn, conversion rates and revenue, particularly since transactions effected by all online customers generate higher net margins for the Group as there are lower associated indirect costs such as rent and rates. As part of their terms of service, search

engines may also prohibit the use of any software, process or service which sends automated queries to determine the ranking of a website or webpage (an important tool in developing successful SEO techniques), or the use of particular methods deemed by the search engine to be manipulative or deceptive. A violation of a search engine's terms of services may result in a website's exclusion from that search engine's natural listings. If a search engine were to modify its terms of service or interpret existing or modified terms of service in a manner such that the Group's SEO practices were deemed to violate such terms, the Group's websites could be excluded from the search engine's natural listings. Such exclusion could significantly affect the Group's ability to direct higher margin customer traffic to the Group's websites and materially adversely affect the Group's business, financial condition, results of operations and prospects.

***A disruption in the Group's information technology systems and/or website could adversely affect the Group's operations***

The Group uses information technology systems for, among other things, its business intelligence tools, hardware, network, applications, website, electronic store booking systems and its call centres. A significant portion of communications among Group personnel, customers, suppliers and other trading partners relies on the efficient performance of information technology systems. In particular, the Group's reputation and ability to attract customers and advertisers is significantly dependent on the reliable performance of its customer facing websites. The Group also stores sensitive data, including intellectual property, proprietary business information and personally identifiable information of its employees and the secure maintenance and transmission of this information is critical to its operations. The Group's ability to protect these processes and systems against unexpected adverse events is a key factor in continuing to offer consumers its full complement of products on time in an uninterrupted manner.

The Group's operations are vulnerable to interruption from a variety of sources, many of which are not within its control, such as: power loss and telecommunications failures; software and hardware errors, failures, defects, or crashes; computer viruses and similar disruptive problems; fire, flood, and other natural disasters; cyber-attacks on its network or damage to business intelligence tools, software and systems carried out by hackers or internet criminals; and the performance of third party vendors. Delays or interruptions in the delivery of the Group's products could result from unknown data, software, or hardware defects, insufficient capacity, or the failure of the Group's website hosting and telecommunications vendors to provide continuous and uninterrupted service. Moreover, a failure that causes the Group's websites to become unavailable could materially adversely affect foot traffic to the Group's stores, online product viewing opportunities and online sales, any of which could have a material adverse effect on the Group's business, profitability and results of operations. Interruptions in these systems, whether due to system failures, computer viruses, software errors or physical or electronic break-ins, could affect the security or availability of its websites and prevent or inhibit the ability of users to access the Group's services.

Since the Group's customers may rely on the Group's websites to preview its products, problems with the reliability, availability or security of its websites could damage the Group's businesses, harm its reputation, result in a loss of customers and advertisers, result in additional costs and lead to a reduction in in-store footfall, any of which could harm the Group's financial condition.

***Compliance with and liability under environmental, health and safety laws and regulations affecting the Group's properties could impose substantial costs upon it and could subject it to fines and penalties***

The Group's operations and properties are subject to national, local and EU laws and regulations related to environmental, health and safety protection. Laws and regulations that may affect its business include those governing remediation of contaminated soil, groundwater and buildings, water supply and use, water discharges, air emissions, waste management, noise pollution, asbestos handling and removal, the generation, storage, handling and transportation of hazardous materials, and workplace health and safety. Environmental, health and safety laws and regulations have tended to become more stringent and more expansive over time, and enforcement has tended to increase over time. Compliance with future requirements could result in substantial costs to DFS and could therefore have an adverse effect on its business, financial condition or results of operations.

Based on currently available information, the Directors are not aware of any material non-compliance with current environmental, health and safety regulations. However, from time to time it may face regulatory enforcement based on its alleged non-compliance with such laws and regulations, with possible sanctions

including mandatory shut-downs, damages, criminal prosecutions and injunctive action, which could have an adverse effect on the Group's financial condition or results of operations. Some of the sites DFS owns or leases have a long history of industrial activities that could have resulted in contamination of the soil or groundwater with hazardous materials. Under some environmental, health and safety laws and regulations, the Group could be liable to investigate or remediate contamination at properties it owns or occupies, even if the contamination was caused by a party unrelated to it and not through its fault, and even if the activity causing the contamination was legal. The discovery of previously unknown contamination, or the imposition of new obligations to investigate or remediate contamination at the Group's properties, could result in substantial unanticipated costs. The Group could be required to establish or increase financial reserves for these obligations or liabilities. Further, although the Group monitors the exposure of its employees and neighbours to risks connected with the manufacture of its products and other aspects of the workplace, future health claims actually or allegedly resulting from past, present or future exposure to hazardous materials cannot be excluded (such as to asbestos, which is present in some of the Group's buildings). The Group could be subject to claims by government authorities, individuals and other third parties seeking damages for alleged personal injury or property damage resulting from hazardous substance contamination or exposure caused by its operations, and its insurance may not be sufficient to cover these claims.

***Compliance with privacy and information laws and requirements could be costly, and a breach of information security or privacy could adversely affect the Group's business***

The regulatory environment governing the Group's use of individually identifiable data of customers, employees and others is complex. Privacy and information security laws and requirements change frequently, and compliance with them may require the Group to incur costs to make necessary systems changes and implement new administrative processes. If a data security breach occurs, the Group's reputation could be damaged and it could experience lost sales, fines or litigation.

***Residual liabilities may remain in relation to the Group's previous payment protection insurance ("PPI") offerings***

DFS previously earned insurance commission income on the sale of PPI to customers as an add-on to IFC sales (historically up to £13 million in Financial Year 2005)<sup>1</sup>. Its PPI offerings provided insurance coverage to customers in circumstances (such as sickness, unemployment or death) that may have prevented them from servicing their payment obligations during the finance term. Between September 2007 and November 2008, the FSA conducted an investigation into the Group's records and practices with respect to its PPI offerings to customers, particularly in relation to DFS's compliance with the conduct of business rules applicable to sales of this type of financial product from January 2005. See Section C (*Regulatory Overview*) of Part VII (*Information on the Group and the Industry in which it operates*). The FSA concluded in November 2008 that no mandatory disciplinary regulatory action would be taken with respect to DFS's PPI offerings at that time, and took no further subsequent action. DFS elected to cease the sale of PPI from 23 March 2012 and applied for cancellation of its permission under Part IV of the Financial Services and Markets Act 2000, which was granted with effect from 28 December 2012. The volume of customer complaints regarding PPI increased significantly from March 2012 as a result of the publication of FSA guidelines on PPI complaints, increased publicity regarding PPI claims and the proliferation of companies making claims on behalf of customers and consequently DFS has had to deal with historical complaints within a specified timeframe. It may still receive further customer complaints regarding PPI which may collectively result in a significant cost to the business in the handling, assessment and settlement of such complaints. In connection with the Group's PPI related customer remediation programme, it accrued a reserve of £3.8 million<sup>1</sup> in Financial Year 2009 (and continues to hold a reserve that is equivalent to more than three times the current annual run rate of remediation costs) and it has not considered there to be a need for any further reserves since then. See Section C (*Regulatory Overview—PPI Investigation*) of Part VII (*Information on the Group and the Industry in which it operates*). Further, any additional adverse publicity, changes in consumer perceptions, litigation, existing or future government investigation or inquiry, or change in the laws or regulations relating to PPI, or any actions that the Group may take, or be forced to take, in relation to or as a result of the foregoing, could adversely affect consumer behaviour, or have an adverse effect on the Group's results of operations.

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<sup>1</sup> This financial information has been prepared in accordance with UK GAAP and audited in accordance with auditing standards generally accepted in the UK.

***If the Group does not continue to meet credit and debit card provider requirements, it may lose the ability to accept or process such payments or receive funds from credit and debit card providers for purchases already made***

A substantial portion of the Group's customers pay for their purchases with a credit or debit card. For credit and debit card payments, the Group pays interchange and other fees, which may increase over time and raise DFS's operating expenses and adversely affect its profits. The Group is also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for the Group to comply. These arrangements require it to maintain certain liquidity levels, and, under the terms of these agreements, a failure by it to maintain adequate levels of liquidity (including under a scenario whereby it accumulates large quantities of customer refunds) may subject it to fines and higher transaction fees, the loss of its ability to accept credit and debit card payments from its customers, or the cessation of payments from credit and debit card providers to it for purchases already made. Any of these scenarios may have a material adverse effect on the results of the Group's operations or financial condition.

***If the Group is unable to renew or replace its store leases or enter into leases for new stores on favourable terms, or if any of its current leases are terminated prior to the expiry of their stated term and the Group cannot find suitable alternate locations, its growth and profitability could be harmed***

The Group currently leases all of its store locations. These leases expire at various dates ranging from less than one year to approximately 20 years. The leases provide for rent reviews, generally every five years, at which time the Group's rents could increase. The Group's ability to maintain its existing rental rates during renewals or to renew any expired lease on favourable terms will depend on many factors that are not within its control, such as conditions in the local real estate market, competition for desirable properties and the relationships with current and prospective landlords. As part of its routine forecasting and budgeting procedures, the Group has made certain assumptions about future rent reviews in respect of its leasehold property. If rent reviews were to be agreed at rates higher than currently anticipated, there would be an adverse impact on the Group's anticipated financial performance. In addition, as all of its store properties are leasehold, there is a risk that the leases may not be renewed in due course or at all due to, among other factors, the state of the real estate market at such time and the competition for retail space. This would result in additional costs being incurred in selecting appropriate or equally suitable alternative premises and relocating to them and there is a risk that such alternative premises may not be available. If the Group's lease payments increase or it is unable to renew existing leases or lease suitable alternative locations, its profitability may be significantly harmed.

***The Delphi Leases contain provisions which, if triggered, could adversely affect its business***

Leases of 27 of the Group's properties, including 20 of its stores, with various landlords who purchased the leases from Delphi Properties Limited (formerly known as DFS Properties Limited) (the "**Delphi Leases**") contain cross-default provisions. Under the Delphi Leases, the relevant landlord may forfeit any respective lease if: any rent or other charges remain unpaid for 21 days after becoming due; the tenant breaches a tenant covenant; the tenant becomes insolvent; the tenant suffers distress with respect to any goods; or any other Delphi Lease is forfeited (unless relief against forfeiture has been granted under such forfeited lease). This last ground has the effect that all but five of the Delphi Lease sites can be forfeited by the relevant landlord for default under another lease in respect of which they are also landlord. There is, therefore, a risk that if one of the Delphi Leases is forfeited, a significant proportion of the Group's property portfolio may also be at risk, which could potentially have a significant adverse effect on the DFS business. Three of the Delphi Leases (being Alfreton, Birmingham and Carlisle) contain development rights, pursuant to which the relevant landlord has the right to request that a portion of a particular property be surrendered for development. Notwithstanding the surrender of portions of the Group's properties, the Group would be required to continue to pay the same level of rent for each entire property as if the surrender had not occurred. If this right were to be exercised, although the landlord is required to consult with DFS to minimise the impact on trade from DFS's retained areas, it could still have an adverse effect on the DFS business.

***The Group is exposed to the risk of dilapidation liabilities***

The Group is also exposed to the risk of dilapidation claims made by landlords during or on the expiry of leases in the Group's property portfolio and to liabilities in respect of leases that have been disposed of by the Group. These could have an adverse effect on the Group's business, prospects, results of operations and financial condition.

***Product liability and product recall may adversely affect the Group's results of operations and may not be covered by its product liability insurance***

The Group requires its manufacturers and suppliers to satisfy certain standards regarding the quality and specification of its products. However, even though the Group has never undertaken any major product recalls, it is possible that one or more of its internally manufactured, or one or more of its external suppliers', products may, at some point, malfunction or otherwise cause, or have the risk of causing, injury or damage in a way that exposes the Group to liability and/or requires it to undertake recall and repair efforts. In the event of a product recall being required in circumstances where the financial consequences are not satisfied by one of the Group's manufacturers or suppliers, or covered by product liability insurance, it may have an adverse effect on the Group's financial performance and may also have an adverse effect on its reputation.

Even if an event causing a product recall proves to be unfounded or if a product liability claim against the Group is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that the products the Group sells caused injury or damage, or any product recall or allegation that the products it sells are defective, could adversely affect its reputation with existing and potential new customers and its corporate and brand image. Any such event could, therefore, have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

***The Group is exposed to fluctuations in interest rates through its borrowings***

The Group's new debt facilities will bear interest at a variable rate linked to LIBOR, and the Group will therefore be exposed to movements in interest rates. DFS currently holds interest rate swaps with respect to a portion of its existing indebtedness under which fixed interest payments will be made. These existing arrangements will not expire upon the refinancing of the Group following Admission. However, these arrangements will not cover the vast majority of the Group's exposure to movements in LIBOR. While the Group is currently considering increasing the size of its interest rate hedging to reduce exposure to movements in LIBOR, there can be no assurance that the Group will adopt such measures. In addition, interest rate fluctuations affect the return on its cash and other short-term investments. There can be no guarantee that future interest rate fluctuations will be effectively hedged by the Group's current or future use of interest rate swaps or other hedging instruments to manage interest rate exposure on its borrowings. Furthermore, such hedging instruments may result in the Group paying higher interest rates than the prevailing variable interest rates from time to time. Movements in interest rates could have a material adverse effect on any unhedged borrowing exposure or on the returns generated by its investments, either of which could adversely affect the Group's business, results of operations, financial condition, or prospects.

***The Group's results may be adversely affected by fluctuations in energy costs***

Energy costs have fluctuated dramatically in the past. These fluctuations may result in an increase in the Group's transportation costs for distribution, utility costs for its retail stores and costs to manufacture and/or purchase products for its sale. A continual rise in energy costs could adversely affect consumer spending and demand for the Group's products and could increase its operating costs, both of which could have a material adverse effect on the Group's financial condition and results of operations.

***The Group may be required to remunerate employees and former employees on the basis of recent interpretations of the Working Time Regulations 1998 relating to holiday pay***

Recent European case law suggests that commission should be taken into account when calculating statutory holiday pay under the Working Time Regulations 1998. A UK tribunal ruling on this issue is expected in February 2015. In addition, the UK Employment Appeals Tribunal recently concluded that employers should also include compulsory overtime within the calculation of statutory holiday pay.

As a result of these decisions, the Group, in common with all employers who pay commission and compulsory overtime, was faced with a potentially increased financial burden by having to factor in these payments (and potentially other regular payments intrinsically linked to workers' duties, such as standby and call-out payments and other allowances), when calculating statutory holiday pay. The decisions also created a potential historical liability in respect of previous series of underpayments of statutory holiday pay (where the payments within the series are not broken by a gap of three months or more).

The Group has already adjusted its compensation structure for its employees following these court and tribunal rulings, including making additional payments in respect of its assessed potential historical liability. Whilst the decision that claims by workers for underpayment of statutory holiday pay will be out of time if there has been a break of more than three months between successive underpayments may significantly limit the extent to which workers can claim any historical underpayment of holiday pay, an adverse finding against the Group in respect of historical periods may have an adverse financial effect on the Group.

***The Group will incur additional costs in the Company's transition to a public company and Group management will be required to devote substantial time to new compliance matters***

As a newly listed public company, the Company will incur significant legal, accounting and other expenses, including the costs of recruiting and retaining non-executive directors, costs resulting from public company reporting obligations and the rules and regulations regarding corporate governance practices, including the listing requirements of the London Stock Exchange. There can be no assurance that, under a changed Board structure and ownership, and in an environment where the entire Group is subject to greater scrutiny and disclosure requirements, it will be able to manage its operations in the same manner as it has done as a private business under private ownership. In particular, the Group will be subject to increased regulatory obligations as a result of being listed and management will need to devote a substantial amount of time to ensure that the Group's business complies with all of these requirements. In addition, the reporting requirements, rules and regulations will increase the Group's legal and financial compliance costs and make some activities more time-consuming and costly.

**Risks relating to the Offer and the Ordinary Shares**

***The price of the Ordinary Shares may fluctuate significantly and investors could lose all or part of their investment***

The share price of quoted companies can be highly volatile, which may prevent Shareholders from being able to sell their Ordinary Shares at or above the price they paid for them. The Offer Price may not be indicative of prices that will prevail in the trading market and investors may not be able to resell the Ordinary Shares at or above the price they paid for them. The market price for the Ordinary Shares could fluctuate significantly for various reasons, many of which are outside the Group's control. These factors could include the Group's performance, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions.

***A liquid market for the Ordinary Shares may fail to develop***

Following Admission there may not be a liquid market for the Ordinary Shares. Prior to Admission, there has been no public market for the Ordinary Shares, and there is no guarantee that an active trading market will develop or be sustained after Admission. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares may be adversely affected.

***There is no guarantee that dividends will be paid by the Company***

Any dividend on the Ordinary Shares will be limited by the Group's performance. The Company's dividend policy is described in Part VII (*Information on the Group and the industry in which it operates*) but should not be construed as a dividend forecast. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally the Company's generation of distributable profits and the receipt of sufficient dividends from its subsidiaries. The Group's members may be precluded from paying dividends by various factors, such as their own financial condition, restrictions in existing or future financing documents to which they are party or applicable law. Under English law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. In addition, the Company may not pay dividends if the Directors believe this would cause the Company to be inadequately capitalised or if, for any other reason, the Directors conclude it would not be in the best interests of the Company. Any of the foregoing could limit the payment of dividends to Shareholders or, if the Company does pay dividends, the amount of such dividends.

***The Advent Shareholder will retain a significant interest in the Company following Admission and its interests may differ from those of the other Shareholders***

Following Admission and assuming: (i) that the Offer Price is set at the mid-point of the Price Range; (ii) the Offer Size is set at the mid-point of the Offer Size Range; (iii) no exercise of the Over-allotment

Option; and (iv) the numbers of Existing Ordinary Shares to be sold by each of the Selling Shareholders pursuant to the Offer are as set out in paragraph 10.2 of Part XIV (*Additional Information*), the Advent Shareholder is expected to be interested in approximately 49.5% of the Company's issued share capital. The Advent Shareholder has entered into the Relationship Agreement, which governs its conduct in relation to the Company. The interests of the Advent Shareholder and the other Shareholders may not be aligned. Furthermore, as the Advent Shareholder is expected to control approximately 49.5% of the voting rights in the Company, it will be able to influence the outcome of certain matters by blocking special resolutions of the Company, including resolutions amending the Articles, disapplying statutory pre-emption rights, and requesting court approved capital reductions.

The Advent Shareholder and its affiliates (including the Advent Funds and the Advent Companies) may make acquisitions of or investments in other businesses in the same sectors as DFS. These businesses may be, or may become, DFS's competitors. In addition, funds or other entities managed or advised by Advent (or the same entities or individuals which manage or advise the Advent Funds) may be in competition with DFS on potential acquisitions of, or investments in, certain businesses. Although applicable law, the terms of the Directors' appointments and the Relationship Agreement contain provisions seeking to restrict Directors appointed by the Advent Shareholder from voting on matters where there are conflicts of interest and from using information obtained in the course of their appointments, these and other measures may not be sufficient to safeguard the interests of other Shareholders.

In addition, subject to or following the expiry of its lock-up undertakings, the Advent Shareholder could sell a substantial number of Ordinary Shares in the public market following the Offer. Such sales, or the perception that such sales could occur, may materially adversely affect the market price of the Ordinary Shares. This may make it more difficult for Shareholders to sell the Ordinary Shares at a time and price that they deem appropriate, and could also impede the Company's ability to issue equity securities in the future.

***Future issuances of Ordinary Shares may dilute the holdings of Shareholders and may depress the price of the Ordinary Shares***

Other than in connection with Admission or pursuant to employee share plans or other similar incentive arrangements, the Company has no current plans for an offering of Ordinary Shares. However, it is possible that the Company may decide to offer additional Ordinary Shares in the future. Future sales or the availability for sale of substantial amounts of Ordinary Shares in the public market could dilute the holdings of Shareholders, adversely affect the prevailing market price of the Ordinary Shares and impair the Company's ability to raise capital through future offerings of equity securities.

***Shareholders outside the UK may not be able to participate in future equity offerings***

The Companies Act and the Articles provide for pre-emptive rights to be granted to Shareholders on the offer of equity securities for cash, unless such rights are disapplied by a Shareholder resolution. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by Shareholders in future offerings. In particular, Shareholders in the US may not be entitled to exercise their pre-emption rights unless such an offering is registered under the Securities Act or made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any Shareholder who is unable to participate in future equity offerings may suffer dilution.

***Shareholders may have difficulty in effecting service of process on the Company or the Directors in the US, in enforcing US judgments in the UK or in enforcing US securities laws in UK courts***

The Directors are residents of countries other than the US. The Company is incorporated outside the US and its assets are located outside the US. As a result, it may not be possible for Shareholders to effect service of process within the US upon the Directors or on the Company, or to obtain discovery of relevant documents and/or the testimony of witnesses. US Shareholders may have difficulties enforcing in courts outside the US judgments obtained in US courts against the Directors or the Company (including actions under the civil liability provisions of the US securities laws). Shareholders may also have difficulty enforcing liabilities under the US securities laws in legal actions originally brought in jurisdictions located outside the US.

### PART III

#### DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS

<b>Directors</b> . . . . .	Richard Baker ( <i>Non-Executive Chairman</i> ) Ian Filby ( <i>Executive Director (CEO)</i> ) Bill Barnes ( <i>Executive Director (Finance Director)</i> ) Luke Mayhew ( <i>Senior Independent Non-Executive Director</i> ) Gwyn Burr ( <i>Independent Non-Executive Director</i> ) Julie Southern ( <i>Independent Non-Executive Director</i> ) Andy Dawson ( <i>Non-Executive Director</i> )
<b>Company secretary</b> . . . . .	Paul Walker
<b>Registered office and Directors' address</b> . . .	Rockingham Way Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA
<b>Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Underwriter</b> . . . . .	Jefferies International Limited Vintners Place, Upper Thames Street London, EC4V 3BJ
<b>Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Underwriter</b> . . . . .	UBS Limited 1 Finsbury Avenue London, EC2M 2PP
<b>Joint Bookrunner and Underwriter</b> . . . . .	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London, EC4M 7LT
<b>Co-Lead Manager and Underwriter</b> . . . . .	Joh. Berenberg, Gossler & Co. KG, London Branch 60 Threadneedle Street London, EC2R 8HP
<b>Co-Lead Manager and Underwriter</b> . . . . .	HSBC Bank plc 8 Canada Square London, E14 5HQ
<b>Legal advisers to the Company</b> . . . . .	<i>As to English and US law</i> Weil, Gotshal & Manges 110 Fetter Lane London, EC4A 1AY
<b>Legal advisers to the Joint Sponsors, Joint Global Co-ordinators, Joint Bookrunners, Co-Lead Managers and Underwriters</b> . . . . .	<i>As to English and US law</i> Freshfields Bruckhaus Deringer LLP 65 Fleet Street London, EC4Y 1HS
<b>Auditors and Reporting Accountant</b> . . . . .	KPMG LLP Arlington Business Park Theale Reading, RG7 4SD
<b>Registrar</b> . . . . .	Equiniti Limited Aspect House, Spencer Road Lancing, West Sussex, BN99 6DA

## PART IV

### EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS

#### Expected timetable of principal events

Latest date for receipt of applications by Intermediaries from their retail investor clients in respect of the Intermediaries Offer (exact time to be determined by the relevant Intermediary) . . . . .	4 March 2015
Latest time and date for receipt of completed application forms from the Intermediaries in respect of the Intermediaries Offer . . . . .	5.00 p.m. on 4 March 2015
Latest time and date for receipt of indications of interest from institutional investors in the Institutional Offer . . . . .	5.00 p.m. on 5 March 2015
Announcement of the Offer Price and the Offer Size, publication of the Pricing Statement and notification of allocations of Ordinary Shares <sup>1</sup> . .	7.00 a.m. on 6 March 2015
Commencement of conditional dealings in Ordinary Shares on the London Stock Exchange <sup>2</sup> . . . . .	8.00 a.m. on 6 March 2015
Admission and commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange . . . . .	8.00 a.m. on 11 March 2015
CREST accounts credited with uncertificated Ordinary Shares . . . . .	8.00 a.m. on 11 March 2015
Despatch of definitive share certificates (where applicable) <sup>3</sup> . . . . .	By 27 March 2015

*The times and dates shown in the table above are indicative only and are subject to change. All times are London times. If Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.*

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<sup>1</sup> The Offer Price and Offer Size will be set out in the Pricing Statement. The Pricing Statement will not automatically be sent to persons who receive this Prospectus but it will be available free of charge at the Company's registered office at Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA, until 14 days after Admission. In addition, the Pricing Statement will (subject to certain restrictions) be published online at [www.dfscorporate.co.uk](http://www.dfscorporate.co.uk).

<sup>2</sup> If Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

<sup>3</sup> No temporary documents of title will be issued. Underlying Applicants who apply to Intermediaries for Ordinary Shares under the Intermediaries Offer will not receive share certificates.

## Offer statistics

Offer Price Range (per Ordinary Share) <sup>1</sup> . . . . .	£2.45 to £3.10
Number of Existing Ordinary Shares in issue immediately prior to Admission (but following completion of the Reorganisation) <sup>2</sup> . . . . .	175,429,890
Expected minimum number of Ordinary Shares in the Offer (assuming no exercise of the Over-allotment Option) <sup>3,4</sup> . . . . .	79,044,857
• New Ordinary Shares (assuming no exercise of the Over-allotment Option) . . . . .	31,606,453
• Existing Ordinary Shares (assuming no exercise of the Over-allotment Option) . . . . .	47,438,404
Expected maximum number of Ordinary Shares in the Offer (assuming no exercise of the Over-allotment Option) <sup>3,5</sup> . . . . .	107,082,375
• New Ordinary Shares (assuming no exercise of the Over-allotment Option) . . . . .	39,991,838
• Existing Ordinary Shares (assuming no exercise of the Over-allotment Option) . . . . .	67,090,537
Minimum number of Ordinary Shares in issue following the Offer . . . . .	208,029,755
Maximum number of Ordinary Shares in issue following the Offer . . . . .	214,181,070
Number of Existing Ordinary Shares subject to the Over-allotment Option <sup>6</sup> . . . . .	13,909,183
Estimated gross proceeds of the Offer receivable by the Company . . . . .	£97,980,002
Estimated net proceeds of the Offer receivable by the Company . . . . .	£77,980,002
Estimated gross proceeds of the Offer receivable by the Selling Shareholders (assuming no exercise of the Over-allotment Option) <sup>2</sup> . . . . .	£159,319,896
Estimated net proceeds of the Offer receivable by the Selling Shareholders (assuming no exercise of the Over-allotment Option) <sup>2</sup> . . . . .	£153,743,684
Estimated market capitalisation of the Company at the Offer Price <sup>7</sup> . . . . .	£584,817,944
Expenses charged to the subscribers or purchasers of Offer Shares by the Company or the Selling Shareholders . . . . .	nil

<sup>1</sup> It is currently expected that the Offer Price will be set within the Offer Price Range. If the Offer Price is set above the Offer Price Range (or the Offer Price Range is revised higher), then prospective investors will have a statutory right to withdraw their offer to subscribe for or purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published via a Regulatory Information Service announcement or on such later date as may be specified in that announcement). In those circumstances the arrangements for withdrawing offers to subscribe for or purchase Ordinary Shares would be made clear in the announcement. The Company expects to publish the Pricing Statement containing the Offer Price and the Offer Size on or around 6 March 2015.

<sup>2</sup> Assuming the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range.

<sup>3</sup> It is currently expected that the Offer Size will fall within the Offer Size Range, such that the total number of Ordinary Shares comprised in the Offer represents between 79,044,857 and 107,082,375, being 38% and 50% respectively of the total number of Ordinary Shares in issue immediately following Admission (assuming no exercise of the Over-allotment Option). However, the Company does not know with certainty the exact number of New Ordinary Shares that will be issued by the Company or the number of Existing Ordinary Shares that will be sold by the Selling Shareholders and the number of Ordinary Shares comprised in the Offer may represent a higher or lower number than that indicated. If the Offer Size is set above or below the Offer Size Range, then prospective investors will have a statutory right to withdraw their offer to subscribe for or purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published via a Regulatory Information Service announcement or on such later date as may be specified in that announcement). In those circumstances the arrangements for withdrawing offers to subscribe for or purchase Ordinary Shares will be made clear in the announcement.

<sup>4</sup> Calculated on the basis that the Offer Price is set at the top of the Offer Price Range and on the assumptions that the total number of Ordinary Shares subject to the Offer represents 38% of the total number of Ordinary Shares in issue immediately following Admission and that there is no exercise of the Over-allotment Option.

<sup>5</sup> Calculated on the basis that the Offer Price is set at the bottom of the Offer Price Range and on the assumptions that the total number of Ordinary Shares subject to the Offer represents 50% of the total number of Ordinary Shares in issue immediately following Admission and that there is no exercise of the Over-allotment Option.

<sup>6</sup> Assuming the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range. The maximum number of such Ordinary Shares is, in aggregate, equal to 15% of the maximum number of Ordinary Shares comprised in the Offer.

<sup>7</sup> Assuming the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range. The market capitalisation of the Company at any given time will depend on the price of the Ordinary Shares at the time. There can be no assurance that the market price of an Ordinary Share will be equal to or exceed the Offer Price.

**PART V**  
**PRESENTATION OF INFORMATION**

**1 Notice to prospective investors**

**Prospective investors should rely only on the information in this Prospectus. No person has been authorised to give any information or to make any representations in connection with the Offer other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors, the Selling Shareholders, the Underwriters or any of their respective representatives. No representation or warranty, express or implied, is made by any of the Underwriters or any selling agent as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any of the Underwriters or any selling agent as to the past, present or future. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and PR 3.4.1 of the Prospectus Rules, neither the delivery of this Prospectus nor any subscription or sale made pursuant to the Offer shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group taken as a whole since the date hereof or that the information contained herein is correct as at any time subsequent to the earlier of the date hereof and any earlier specified date with respect to such information.**

**The content of this Prospectus is not to be construed as legal, business or tax advice. Each prospective investor should consult its own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to investing in Offer Shares.**

**Recipients of this Prospectus are authorised to use it solely for the purpose of considering an investment in Offer Shares and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in Offer Shares. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.**

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective investors of the Offer occurs prior to Admission or if this Prospectus contains any material mistake or substantial inaccuracy. This Prospectus has been approved by the FCA and made public in accordance with the Prospectus Rules, and any supplement hereto will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules. If a supplement to this Prospectus is published prior to Admission, investors shall have the right to withdraw their subscriptions and/or purchases made prior to the publication of such supplement. Such withdrawal must be done within the time limits set out in the supplement (if any) (which shall not be shorter than two clear business days after publication of such supplement).

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to any subscription, purchase or proposed subscription or purchase of any Offer Shares. Each prospective investor should consult with such advisers as needed to make its investment decision and to determine whether it is legally permitted to hold Offer Shares under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of any investment in Offer Shares for an indefinite period of time.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Directors, the Selling Shareholders, the Underwriters or any of their respective representatives that any recipient of this document should subscribe for or purchase Offer Shares. Prior to making any decision whether to subscribe for or purchase Offer Shares, prospective investors should read this Prospectus in its entirety and, in particular, Part II (*Risk factors*). In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this Prospectus, including the risks involved. Any decision to subscribe for or purchase Offer Shares should be based solely on this Prospectus and any supplement hereto.

Investors who subscribe for and/or purchase Offer Shares in the Offer will be deemed to have acknowledged that: (i) they have not relied on any of the Underwriters or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) they have relied solely on the information contained in this Prospectus;

and (iii) no person has been authorised to give any information or to make any representation concerning the Company, the Group or the Offer Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Directors, the Selling Shareholders, the Underwriters or any of their respective representatives.

None of the Company, the Directors, the Selling Shareholders, the Underwriters or any of their respective representatives or any of their representatives is making any representation to any offeree, subscriber or purchaser of Offer Shares regarding the legality of an investment by such offeree, subscriber or purchaser.

Jefferies has been appointed as Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Underwriter in connection with Admission and the Offer. UBS has been appointed as Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Underwriter in connection with Admission and the Offer. Numis has been appointed as Joint Bookrunner and Underwriter in connection with Admission and the Offer. Berenberg has been appointed as Co-Lead Manager and Underwriter in connection with Admission and the Offer. HSBC has been appointed as Co-Lead Manager and Underwriter in connection with Admission and the Offer. Jefferies, UBS, Numis and HSBC, each of which is authorised and regulated by the FCA in the UK, UBS and HSBC, each of which is authorised by the PRA and regulated by the FCA and the PRA, and Berenberg, which is authorised by the German Federal Financial Supervisory Authority (BaFin) and subject to limited regulation by the FCA, are acting exclusively for the Company and no one else in connection with the Offer and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer or any transaction or arrangement referred to in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by FSMA or the regulatory regime established thereunder, none of the Underwriters accepts any responsibility whatsoever, and makes no representation or warranty, express or implied, for the contents of this Prospectus, including its accuracy, completeness or for any related statement.

In connection with the Offer, each of the Underwriters and any of their respective affiliates, acting as an investor for its or their own account(s), may subscribe for or purchase Ordinary Shares, and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in Ordinary Shares and other securities of the Company or related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the Ordinary Shares being offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, dealing or placing by, each of the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s). None of the Underwriters intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

The Underwriters and their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to, the Company and the Selling Shareholders, for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Company, the Selling Shareholders and any of their respective affiliates in the future.

## **2 Financial information**

The Group's consolidated historical financial information in Part XI (*Historical financial information*) has been prepared in accordance with the requirements of the PD Regulation and the Listing Rules, and in accordance with IFRS. The conversion of the historical financial statements of the Company for the purposes of the Offer from UK GAAP to IFRS (effective for periods beginning on and after 31 July 2011) had various accounting effects, which are described in Part X (*Operating and Financial Review*).

Unless otherwise stated, financial information in this Prospectus has been extracted without material adjustments from the historical financial information contained in Part XI (*Historical financial*

information). In this Prospectus, the following definitions shall be used to refer to the Company's (or, where applicable, the relevant Group member's) financial periods:

“Financial Year 2005”	the 52 weeks to 30 July 2005;
“Financial Year 2009”	the 52 weeks to 25 July 2009;
“Financial Year 2010”	the 52 weeks to 31 July 2010;
“Financial Year 2011”	the 52 weeks to 30 July 2011;
“Financial Year 2012”	the 52 weeks to 28 July 2012;
“Financial Year 2013”	the 52 weeks to 27 July 2013;
“Financial Year 2014”	the 53 weeks to 2 August 2014;
“Q1 2014”	the 13 weeks to 26 October 2013;
“Q1 2015”	the 13 weeks to 1 November 2014;

The Company was incorporated in April 2010 in connection with the Acquisition. For the Financial Years 2012, 2013 and 2014, as well as Q1 2015, the historical financial information presented is of the Company and its consolidated subsidiaries prepared in accordance with IFRS and audited in accordance with auditing standards generally accepted in the UK. The historical financial information for Q1 2014 is unaudited. For Financial Year 2011, the financial information is of DFS Furniture Holdings plc (“**DFS Furniture Holdings**”) and its subsidiaries at the time and was prepared in accordance with UK GAAP and audited in accordance with auditing standards generally accepted in the UK. For the Financial Years 2005, 2009 and 2010, the financial information is of DFS Furniture Company Limited (“**DFS Furniture Company**”) and its subsidiaries at the time and was prepared in accordance with UK GAAP and audited in accordance with auditing standards generally accepted in the UK.

Following Admission, the Company will remain the ultimate holding company for the Group, which will report its results on the basis of the Company and its consolidated subsidiaries.

### 3 Non-IFRS measures

Presented in this Prospectus are various non-IFRS measures, including Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin.

- Gross Sales means the total amounts payable by external customers, without adjustment for the time value of money, 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. Gross Sales is stated net of returns and sales allowances and is recognised at the point the Group fulfils its commercial obligations to the customer;
- EBITDA is profit/(loss) before interest and tax, amortisation of intangible assets and depreciation of property, plant and equipment;
- Underlying EBITDA is EBITDA adjusted to exclude certain material, unusual or non-recurring items which the Directors believe are not indicative of the Group's underlying performance. These non-underlying items are disclosed separately in the income statement and include one-off costs associated with the Offer and start-up costs associated with the Group's recent acquisitions or the establishment of operations in new geographical territories;
- Underlying EBITDA Margin is: (a) Underlying EBITDA; divided by (b) revenue, with the quotient expressed as a percentage; and
- Adjusted EBITDA means Underlying EBITDA as adjusted for: (a) the re-allocation of a discretionary incentive payment to the period to which it relates; and (b) the exclusion of initial trading losses associated with newly acquired subsidiaries.
- Adjusted EBITDA Margin is: (a) Adjusted EBITDA; divided by (b) revenue, with the quotient expressed as a percentage;
- Gross Capital Expenditure is calculated by adding: (a) the “Acquisition of property, plant and equipment”; and (b) the “Acquisition of other intangible assets” line items in the Group's cash flow statement for a given Financial Period, as set out in Part XI (*Historical financial information*);

- Change in Working Capital is calculated by adding: (a) the “Share based payment expense”; (b) the “Increase in trade and other receivables”; (c) the “Increase in inventories”; (d) the “Increase in trade and other payables”; and (e) the “Decrease in provisions” line items in the Group’s cash flow statement for a given Financial Period, as set out in Part XI (*Historical financial information*);
- Free Cash Flow Generation is calculated by adding: (a) Adjusted EBITDA; (b) Gross Capital Expenditure; and (c) Change in Working Capital; and
- Cash Conversion is: (a) Free Cash Flow Generation, divided by (b) Adjusted EBITDA, with the quotient expressed as a percentage.

Each of Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion is a supplemental measure of financial performance that is not required by, or presented in accordance with, IFRS. Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion are not measures of performance under IFRS and you should not consider them as an alternative to: (a) revenue for the period (as determined in accordance with IFRS) as a measure of the Group’s operating performance; (b) cash flows from operating and financing activities as a measure to meet the Group’s cash needs; or (c) any other measures of performance under generally accepted accounting principles. You should exercise caution in comparing Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion as reported by the Group to the same or similar measures published by other companies.

The Directors believe that Gross Sales is a useful indicator of the Group’s overall activity in its market and can assist in comparing its performance to that of its competitors. The Directors believe that EBITDA is a useful indicator of the Group’s ability to incur and service its indebtedness and can assist securities analysts, investors and other parties to evaluate the Group. The Directors believe that Underlying EBITDA and Adjusted EBITDA are relevant measures for assessing the Group’s performance because they are adjusted for certain items which, the Directors believe, may not be indicative of the Group’s underlying operating performance. The Directors believe that Underlying EBITDA Margin and Adjusted EBITDA Margin are useful indicators to show trends in relative profitability of the business. The Directors believe that Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion are useful indicators to show the amount of operational cash generation and trends in operational cash generation.

In evaluating Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion, you are encouraged to evaluate each adjustment and the reasons the Directors consider it appropriate as a method of supplemented analysis. In addition, you should be aware that the Group is likely to incur expenses similar to the adjustments in this presentation in the future and that certain of these items could be considered recurring in nature. They also have limitations as analytical tools, and you should not consider them in isolation. Some of these limitations are:

- they do not reflect the Group’s cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, the Group’s working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments, on the Group’s debts;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often need to be replaced in the future and EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion do not reflect any cash requirements that would be required for such replacements;
- some of the non-underlying items that the Group eliminates in calculating EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion reflect cash payments that were made, or will in the future be made; and

- (f) the fact that other companies in the Group's industry may calculate Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion differently than the Group does, which limits their usefulness as comparative measures.

### **Gross Sales**

The following table shows how Gross Sales are derived from the historical financial information of the Group contained in Part XI (*Historical financial information*).

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
Value added and other sales taxes . . . . .	30.6	27.3	131.8	124.2	116.3
Cost of interest-free credit and aftercare services . . .	13.7	13.4	64.8	65.7	64.5
<b>Gross Sales . . . . .</b>	<b>197.0</b>	<b>175.6</b>	<b>853.4</b>	<b>804.3</b>	<b>748.7</b>

### **Adjusted EBITDA and Adjusted EBITDA Margin**

The following table shows how EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Adjusted EBITDA Margin is derived from such figures.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
<b>EBITDA . . . . .</b>	<b>8.6</b>	<b>6.0</b>	<b>75.6</b>	<b>84.6</b>	<b>81.2</b>

### **Underlying EBITDA and Underlying EBITDA Margin**

The following table shows how Underlying EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Underlying EBITDA Margin is derived from such figures.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
EBITDA . . . . .	8.6	6.0	75.6	84.6	81.2
Non-underlying items . . . . .	1.7	0.5	4.4	—	—
<b>Underlying EBITDA . . . . .</b>	<b>10.3</b>	<b>6.5</b>	<b>80.0</b>	<b>84.6</b>	<b>81.2</b>
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
<b>Underlying EBITDA Margin . . . . .</b>	<b>6.8%</b>	<b>4.8%</b>	<b>12.2%</b>	<b>13.7%</b>	<b>14.3%</b>

### *Adjusted EBITDA and Adjusted EBITDA Margin*

The following table shows how Adjusted EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Adjusted EBITDA Margin is derived from such figures.

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
EBITDA . . . . .	8.6	6.0	75.6	84.6	81.2
Non-underlying items . . . . .	1.7	0.5	4.4	—	—
Underlying EBITDA . . . . .	10.3	6.5	80.0	84.6	81.2
<i>Adjusted items</i>					
Enhanced staff rewards re prior year . . . . .	—	0.8	0.8	(0.8)	—
Losses from initial period of ownership . . . . .	0.1	0.2	1.5	—	—
<b>Adjusted EBITDA . . . . .</b>	<b>10.4</b>	<b>7.5</b>	<b>82.3</b>	<b>83.8</b>	<b>81.2</b>
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
<b>Adjusted EBITDA Margin . . . . .</b>	<b>6.8%</b>	<b>5.6%</b>	<b>12.5%</b>	<b>13.6%</b>	<b>14.3%</b>

### *Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion*

The following table shows how Gross Capital Expenditure and Change in Working Capital are derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Free Cash Flow Generation and Cash Conversion are derived from such figures.

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
<b>Adjusted EBITDA . . . . .</b>	<b>10.4</b>	<b>7.5</b>	<b>82.3</b>	<b>83.8</b>	<b>81.2</b>
Share based payment expense . . . . .	—	—	0.3	—	—
Increase in trade and other receivables . . . . .	4.5	3.8	0.2	(0.4)	(6.1)
Increase in inventories . . . . .	(1.8)	(2.9)	(5.0)	(2.5)	(5.1)
Increase in trade and other payables . . . . .	5.1	14.8	13.2	3.3	14.8
Decrease in provisions . . . . .	0.1	(0.1)	(0.4)	(0.9)	(2.4)
<b>Change in Working Capital . . . . .</b>	<b>7.9</b>	<b>15.6</b>	<b>8.3</b>	<b>(0.5)</b>	<b>1.2</b>
Acquisition of property, plant and equipment . . . . .	(5.3)	(4.1)	(12.9)	(14.9)	(18.4)
Acquisition of other intangible assets . . . . .	(0.4)	(1.2)	(2.5)	(3.2)	(1.8)
<b>Gross Capital Expenditure . . . . .</b>	<b>(5.7)</b>	<b>(5.3)</b>	<b>(15.4)</b>	<b>(18.1)</b>	<b>(20.2)</b>
<b>Free Cash Flow Generation . . . . .</b>	<b>12.6</b>	<b>17.8</b>	<b>75.2</b>	<b>65.2</b>	<b>62.2</b>
<b>Cash Conversion . . . . .</b>	<b>121.2%</b>	<b>237.3%</b>	<b>91.4%</b>	<b>77.8%</b>	<b>76.6%</b>

#### 4 Market, economic and industry data

This Prospectus includes market, economic and industry data that the Company has obtained from industry publications, surveys and internal company sources. As noted in this Prospectus, certain of such information has been included from certain third party publications and surveys, including from:

- (a) Verdict Research Limited (“**Verdict**”), the retail consultants;
- (b) Nielsen, the global information and measurement company (such information is available at Marketing Magazine’s website at <http://www.marketingmagazine.co.uk/>);
- (c) ForeSee Results, Inc. (“**ForeSee**”), the providers of customer experience analytics;
- (d) Defaqto Limited (“**defaqto**”), an independent researcher of financial products;
- (e) AMA Research Ltd; and
- (f) Experian Ltd. (“**Experian**”), the online consumer intelligence provider.

Third party publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information and such information is not intended to be used as the sole basis for any business decision. The Company has not independently verified any of the data from third party sources nor has it ascertained the underlying economic assumptions relied upon therein. The Company confirms that information sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Information which is not attributed to independent sources is based on internal information currently available to the Company. All information contained in this Prospectus is subject to change based on various factors, including those discussed in Part II (*Risk factors*).

The market, economic and industry data presented in this Prospectus may not be comparable, either to other data in the Prospectus or to similarly titled data presented by other companies and, while the method of calculation may differ across the Group’s industries, the Directors believe that such data is important to understanding DFS’s business, industries and markets, and DFS’s positions in those markets. The Company also believes that such data facilitates comparison with DFS’s peers.

The sources of figures and statements in this Prospectus have been indicated alongside the relevant figures or statements and the information provided in this paragraph 4 of this Part V (*Presentation of information*) regarding the methodologies used by different third parties to compile data should be taken into consideration when reading this Prospectus.

Information relating to DFS’s market share in its various industries and markets has been calculated by the Company based on the published financial statements of its competitors and, in some instances, is supported by data produced by Verdict.<sup>1</sup> Statements describing DFS’s leading market position refer to the upholstered furniture market as defined by Verdict and market share data in this Prospectus refers to the relevant entity’s share in the relevant market or industry by revenue rather than, for instance, by volume of sales or profitability.

##### *Net Promoter Scores (“NPS”)*

A NPS is an industry standard measure of consumer satisfaction that is calculated by DFS based on a direct question that is posed as part of a survey distributed to all DFS customers that have provided an email address: *How likely are you to recommend DFS to friends, family or colleagues?* The scoring for this answer is based on a 0 to 10 scale.

Promoters are those who respond with a score of 9 or 10 and are considered loyal enthusiasts. Detractors are those who respond with a score of 0 to 6. Scores of 7 and 8 are ignored. NPS is calculated by subtracting the percentage of customers who are detractors from the percentage of customers who are promoters.

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<sup>1</sup> Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict.

### *Consumer segment definitions*

This Prospectus contains statements describing segments into which the Group classifies consumers. The following segments have been identified by the Group:

- Quality Seekers tend to be older and more affluent than other segments, primarily motivated by quality; i.e. quality design, quality product and a quality service from start to finish. They are prepared (and frequently expect) to spend time and money on finding the right sofa for their home and for it to be individually made and delivered. Brands are important to them as a signifier of trust and quality. These customers tend to make cash or credit card purchases.
- Value Seekers skew heavily to middle income families who seek a balance between quality, style and price from a brand they trust. They look out for special offers, but not as much as Bargain Hunters. Like Quality Seekers, they are prepared to wait longer for delivery than other segments. IFC is stated as an extremely important deciding factor by Value Seekers as it affords them the ability to trade up.
- Convenience Shoppers tend to be inexperienced in furniture shopping, being typically young adults in their first homes, and will typically look for quick, easy and stylish solutions with short and convenient delivery times. They value getting inspiration and ideas and being able to buy other furniture items at the same times as upholstered furniture. Many of these shoppers say they use IFC.
- Bargain Hunters are primarily motivated by low prices and/or sales and promotions. They tend to replace sofas out of necessity rather than desire, and thus will often research and purchase an item within the same week, while also preferring a short delivery lead time. This segment tends to have fixed budgets and may not be able to obtain credit.
- Quicker Delivery customers are generally notable for their high demands in terms of delivery lead times and the segment is mainly comprised of busy career-focussed individuals in their 30s and 40s, often with younger families. They make purchasing decisions under time pressure and they generally research and purchase within the same week.

The 2014 data relating to these segments presented in this Prospectus is based on rolling average data collected on behalf of DFS in November 2013, March 2014 and July 2014.

## **5 Operational data**

Certain operational data is presented in this Prospectus. Such data may not be comparable to similarly titled data presented by other companies but, while the method of calculation may differ across the Group's industries, the Directors believe that such data is important to understanding the Group's performance from period to period and that such data facilitates comparison with DFS's peers. This operational data is not intended to be, and should not be taken as, a substitute for any IFRS measures of performance. The operational data is based exclusively on the Company's estimates, is not part of its financial statements and has not been audited or otherwise reviewed by outside auditors, consultants or experts.

Unaudited operational information in relation to the Group is derived from the following sources: (i) unaudited accounting records for the relevant accounting period; (ii) internal financial reporting systems supporting the preparation of financial statements; and (iii) the Group's other business operating systems and records.

## **6 Sofa Workshop and dwell**

Unless stated otherwise, the overview and operational data of DFS presented in this Prospectus do not include Sofa Workshop and dwell and Part VII (*Information on the Group and the industry in which it operates*) has a focus on the DFS part of the Group's business. This is because: (i) whilst Sofa Workshop and dwell are important in pursuing the Group's strategy to grow its share of the Quality Seeker market and are expected to become more significant as the Group's brand equity is leveraged, currently together they represent a relatively small contribution to Group revenues (3% in Financial Year 2014) and make up a small part of its business; and (ii) due to their recent acquisition, Sofa Workshop and dwell continue to operate on an independent basis within the Group and certain business and operational information which is available for DFS is not available for these entities.

## 7 Reorganisation

Save as specified in this Prospectus, all of the information in this Prospectus is presented as if the Reorganisation had already taken place as at the date of publication of this Prospectus. The Reorganisation will be completed immediately prior to Admission.

## 8 Rounding

Percentages and certain amounts included in this Prospectus have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

## 9 Currencies and exchange rate information

In this Prospectus:

- “£”, “GBP” and “pounds sterling” refer to the lawful currency of the UK;
- “\$”, “USD” and “US dollar” refer to the lawful currency of the US; and
- “€”, “EUR” and “Euro” refer to the single currency of the participating Member States in the Eurozone.

The Group’s reporting currency and the functional currency of the Company and each of its UK-incorporated subsidiaries is pounds sterling.

## 10 Forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “plans”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. They appear in a number of places throughout this Prospectus and include statements regarding the Directors’ or the Group’s intentions, beliefs or current expectations concerning, among other things, its operating results, financial condition, prospects, growth, expansion plans, strategies, the industry in which the Group operates and the general economic outlook.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond DFS’s control, and therefore are based on current beliefs and expectations about future events. The Directors believe that these risks and uncertainties include, but are not limited to:

- changes in regulatory environment in which DFS operates or specific government action that adversely impacts the markets in which it operates;
- changes in consumer preferences;
- competitive pressures and DFS’s ability to retain or increase market share;
- the success of DFS’s key products and performance of its new products and new variants of existing products;
- tax increases;
- general local and global economic conditions and consumer confidence;
- litigation in which the Group may be involved in from time to time;
- the Group’s ability to predict production requirements and capacity and forecast changes;
- the Group’s ability to forecast changes and trends in the markets in which it operates and the market opportunities for its products,

and the other factors described in Part II (*Risk factors*). These factors should not be construed as exhaustive and should be read with the other cautionary statements in this Prospectus. Moreover, new risk factors may emerge from time to time and it is not possible to predict all such risks or assess their impact for disclosure in this Prospectus. The other information in this Prospectus (including that contained in Part VII (*Information on the Group and the industry in which it operates*), Part X (*Operating and financial*

*review*) and Part XI (*Historical financial information*)) also provides a more complete discussion of the factors that could affect the Group's future performance and the industries in which the Group operates.

Forward-looking statements are not guarantees of future performance, and DFS's actual operating results, financial condition and the development of the industry in which the Group operates may differ materially from those made in or suggested by the forward-looking statements contained in this Prospectus. In addition, even if the Group's operating results and financial condition and the development of the industry in which the Group operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Accordingly, potential investors should not rely on these forward-looking statements.

Any forward-looking statements that are made in this Prospectus speak only as of the date of such statement, and none of the Company, the Directors, the Selling Shareholders or the Underwriters undertakes any obligation to update or revise publicly such statements unless required to do so by applicable law, the Prospectus Rules, the Listing Rules or the Disclosure and Transparency Rules.

Potential investors should note that none of the information included in this Part V, Section 10 (*Forward-looking statements*) seeks in any way to qualify the working capital statement in this document.

## **11 No incorporation of website information**

The contents of the Group's websites (including [www.dfscorporate.co.uk](http://www.dfscorporate.co.uk), the "**Website**") do not form any part of this Prospectus.

**PART VI**  
**DETAILS OF THE OFFER**

**1 The Offer**

The Offer comprises the Institutional Offer and the Intermediaries Offer. Under the Institutional Offer, the Offer Shares are being offered to certain institutional and professional investors in the UK and elsewhere outside the US in reliance on Regulation S and to QIBs in the US in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Under the Intermediaries Offer, the Offer Shares are being offered to Intermediaries appointed by the Company in the UK, the Channel Islands and the Isle of Man who will facilitate the participation of: (i) their retail investor clients located in the UK, the Channel Islands and the Isle of Man; and (ii) in the case of the Employee Offer Intermediary only, the Eligible Employees.

In addition, any Over-allotment Shares (representing up to 15% of the number of Offer Shares) will be made available by the Advent Shareholder pursuant to the Over-allotment Option. Admission is expected to become effective, and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange, at 8.00 a.m. on 11 March 2015.

Under the Offer, all Offer Shares will be sold at the Offer Price, which will be determined by the Company and the Advent Shareholder in consultation with the Joint Global Co-ordinators. It is currently expected that the Offer Price will be within the Offer Price Range and that the Offer Size will be within the Offer Size Range. A number of factors will be considered in deciding the Offer Price, the Offer Size and the bases of allocation under the Offer, including the level and nature of demand for Ordinary Shares in the book-building process, the level of demand in the Intermediaries Offer, prevailing market conditions and the objective of encouraging the development of an orderly and liquid after-market in the Ordinary Shares.

The Offer Price and the Offer Size are expected to be announced on or around 6 March 2015. The Pricing Statement, which will contain, among other things, the Offer Price and Offer Size, will (subject to certain restrictions) be published online at [www.dfscorporate.co.uk](http://www.dfscorporate.co.uk) and be available in printed form at the Company's registered office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA, until 14 days after Admission.

If the Offer Price is set above the Offer Price Range (which is between £2.45 and £3.10 per Ordinary Share), or the Offer Price Range is revised higher, and/or the Offer Size is set below or above the Offer Size Range (which is between 79,044,857 and 107,082,375 Ordinary Shares), then an announcement will be made via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their offer to subscribe for or purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which the announcement is published via a Regulatory Information Service or on such later date as may be specified in the announcement). In those circumstances, the Pricing Statement will not be issued until this deadline for exercising such statutory withdrawal rights had ended. If the application is not withdrawn within the stipulated period, any offer to apply for Offer Shares in the Offer will remain valid and binding. The arrangements for withdrawing offers to subscribe for or purchase Ordinary Shares will be made clear in the announcement.

On Admission, there will be up to 214,181,070 Ordinary Shares of £1.50 each in issue. The exact number of Ordinary Shares that will be in issue on Admission is dependent on the Offer Price (which will determine the number of New Ordinary Shares to be issued by the Company pursuant to the Offer and will be announced in the Pricing Statement). All Ordinary Shares in issue on Admission will be fully paid.

Immediately following Admission and assuming that the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range, it is expected that approximately 44.0% of the Company's issued ordinary share capital will be held in public hands assuming no Over-allotment Shares are acquired pursuant to the Over-allotment Option (increasing to approximately 50.6% if the maximum number of Over-allotment Shares are acquired pursuant to the Over-allotment Option).

Assuming that the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range: (i) the New Ordinary Shares will represent 16.8%; (ii) the Existing Ordinary Shares will represent 83.2%, of the issued share capital of the Company immediately following Admission; and (iii) the Existing Ordinary Shares sold by the Selling Shareholders under the Offer will represent 27.2% of the issued share capital of the Company immediately following Admission.

The following table sets out the approximate numbers of New Ordinary Shares likely to be issued by the Company, the likely Offer Size and the approximate number of Ordinary Shares in issue following Admission, based on various Offer Prices and the Company's current assumption of the number of Existing Ordinary Shares to be sold by the Selling Shareholders pursuant to the Offer (and assuming that the Over-allotment Option is not exercised).

<u>Offer Price</u>	<u>Assumed percentage of Ordinary Shares held by public immediately following Admission</u>	<u>Number of New Ordinary Shares</u>	<u>Offer Size (number of Offer Shares)</u>	<u>Approximate number of Ordinary Shares in issue following Admission</u>
£3.10 . . . . .	50%	31,606,453	104,008,428	208,029,755
£2.78 . . . . .	44%	35,308,109	92,720,684	210,745,205
£2.45 . . . . .	38%	39,991,838	81,380,645	214,181,070

Through the issue of New Ordinary Shares pursuant to the Offer, the Company expects to raise gross proceeds of approximately £98.0 million, resulting in net proceeds of approximately £78.0 million. The aggregate underwriting commissions and other fees, taxes and expenses incurred in connection with the Offer and Admission are to be borne by the Company and are estimated to be approximately £20.0 million. The Company intends to pay this amount out of the gross proceeds of the Offer.

Through the sale of Existing Ordinary Shares pursuant to the Offer, the Company expects the Selling Shareholders to raise in aggregate approximately £153.7 million after deducting underwriting commissions and other estimated expenses of approximately £5.6 million (assuming that the Offer Price is set at the mid-point of the Offer Price Range, the Offer Size is set at the mid-point of the Offer Size Range and no exercise of the Over-allotment Option).

Certain restrictions that apply to the distribution of this Prospectus and the offer, issue and sale of Ordinary Shares in jurisdictions outside the UK are described in paragraph 16 of this Part VI (*Details of the Offer*) below.

The Offer is subject to the satisfaction of conditions, which are customary for transactions of this type, contained in the Underwriting Agreement, including completion of the Reorganisation, Admission becoming effective no later than 8.00 a.m. on 11 March 2015 (or such later date and time, not being later than 8.00 a.m. on 31 March 2015, as the Joint Global Co-ordinators may agree with the Advent Shareholder and the Company) and the Underwriting Agreement not having been terminated prior to Admission.

The issue/sale of the Offer Shares under the Intermediaries Offer and the Institutional Offer has been underwritten, subject to certain conditions which are customary for transactions of this type, by the Underwriters.

Admission is expected to become effective and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00 a.m. on 11 March 2015. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a "when issued" basis, will be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned. The earliest date for settlement of such dealings will be 11 March 2015.

When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BTC0LB89 and SEDOL number BTC0LB8, and it is expected that the Ordinary Shares will be traded under ticker symbol DFS.

The Offer Shares (including any Ordinary Shares sold pursuant to the Over-allotment Option) will, upon Admission, rank equally in all respects with all other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission. The Ordinary Shares will, immediately on and from Admission, be freely transferable, subject to the applicable law, the Articles and any contractual obligations of a Shareholder.

The Company expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer (and the arrangements associated with it) will lapse and any monies received in respect of the Offer will be returned to investors without interest.

## **2 Reasons for the Offer and Admission and use of proceeds**

The Directors believe that the Offer and Admission are the natural next step in the Group's development, and will:

- (a) enhance the Group's public profile and brand recognition;
- (b) provide a strong platform from which the Group can pursue its growth strategy, including via acquisitions where appropriate;
- (c) provide access to the capital markets;
- (d) assist in the recruitment, retention and incentivisation of management and employees in the long term; and
- (e) provide the Selling Shareholders with a partial realisation of their investment in the Company.

The Company intends to use approximately £78.0 million of net proceeds receivable by it from the Offer to repay the Notes.

The Company will not receive any of the proceeds from the sale of the Existing Ordinary Shares by the Selling Shareholders, or from the sale of any Over-allotment Shares by the Advent Shareholder. How each Selling Shareholder uses the amount they receive under the Offer, and how the Advent Shareholder uses any amount it receives on any exercise of the Over-allotment Option, is a matter of personal choice for the relevant person.

## **3 Financial impact of the Offer**

A statement illustrating the hypothetical effect on the Group's statement of financial position of the Offer and the use of net proceeds of approximately £78.0 million and the Reorganisation, as if they had taken place on 1 November 2014, is set out in Part XII (*Unaudited pro forma financial information*). This information is unaudited and has been prepared for illustrative purposes only. It shows that the actions described above would lead to an increase in the net assets of the Company from a net liabilities position of £82.2 million to net assets of £176.5 million as at 1 November 2014.

## **4 The Selling Shareholders**

The Selling Shareholders (who are all expected to remain Shareholders following Admission) are:

- (a) the Advent Shareholder of 2-4, rue Beck, L-1222, Luxembourg;
- (b) Richard Baker, Ian Filby, Bill Barnes, Jon Massey and Ian MacGuffog, each of 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA; and
- (c) certain other Shareholders who hold their beneficial interest in the Ordinary Shares through the EBT.

Following Admission, Richard Baker, Ian Filby and Bill Barnes will remain as Directors, while Jon Massey will be a Senior Manager and Ian MacGuffog will form part of the Group's management team. Certain other Selling Shareholders will either be Senior Managers or form part of the Group's wider management team.

## **5 Withdrawal rights**

If the Company is required to publish any supplementary prospectus, investors who have applied for Offer Shares under the Offer will have at least two clear Business Days following publication of the relevant supplementary prospectus to withdraw their application to acquire Offer Shares in its entirety. The right to withdraw an application to subscribe for or acquire Offer Shares under the Offer in these circumstances will be available to all investors. If an application to acquire Offer Shares under the Offer is not withdrawn within the stipulated period, such application will remain valid and binding.

Details of how to withdraw an application will be made available if a supplementary prospectus is published.

In addition, in the event that (i) the Offer Price is set above the Offer Price Range or the Offer Price Range is revised higher; and/or (ii) the number of Ordinary Shares to be issued by the Company and Existing Ordinary Shares to be sold by the Selling Shareholders is set above or below the Offer Size Range (subject to the minimum free float requirements agreed by the Company with the UK Listing Authority)

then applicants who have applied to subscribe for or purchase Ordinary Shares in the Offer will have a statutory right to withdraw their offer to subscribe for or purchase Ordinary Shares in the Offer in its entirety pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published via a Regulatory Information Service announcement or on such later date as may be specified in that announcement). In those circumstances, the Pricing Statement will not be issued until this deadline for exercising such statutory withdrawal rights had ended. If the application is not withdrawn within the stipulated period, any offer to apply for Offer Shares in the Offer will remain valid and binding. Institutional investors wishing to exercise a statutory right to withdraw their offer to subscribe for or purchase Offer Shares in the Offer must do so by lodging a written notice of withdrawal by hand (during normal business hours only) at the office of the Global Co-ordinators at their respective addresses set out in Part III (*Directors, Secretary, Registered and Head Office and Advisers*) so as to be received no later than two Business Days after the date on which the supplementary prospectus is published or the date on which an announcement is made (as described above). Notice of withdrawal given by any other means or which is deposited with or received after the expiry of such period will not constitute a valid withdrawal. Applicants who have applied for Offer Shares via the Intermediaries who wish to withdraw an application following publication of a supplementary prospectus or an announcement is made (as described above) should contact the Intermediary through whom they applied for details of how to withdraw an application.

## **6 The Institutional Offer**

Under the Institutional Offer, Ordinary Shares will be offered to: (i) certain institutional and professional investors in the UK and elsewhere outside the US in reliance on Regulation S; and (ii) QIBs in the US in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act (the “**Institutional Offer**”). Certain restrictions that apply to the distribution of this Prospectus and the offer and sale of the Ordinary Shares in jurisdictions outside the UK are described in paragraph 16 of this Part VI (*Details of the Offer*) below. The latest time and date for indications of interest in subscribing for or acquiring Ordinary Shares under the Institutional Offer is set out in Part IV (*Expected Timetable of Principal Events*) but that time may be extended at the discretion of the Company and the Advent Shareholder (following consultation with the Joint Global Coordinators). Participants in the Institutional Offer will be advised verbally or by electronic mail of their allocation as soon as practicable following pricing and allocation. Prospective investors in the Institutional Offer will be committed to subscribe for or acquire the number of Ordinary Shares allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from, such commitment.

## **7 The Intermediaries Offer**

Members of the general public will not be able to apply directly to the Company or the Selling Shareholders for Ordinary Shares in the Offer. Members of the general public in the United Kingdom, the Channel Islands and the Isle of Man may be, and Eligible Employees will be, eligible to apply for Offer Shares through any Intermediaries and the Employee Offer Intermediary respectively, by following the relevant application procedures, by no later than 4 March 2015 (the “**Intermediaries Offer**”). Underlying Applicants are responsible for ensuring that they do not make more than one application under the Intermediaries Offer (whether on their own behalf or through other means, including, but without limitation, through a trust or pension plan).

The Intermediaries Offer is being made to retail investors in the United Kingdom, the Channel Islands and the Isle of Man and to Eligible Employees only (in the latter case, only by the Employee Offer Intermediary). Individuals who are aged 18 or over, companies and other bodies corporate, partnerships, trusts, associations and other unincorporated organisations are permitted to apply to subscribe for or purchase Offer Shares in the Intermediaries Offer.

No Offer Shares allocated under the Intermediaries Offer will be registered in the name of any person whose registered address is outside the United Kingdom, the Channel Islands and the Isle of Man. Applications under the Intermediaries Offer must be by reference to the total monetary amount the applicant wishes to invest and not by reference to a number of Offer Shares or the Offer Price.

An application for Offer Shares in the Intermediaries Offer means that the applicant agrees to subscribe for or acquire the Offer Shares at the Offer Price. Each applicant must comply with the appropriate money laundering checks required by the relevant Intermediary. Where an application is not accepted or there are

insufficient Offer Shares available to satisfy an application in full, the relevant Intermediary will be obliged to refund the applicant as required and all such refunds will be in accordance with the terms provided by the Intermediary to the applicant. The Company, the Selling Shareholders and the Underwriters accept no responsibility with respect to the obligation of the Intermediaries to refund monies in such circumstances. Intermediaries may charge retail investors a fee for buying or holding the allocated Offer Shares for them (including any fees relating to the opening of an individual savings account or a self-invested personal pension for that purpose) provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to the retail investor prior to the underlying application being made. Each Intermediary has agreed, or will on appointment agree, to the Intermediaries Terms and Conditions which regulate, *inter alia*, the conduct of the Intermediaries Offer on market standard terms and provide for the payment of commission to any Intermediary that elects to receive commission from the Company or the Selling Shareholders.

In making an application, each Intermediary will also be required to represent and warrant, among other things, that they are not located in the United States and are not acting on behalf of anyone located in the United States. Under the Intermediaries Offer, the Offer Shares will be offered outside the United States only in offshore transactions as defined in, and in reliance on, Regulation S. The Intermediaries may prepare certain materials for distribution or may otherwise provide information or advice to retail investors in the United Kingdom, the Channel Islands and the Isle of Man, subject to the terms of the Intermediaries Terms and Conditions. Any such materials, information or advice are solely the responsibility of the Intermediaries and will not be reviewed or approved by any of the Underwriters, the Selling Shareholders or the Company. Any liability relating to such documents will be for the Intermediaries only.

**If an Intermediary makes an offer to a retail investor pursuant to the Intermediaries Offer, that Intermediary shall provide to such retail investor at the time the offer is made: (i) a copy of the Prospectus or a hyperlink from which the Prospectus may be obtained; and (ii) the terms and conditions of the relevant offer made by the Intermediary to the retail investor.**

Each Intermediary will be informed by Numis, after consultation with the Global Co-ordinators, by approximately 7.00 am on 6 February 2015 by fax or email, of the aggregate number of Offer Shares allocated in aggregate to their underlying clients (or to the Intermediaries themselves) and the total amount payable in respect thereof. Allocations of Shares under the Intermediaries Offer will be at the discretion of certain of the Underwriters following consultation with the Company and the Advent Shareholder. Each Intermediary will be required to apply the allocation policy to each of its underlying applications from retail investors.

Pursuant to the Intermediaries Terms and Conditions, the Intermediaries have undertaken to make payment of the consideration for the Offer Shares allocated, at the Offer Price, to Numis, in accordance with details to be communicated on or after the time of allocation, by means of CREST against the delivery of the Shares at the time and/or date set out in Part IV (*Expected Timetable of Principal Events and Offer Statistics*) or at such other time and/or date after the day of publication of the Offer Price as may be agreed by Numis, the Company and the Advent Shareholder and notified to the Intermediaries.

The publication of this Prospectus and/or any supplementary prospectus and any other actions of the Company, the Advent Shareholder, the Selling Shareholders, the Underwriters, the Intermediaries or other persons in connection with the Offer should not be taken as any representation or assurance by any such person as to the basis on which the number of Shares to be offered under the Intermediaries Offer or allocations within the Intermediaries Offer will be determined, and all liabilities for any such action or statement are hereby disclaimed by the Company, the Advent Shareholder, the Selling Shareholders and the Underwriters.

Each Underlying Applicant shall, by submitting an application to such Intermediary, be deemed to acknowledge and agree that such investor is not relying on any information or representation other than as is contained in the Prospectus, the Pricing Statement or any supplementary prospectus.

Eligible Employees who make an application through the Intermediaries Offer and the Employee Offer Intermediary will be entitled to a preferential allocation of the Offer Shares.

## **8 NISA**

The Offer Shares will be “qualifying investments” for the stocks and shares component of a NISA and the Directors will use their reasonable endeavours to manage the affairs of the Company so as to enable this

status to be maintained. Save where an account manager is acquiring Offer Shares using available funds in an existing NISA, an investment in Offer Shares by means of NISA is subject to the usual annual subscription limits applicable to new investments into a NISA.

Sums received by a Shareholder on a disposal of Ordinary Shares will not count towards the Shareholder's annual limit but a disposal of Ordinary Shares held in a NISA will not serve to make available again any part of the annual subscription limit that has already been used by the Shareholder in that tax year. Individuals wishing to invest in Ordinary Shares through a NISA should contact their professional advisers regarding their eligibility.

## **9 Intermediaries Terms and Conditions**

The Intermediaries Terms and Conditions regulate the relationship between the Company, the Selling Shareholders, Numis (as Intermediaries Offer Adviser), the Underwriters and each of the Intermediaries that is accepted by the Company to act as an Intermediary after making an application for appointment in accordance with the Intermediaries Terms and Conditions.

### *9.1 Capacity and liability*

The Intermediaries have agreed that, in connection with the Intermediaries Offer, they will be acting as agent for the Underlying Applicants. None of the Company, any of the Selling Shareholders or any of the Underwriters will have any responsibility for any liability, costs or expenses incurred by any Intermediary.

### *9.2 Eligibility to be appointed as an Intermediary*

In order to be eligible to be considered by the Company for appointment as an Intermediary, each intermediary must be:

- (a) authorised by the FCA or the Prudential Regulatory Authority in the United Kingdom; or
- (b) authorised by a competent authority in another EEA jurisdiction with the appropriate authorisation to carry on the relevant activities in the United Kingdom; or
- (c) a member firm of the London Stock Exchange conducting business in the Channel Islands or the Isle of Man; or
- (d) in respect of acting as agents for Underlying Applicants in Jersey, authorised by the Jersey Financial Services Commission to carry on the relevant class of investment business in Jersey; or
- (e) a person licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) to carry on the relevant class of restricted activities in respect of category 2 controlled investments under such Law,

and in each case have appropriate permissions, licences, consents and approvals to act as Intermediary for the purposes of the specific role it is undertaking as an Intermediary (which, in the United Kingdom, is at a minimum, the authorisation of the FCA to deal in investments as agent). Each Intermediary must also, to the extent applicable, conduct its business in the Isle of Man in compliance with the licensing requirements of the Isle of Man Financial Services Act 2008 or any relevant exclusion or exemption therefrom and all other relevant Isle of Man laws and regulations.

Each Intermediary must also:

- (a) be a member of CREST; or
- (b) have arrangements with a clearing firm that is a member of CREST.

### *9.3 Application for Shares*

A minimum application amount of £1,000 per Underlying Applicant (other than an Eligible Employee applying through the Employee Offer Intermediary) will apply. There is no maximum limit on the monetary amount that Underlying Applicants (other than Eligible Employees applying through the Employee Offer Intermediary) may apply to invest. The Intermediaries have agreed not to make more than one application per Underlying Applicant.

Eligible Employees who make an application through the Intermediaries Offer and the Employee Offer Intermediary will be entitled to make an application for Offer Shares of an amount between £250 and

£10,000 per Eligible Employee and will be entitled to a preferential allocation of Offer Shares. If Eligible Employees apply for Offer Shares through the Employee Offer Intermediary they may not make any other application in the Intermediaries Offer.

Any application made by investors through any Intermediary is subject to the terms and conditions agreed with each Intermediary. Allocations of Shares under the Intermediaries Offer will be at the discretion of certain of the Underwriters, after consultation with the Company and the Advent Shareholder. If there is excess demand for Shares in the Intermediaries Offer, allocations of Shares may be scaled down to an aggregate value which is less than that applied for. Each Intermediary will be required by the Company to apply the basis of allocation to all allocations to Underlying Applicants who have applied through such Intermediary.

#### *9.4 Effect of Intermediaries Offer Application Form*

By completing and returning the Intermediaries Offer Application Form, the Intermediary will be deemed to have irrevocably agreed to invest or procure the investment in Shares of the aggregate amount stated on the Intermediaries Offer Application Form or such lesser amounts in respect of which such application may be accepted. The Company and the Selling Shareholders reserve the right to reject, in whole or in part, or to scale down, any application for Offer Shares in the Intermediaries Offer.

#### *9.5 Commission*

The Intermediaries who have elected to receive it will receive a commission of 0.75% of the amount equal to the Offer Price multiplied by the aggregate number of New Ordinary Shares subscribed for or Existing Ordinary Shares sold pursuant to the Intermediaries Offer.

#### *9.6 Information and communications*

The Intermediaries have agreed to give certain undertakings regarding the use of information provided to them in connection with the Intermediaries Offer (both prior to and following publication of the Prospectus). The Intermediaries have given certain undertakings regarding their role and responsibilities in the Intermediaries Offer and are subject to certain restrictions on their conduct in connection with the Intermediaries Offer, including in relation to their responsibility for information, communications, websites, advertisements and their communications with clients and the press.

### **10 Intermediaries' Representations and Warranties**

The Intermediaries have given representations and warranties that are relevant for the Intermediaries Offer, and have agreed to indemnify, *inter alia*, the Company, the Selling Shareholders and the Underwriters against any loss or claim arising out of any breach by them of the Intermediaries Terms and Conditions or as a result of a breach (or alleged breach) of any duties or obligations under FSMA or under any rules of the FCA or any applicable laws or as a result of any other act or omission by an Intermediary in connection with the purchase and/or resale of Offer Shares by the Intermediaries or any Underlying Applicant.

### **11 Underwriting Arrangements**

On the date of this Prospectus, the Company, the Advent Shareholder, the Directors, the Underwriters and certain other Selling Shareholders have entered into the underwriting agreement (the “**Underwriting Agreement**”) pursuant to which, on the terms and subject to the conditions contained therein (which are customary in agreements of this nature), each of the Underwriters has severally agreed to underwrite a proportion of, and together to underwrite in aggregate all of, the issue and sale of the Offer Shares.

The Offer is conditional upon, among other things, Admission occurring not later than 8.00 a.m. on 11 March 2015 (or such later date and time, not being later than 8.00 a.m. on 31 March 2015, as the Joint Global Co-ordinators may agree with the Advent Shareholder and the Company) and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms. The underwriting commitment of the Underwriters will cease to be conditional at the point of Admission. If the conditions to the Underwriting Agreement have not been satisfied and the Underwriters determine that the Underwriting Agreement should be terminated, or if the Underwriters otherwise cease to underwrite the Offer in accordance with the terms of the Underwriting Agreement, Admission will not occur.

The Underwriting Agreement provides for the Underwriters to be paid certain commissions by the Company and the Selling Shareholders in respect of the Offer Shares issued and sold in the Offer and by the Advent Shareholder in respect of any Over-allotment Shares transferred by the Advent Shareholder upon the Stabilising Manager exercising the Over-allotment Option. Any commissions received by the Underwriters may be retained, and any Ordinary Shares acquired by them may be retained or dealt in by them, for their own benefit.

Under the terms and conditions of the Underwriting Agreement, the Joint Sponsors have both agreed to act as joint sponsors to the Company in connection with Admission, in accordance with the Listing Rules.

Further details of the Underwriting Agreement are set out in Part XIV (*Additional information*).

## **12 Lock-up arrangements**

Each of the Advent Shareholder, the other Selling Shareholders, the Directors, and the Senior Managers have agreed to certain lock-up arrangements in respect of the Ordinary Shares they hold immediately following Admission.

The Advent Shareholder has agreed that, subject to certain customary exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Underwriters, sell or contract to sell, grant any option over or otherwise dispose of any such Ordinary Shares (or any interest therein), or enter into any transaction with the same economic effect as any of the foregoing.

The Directors, Senior Managers and the Selling Shareholders (other than the Advent Shareholder) have agreed that, subject to certain customary exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Underwriters, sell or contract to sell, grant any option over or otherwise dispose of any such Ordinary Shares (or any interest therein) or enter into any transaction with the same economic effect as any of the foregoing.

The Company has agreed that, subject to certain customary exceptions, during the period of 365 days from the date of Admission, it will not, without the prior written consent of the Underwriters, issue or contract to issue, or grant any option or other subscription right over, any new Ordinary Shares.

Further details of the lock-up arrangements are set out in Part XIV (*Additional information*).

## **13 Stabilisation and Over-allotment Option**

In connection with the Offer, UBS (the “**Stabilising Manager**”), or any of its agents or affiliates, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares and effect other transactions to maintain the market price of the Ordinary Shares at a level other than that which might otherwise prevail in the open market (the “**Over-allotment Option**”). Such transactions may include short sales, stabilising transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Stabilising Manager of a greater number of Ordinary Shares than the Underwriters are required to procure purchasers for, or failing which, to purchase in the Offer. Stabilising transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Ordinary Shares while the Offer is in progress. Such transactions shall be carried out in accordance with applicable rules and regulations. Such stabilisation activities may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period from the date of the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter.

However, there will be no obligation on the Stabilising Manager or any of its agents or affiliates to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken with the intention of stabilising the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents or affiliates intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

In connection with the Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 15% of the total number of Ordinary Shares comprised in the Offer. The Stabilising Manager has entered into the Over-allotment Option with the Advent Shareholder pursuant to which the Stabilising Manager may require the Advent Shareholder to transfer at the Offer Price additional Ordinary Shares representing up to 15% of the total number of Ordinary Shares comprised in

the Offer, to allow it to cover short positions arising from over-allotments and/or stabilising transactions. The Over-allotment Option may be exercised in whole or in part, upon notice by the Stabilising Manager, at any time on or before the thirtieth calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. The Over-allotment Shares made available pursuant to the Over-allotment Option will be sold on the same terms and conditions as, and will rank equally with, the other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission and will form a single class for all purposes with the other Ordinary Shares.

Following allocation of the Offer Shares pursuant to the Offer, the Stabilising Manager may seek to agree the terms of deferred settlement with certain investors who have been allocated Ordinary Shares pursuant to the terms of the Offer. No fees will be payable to such investors.

#### **14 Stock Lending Agreement**

In connection with settlement and stabilisation, the Stabilising Manager has, on 23 February 2015, entered into a stock lending agreement (the “**Stock Lending Agreement**”) with the Advent Shareholder pursuant to which the Stabilising Manager will be able to borrow from the Advent Shareholder a number of Ordinary Shares equal in aggregate to up to 15% of the total number of Ordinary Shares comprised in the Offer for the purposes, among other things, of allowing the Stabilising Manager to settle, at Admission, over-allotments, if any, made in connection with the Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be obliged to return equivalent shares to the Advent Shareholder in accordance with the terms of the Stock Lending Agreement.

#### **15 Dealing arrangements**

Application has been made to the FCA for all of the Ordinary Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for those Ordinary Shares to be admitted to trading on the main market for listed securities of the London Stock Exchange. It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. on 6 March 2015. The earliest date for settlement of such dealings will be 11 March 2015. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. on 11 March 2015. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a “when issued basis”, will be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned. The above-mentioned dates and times may be changed without further notice.

Each investor will be required to undertake to pay the Offer Price for the Offer Shares issued or sold to such investor in such manner as shall be directed by the Joint Bookrunners.

It is intended that, where applicable, definitive share certificates in respect of the Offer Shares will be despatched by 27 March 2015 or as soon thereafter as is practicable. Temporary documents of title will not be issued. Dealings in advance of crediting of the relevant CREST stock account(s) shall be at the sole risk of the persons concerned.

Following Admission, the Ordinary Shares held by the Advent Shareholder, the other Selling Shareholders, the Directors and the Senior Managers will be subject to the lock-up arrangements described in paragraph 12 of this Part VI (*Details of the Offer*) above.

#### **16 CREST**

CREST is a paperless settlement system enabling securities to be transferred from one CREST account to another without the need to use share certificates or written instruments of transfer. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission and, also with effect from Admission, the Articles will permit the holding of Ordinary Shares under the CREST system. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

#### **17 Selling and transfer restrictions**

The distribution of this Prospectus and the offering, issue and on-sale of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes

should inform themselves about and observe any such restrictions, including those described below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

None of the Ordinary Shares may be offered for subscription, sale, purchase or delivery, and neither this Prospectus nor any other offering material in relation to the Ordinary Shares may be circulated in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.

#### *17.1 European Economic Area (other than the UK)*

In relation to each Member State (other than the UK) that has implemented the Prospectus Directive (each a “**Relevant Member State**”), an offer to the public of any Ordinary Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Ordinary Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the Company or any Underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Ordinary Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the relevant Underwriter and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Ordinary Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase any Ordinary Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

#### *17.2 Switzerland*

The Ordinary Shares may not be offered or sold, directly or indirectly, in Switzerland except in circumstances that will not result in the offer of the Ordinary Shares being a public offering in Switzerland within the meaning of the Swiss Code of Obligations (the “CO”). Neither this document nor any other offering or marketing material relating to the Ordinary Shares constitutes a prospectus as that term is understood pursuant to article 652a or 1156 of the CO, and neither this Prospectus nor any other offering or marketing material relating to the Offer Shares:

- (a) has been or will be filed with or approved by any Swiss regulatory authority; and
- (b) may be publicly distributed or otherwise made publicly available in Switzerland.

No application has been made for a listing of the Shares on the SIX Swiss Exchange and, consequently, the information presented in this document does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange. In particular, this Prospectus has not been filed with, and the Offer of the Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the Offer of the Offer Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (the “CISA”). Accordingly, the investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to subscribers for or purchasers of the Offer Shares.

#### *17.3 US*

The Offer is not a public offering (within the meaning of the Securities Act) of securities in the US. The Ordinary Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the US and may not be offered or sold in the US

except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Underwriters may offer Ordinary Shares in:

- (a) the US only through their US registered broker affiliates to QIBs pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; and
- (b) “offshore transactions” as defined in, and in reliance on, Regulation S.

In addition, until 40 days after the commencement of the Offer, any offer or sale of Ordinary Shares within the US by any dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another available exemption from registration under the Securities Act.

Each subscriber for or purchaser of Ordinary Shares within the US, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that it has received a copy of this Prospectus and such other information as it deems necessary to make an investment decision and that the subscriber or purchaser:

- (a) is, and at the time of its purchase of any Offer Shares will be, a QIB within the meaning of Rule 144A;
- (b) understands and acknowledges that the Offer Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the US, that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A thereunder, and that the Offer Shares may not be offered or sold, directly or indirectly, in the US, other than in accordance with paragraph (d) below;
- (c) is subscribing for or purchasing the Offer Shares: (i) for its own account; or (ii) for the account of one or more other QIBs for which it is acting as duly authorised fiduciary or agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgments, representations and agreements herein with respect to each such account (in which case it hereby makes such acknowledgements, representations and agreements on behalf of such QIBs as well), in each case for investment and not with a view to any resale or distribution of any such shares;
- (d) understands and agrees that offers and sales of the Offer Shares are being made in the US only to QIBs in transactions not involving a public offering or which are exempt from the registration requirements of the Securities Act, and that if in the future it or any such other QIB for which it is acting, as described in paragraph (c) above, or any other fiduciary or agent representing such investor decides to offer, sell, deliver, hypothecate or otherwise transfer any Offer Shares, it or any such other QIB and any such fiduciary or agent will do so only: (i) pursuant to an effective registration statement under the Securities Act; (ii) to a QIB in a transaction meeting the requirements of Rule 144A; (iii) in an “offshore transaction” pursuant to Rule 903 or Rule 904 of Regulation S (and not in a pre-arranged transaction resulting in the resale of such shares into the US); or (iv) in accordance with Rule 144 under the Securities Act and, in each case, in accordance with any applicable securities laws of any state or territory of the US and of any other jurisdiction. The subscriber or purchaser understands that no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of the Ordinary Shares;
- (e) understands that for so long as the Offer Shares are “restricted securities” within the meaning of the US federal securities laws, no such shares may be deposited into any American depositary receipt facility established or maintained by a depositary bank, other than a restricted depositary receipt facility, and that such shares will not settle or trade through the facilities of the Depositary Trust Company or any other US clearing system;
- (f) has received a copy of this Prospectus and has had access to such financial and other information concerning the Company as it deems necessary in connection with making its own investment decision to subscribe for or purchase Offer Shares. The subscriber or purchaser acknowledges that none of the Company and the Underwriters or any of their respective representatives has made any representations to it with respect to the Company or the allocation, offering or sale of any Offer Shares other than as set forth in this Prospectus, which has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Offer Shares. The subscriber or purchaser also acknowledges that it has made its own assessment regarding the US federal tax consequences of an investment in the Offer Shares. The subscriber or purchaser has held and will hold any offering materials, including this Prospectus, it receives directly or indirectly from the Company in

confidence, and it understands that any such information received by it is solely for it and not to be redistributed or duplicated by it;

- (g) understands that these representations and undertakings are required in connection with the securities laws of the US and that the Company, the Underwriters and their affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. The subscriber or purchaser irrevocably authorises the Company and the Underwriters to produce this Prospectus to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered herein;
- (h) undertakes promptly to notify the Company and the Underwriters if, at any time prior to the purchase of Ordinary Shares, any of the foregoing ceases to be true; and
- (i) understands that the Ordinary Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect.

**THE ORDINARY SHARES REPRESENTED HEREBY HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE US AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE US. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE ORDINARY SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE ORDINARY SHARES REPRESENTED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE ORDINARY SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF ORDINARY SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.**

The Company, the Underwriters, their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements.

The Company has agreed that, for so long as any of the Ordinary Shares are “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided pursuant to Rule 144A(d)(4) under the Securities Act. The Company expects that it will be exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder.

#### **17.4 Other jurisdictions**

Investors in jurisdictions other than the European Economic Area, Switzerland and the US should consult their professional advisers as to whether they require any governmental or other consents or need to observe any formalities to enable them to subscribe for or buy any Offer Shares under the Offer.

**PART VII**  
**INFORMATION ON THE GROUP AND THE INDUSTRY IN WHICH IT OPERATES**

**Section A: The Group**

**1 Overview**

**1.1 The Group**

According to Verdict, the retail consultants, DFS is the leading retailer of upholstered furniture in the UK, with a 25.7% share of the estimated c.£3.0 billion upholstered furniture market in 2014.<sup>1</sup> This share was over three times that of any other upholstered furniture retailer. DFS designs, manufactures, sells, delivers and installs for its customers an extensive range of upholstered and other furniture products. Its product offering is complemented by market-leading consumer financing options, in-store, online and call-centre customer service, a long-term structural product guarantee and ongoing comprehensive after-sales support in relation to the products it sells. It attracts customers to its stores and website through its substantial and continued investment in nationwide marketing activities and its reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options.

Almost all of the upholstery products DFS sells are made-to-order and, as a result, DFS does not trade from stock and is exposed to minimal inventory risk. This, combined with other factors such as scale and specialism, allows it to have the broadest upholstery product range amongst national furniture retailers in the UK market in terms of styles and price points. It offers a variety of upholstered furniture product ranges, all of which are exclusive to the Group, with each range typically consisting of different product units, including sofas, armchairs, reclining chairs and footstools. In order to enhance its product appeal for certain customer segments DFS has recently strengthened its exclusive own brand upholstery ranges and developed exclusive brand partnerships with Country Living, House Beautiful, French Connection and G-Plan. It has also acquired the Sofa Workshop and dwell brands to enhance its premium product proposition, and has strategies in place to further its share of the Quality Seeker market.

Since its establishment in 1969, DFS has developed a national footprint with 105 stores in the UK, the Republic of Ireland and the Netherlands, totalling approximately 1.6 million square feet of retail trading space. The Directors believe that the overwhelming majority of DFS's stores are situated in strong trading locations, most of which are located in retail parks. Most of these stores are well established trading outlets, with 73 out of 105 stores having more than five years of trading history. All of DFS's upholstery stores are profitable (measured by operating profit per store before allocation of marketing and central office costs), and its sales density, measured as total revenues per square foot of available retail space, is among the highest in the retail industry (and more than 30% greater than its general retail peers).

DFS seeks to engage with its customers through multiple channels of communication, comprising its stores, live chat service, telephone call centres, websites and software applications. DFS's websites and mobile apps serve an important role as typically the first point of engagement with prospective customers, and also as sales channels. Supported by significant investment of £3.5 million in Financial Year 2013 and Financial Year 2014 to re-platform DFS's websites, DFS's online channels have experienced traffic growth of c.26% in 2014 and during the first four months of the current financial year has received approximately 1.5 million Unique Visitors per month. The Directors therefore believe that the investment has delivered incremental direct sales, improved DFS's customer service proposition and reinforced a powerful marketing tool, generating footfall to DFS's stores.

The Group has five proprietary manufacturing facilities, comprising three upholstery manufacturing facilities and two frame factories, all of which are located in the UK. It manufactured internally approximately 29% of its furniture orders by volume in Financial Year 2014. With its recent capacity expansions, DFS expects to manufacture internally between 25% and 30% of the furniture it sells. It sources the remaining products from carefully selected and long-term supply partners in the UK, continental Europe and Asia.

DFS complements its product offering with a high quality customer service proposition with an emphasis on delivering good customer outcomes, underpinned by well-trained and motivated employees, expedient order management and timely product deliveries. DFS's service proposition includes delivery and

<sup>1</sup> Source: Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict. Statements describing DFS's leading market position refer to the upholstered furniture market as defined by Verdict.

installation of its products in customers' homes, comprehensive after-sales service and a 10 year structural guarantee. DFS generally offers its customers a consumer financing option of up to four years of IFC, with no upfront deposit requirement and an option to defer payment for up to 12 months from the date of order. DFS's credit proposition has been rated by defaqto<sup>1</sup> to be the most competitive consumer IFC offerings in the UK upholstered furniture market.

DFS invests substantial resources in the recruitment, training and development of its staff. It offers two weeks of classroom training to its newly recruited sales staff within the framework of a formal three month training programme. This training approach, which the Directors believe to be unique in the industry, emphasises establishing customer needs, advising DFS's customers appropriately and maximising sales orders.

DFS advertises its products and services through a wide range of marketing and media channels, including television, radio, the internet, national press, inserts, direct mailing, outdoor advertising boards and in-store points of sale. Over the years, it has made significant investments in its marketing activities, which amounted to a total of £260.3 million in the period between 31 July 2011 and 1 November 2014, or £80.1 million on average in each financial year of that period, which made DFS the fourth largest retail, and tenth largest consumer advertiser in the UK during 2013, according to Nielsen.<sup>2</sup> DFS's historical track record of high levels of expenditure on marketing activity has provided it with significant national brand recognition, thus allowing it to develop a successful retail business based on high footfall to a relatively small number of large retail stores. It has also allowed DFS to expand its store network without incurring significant incremental marketing costs for each new store.

## 1.2 *dwell*

dwell was acquired by DFS out of administration in June 2013 and operates five stores in London, Manchester and Glasgow. dwell's product range is aimed at urban professionals and encompasses a wide range of homewares and non-upholstery furniture. dwell contributed £11.4 million to the Group's revenues in Financial Year 2014.

## 1.3 *Sofa Workshop*

Sofa Workshop was acquired by DFS in October 2013 and offers a range of highly-customisable, premium upholstered furniture. It is currently trading from 13 stores, with a concentration in London, and a growing web channel. Sofa Workshop contributed £10.7 million to the Group's revenues in Financial Year 2014.

## 2 History and development

The DFS business was founded in 1969 by Graham Kirkham, the former Chairman of DFS Furniture Company, with a single store near Doncaster, UK, trading as Northern Upholstery. Northern Upholstery specialised in the sale of upholstered furniture, all of which was initially made in a workshop above the store. As the business expanded, models from external suppliers were introduced to widen the range of products available to customers. By 1973, Northern Upholstery had moved to a new manufacturing facility on the outskirts of Doncaster, from where DFS still operates its Northern Upholstery factory. Following the acquisition of the assets of DFS Furniture Limited in 1983, DFS continued to expand its store footprint and acquired an additional manufacturing facility in Long Eaton to support its growing volume of orders. In 1993, with a total of 24 stores and revenue of £114.2 million, DFS Furniture Company plc was floated on the London Stock Exchange with an initial market capitalisation of approximately £270 million. During the period from the end of 1993 to November 2004 when DFS Furniture Company plc was publicly listed, DFS added a further 44 stores to its portfolio and continued to expand and diversify its sources of supply of upholstered furniture. In November 2004, DFS Furniture Company plc was acquired by Full Circle Future Limited, a company owned and controlled by Lord Kirkham, his immediate family and certain trusts of which they were beneficiaries, for approximately £507 million. In the period since DFS Furniture Company plc was taken private by Full Circle Future Limited, the strategic focus was on optimising the retail aspects of DFS's business and its supply arrangements, with a modest number of new store openings. In 2005, DFS Furniture Company's freehold and long leasehold properties were transferred to DFS Properties Limited (later renamed Delphi Properties Limited) and concurrently DFS Trading Limited

<sup>1</sup> Source: defaqto, Analysis of Interest Free Credit in the Home Furnishings Market, 21 July 2014

<sup>2</sup> Source: <http://www.marketingmagazine.co.uk/article/1289560/top-100-uk-advertisers-bskyb-increases-lead-p-g-bt-unilever-reduce-adspend#List>

entered into arm's-length leases with DFS Properties Limited (later renamed Delphi Properties Limited). In April 2010, Full Circle Future Limited, the then current owner of the entire share capital of DFS Furniture Company, entered into an agreement for the sale of the entire share capital of DFS Furniture Company for a purchase price reflecting an enterprise value of approximately £500 million. Following the Acquisition, approximately 85% of the Group's voting equity has been beneficially owned (through wholly-owned intermediate holding companies) by funds managed by Advent, a well-established global private equity firm, with the remainder held by the Executive Directors, the Chairman and the Group's management.

### 3 Key strengths

The Directors believe that the Group has the following competitive strengths that differentiate it from its competitors:

#### 3.1 *DFS is the clear market leader in the UK's c.£3.0 billion upholstery market—both online and in store*

DFS has established itself as the leading retailer of upholstered furniture in the UK. According to Verdict, DFS had a 25.7% share of the estimated c.£3.0 billion upholstered furniture market in 2014, which was larger than the next top four combined and over three times bigger than that of the number two upholstered furniture retailer. It also had operating profit margins which were more than four times the average of a selected peer set (and more than double the average of any individual peer within that set) and were driven by a capital efficient model.<sup>1</sup>

This market position is supported by DFS's market-leading brand awareness. According to an independent survey conducted on behalf of DFS, it had an average spontaneous brand awareness of 75% between November 2013 and July 2014, compared to 29% of its next competitor.

In November 2010, DFS commissioned a third party to conduct customer-survey based research, which it has instructed such third party to update two to three times per annum, and which has resulted in a segmentation of the Group's customers into the following categories: Quality Seekers, Value Seekers, Convenience Shoppers, Quicker Delivery Shoppers and Bargain Hunters. The Group's consumer segmentation is primarily driven by their sofa needs, life stage and spend value. Further details of these segmentation categories are set out in Part V (*Presentation of Information*) and Section B (*Industry Overview*) of Part VII (*Information on the Group and the industry in which it operates*). According to this research survey, DFS has a market leading position across every customer segment including a c.46% share (by value) of the c.£0.5 billion Value Seeker customer segment, a c.22% market share (by value) of the c.£1.3 billion combined Convenience Shopper, Quicker Delivery and Bargain Hunter categories and, following introduction of a strengthened branded proposition, a c.21% market share (by value) of the c.£1.3 billion Quality Seeker customer segment (with dwell and Sofa Workshop delivering a further c.1%). For an explanation of how these segments are defined, see Part V (*Presentation of Information*). DFS also is the market leader in both physical retail and online retail sales of retail upholstered furniture with an internally estimated 28% share of web-based sales which, according to Verdict, comprised c.9.3% of the total retail furniture and floorcoverings market in 2013.

As a result of its leading market position, brand awareness and significant promotional spend, but relatively modest number of stores, DFS's stores are a destination for potential customers generating high footfall compared to upholstery peers and sales densities that are amongst the highest in the UK general retail sector. Large volumes and a high sales density, together with DFS's flexible product sourcing strategy leveraging both internal and external supply sources, enable it to achieve high profit margins and strong cash flows. The Group then reinvests a significant proportion of these proceeds in its customer proposition, product, finance and service offers and also its marketing activities, thus contributing to a high level of customer satisfaction and brand recognition, leading more people to the Group's retail channels and generating customer loyalty, potential repeat purchases and recommendations to friends and family. The Directors believe this process results in a robust business model that has enabled DFS to increase its market share consistently.

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<sup>1</sup> The Group's average operating profit margins for Financial Years 2011 (based on financial information prepared under UK GAAP), 2012 and 2013 compared to the average profit margins of Homestyle, SCS, Furniture Village (for their respective 2011, 2012 and 2013 financial years) and CSL (for its 2011 and 2013 financial years).

### ***3.2 Exceptional customer proposition made possible by DFS's relative scale—omnichannel approach, value, broad product range and outstanding service with best-in-class IFC***

DFS now has 105 stores throughout the UK, the Republic of Ireland and the Netherlands. It has recently made a substantial investment to enhance its market-leading online channel by moving its website to be based on the IBM Websphere Commerce platform (i.e. re-platforming) and to further develop its in-store technology.

The Group aims to offer its customers the broadest range of upholstery products in terms of styles and price points amongst national retailers in the UK market. It sources and manufactures its products to order and continually reviews and updates or replaces its product ranges to maintain and increase their relevance and quality.

IFC is an important factor for DFS's customers with approximately 65% of customer purchases by value financed by DFS's IFC and 15% of customers noting that IFC is a reason for coming to DFS. DFS has been rated by defaqto<sup>1</sup> to have the most competitive consumer IFC offering in the UK upholstered furniture market and the Directors believe that DFS is the only retailer in this market that provides four-year IFC without a deposit being required, on all products and across all order values. This finance proposition is made commercially feasible primarily due to DFS's high sales volumes, strong financial position and associated purchasing power. To secure the supply of its consumer finance options (which gives DFS no financing risk) and the competitiveness of its pricing terms, since 2010 DFS has increased the number of its consumer credit providers to five suppliers and has entered into long-term contractual arrangements with two of them. These agreements are not co-terminous and provide contractual confirmation that the capacity to finance all of DFS's current sales volumes in the UK will be maintained for the duration of the relevant contract.

DFS complements its product offering with a highly distinctive customer service proposition, in terms of professionally trained and directly employed staff, guarantee and value proposition and the Directors believe DFS's competitors do not have the scale to match this proposition at current prices without damaging their profitability. DFS has end-to end direct control of the customer service and therefore aims to provide a high quality shopping and after-sales experience through well-trained and motivated employees, expedient order management, timely product deliveries, comprehensive after-sales service, and a long-term structural guarantee on its products. It invests substantial resources in the recruitment, training and development of its employees, emphasising the importance of establishing customer needs with DFS delivering c.4,000 days of in-house training across the organisation in 2014. Approximately 50% of DFS's staff have more than five years' experience. This investment and experience enables it to advise customers on its product ranges to facilitate purchasing decisions and generate sales orders. DFS monitors staff performance and levels of customer satisfaction through regular inspections, surveys by internal quality assurance specialists and independent surveys of all customers that provide DFS with an email address, as well as independent "mystery" shoppers. The Group also delivers and installs its products to its customers' homes and offers a free 10 year guarantee on its products' frame and frame springs, along with comprehensive after-sales service and support by c.170 trained and directly-employed upholsterers. The Directors believe that this vertically integrated business model, controlling all aspects of the customer journey, including its fulfilment and service capability, has allowed DFS to achieve NPS improvements in all stages of its customer journey, and to achieve a post-purchase NPS of 67% (as at the end of Financial Year 2014). This has increased by 27 percentage points from 40% in January 2012 and is materially above the retail sector average of 30%. For an explanation of how NPS is calculated, see Part V (Presentation of Information). In addition, DFS had the highest Trustpilot rating (8.8/10) amongst its peer set.<sup>2</sup>

The Directors believe that the Group's strong service proposition, alongside its extensive product range, contributes to a high level of customer satisfaction and brand recognition, leading more people to the Group's retail channels and generating customer loyalty, potential repeat purchases and recommendations to friends and family. This ensures that the Group is well placed to continue to capitalise on its strengths and further enhance its market-leading position.

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<sup>1</sup> Source: defaqto, Analysis of Interest Free Credit in the Home Furnishings Market, 21 July 2014.

<sup>2</sup> Source: www.trustpilot.co.uk, as extracted on 5 February 2015, compared against the ratings of ScS, Harvey's, Furniture Village, Sofaworks, Next, John Lewis, Marks & Spencer, Argos and Homebase.

### **3.3 *Very efficient business model—highly flexible cost base, 100% direct and virtually stockless***

The Directors believe that DFS is the only major national retailer of upholstered furniture in the UK that combines a sizeable internal design and manufacturing capability with an efficient external supply chain.

DFS operates a “made-to-order” business model under which, other than showroom models, upholstery products are only manufactured once a customer order has been placed. Due to this made-to-order business model, DFS does not invest in upholstered furniture inventories other than showroom display models and has very little fashion risk, meaning that it does not carry stock which may cease to be saleable because of changing fashions. By customer orders being paid for ahead of or shortly after delivery while suppliers are paid to agreed terms, DFS’s business is able to maintain significant negative working capital. Further, DFS’s business model allows it to operate a highly flexible and controlled cost base where over two-thirds of costs (such as marketing, manufacturing wages and sales salaries, direct cost of furniture sold, store and delivery costs) are variable, semi-variable or discretionary. Moreover, significant elements of the costs base can be leveraged across an increased sales base.

DFS’s ability to manufacture a portion of the products it sells enables it to react to fashion trends and bring new products to its stores generally quicker than its competitors, and its strong market position, usually give it the platform to source key raw materials (such as particular fabrics) on a preferential or exclusive basis. DFS’s scale, regular product range updates and in-house manufacturing have enabled it to hone its product development skills and subsequently share best practice across all external suppliers. Direct control over manufacturing allows enhanced flexibility over product lead times. Moreover, it improves DFS’s ability to experiment with innovative designs and provides a useful source of information with respect to the costs and dynamics of the supply chain, which it uses to its advantage in negotiations with external manufacturers.

DFS generally has long-standing relationships with its external suppliers and, consequently, it is familiar with their requirements, capabilities and processes. This familiarity, alongside DFS’s leading market position and significant sales volumes, provide it with strong buying power. Furthermore, DFS is able to achieve economies of scale and efficiencies at all stages of its supply chain, allowing DFS’s suppliers to frequently and regularly send full containers or lorries direct to DFS stores which reduces lead-times and limits the requirement for centralised unloading, load consolidation and reloading or unutilised shipping space.

### **3.4 *Track records of success—long-term sales and market share growth, strong cash generation, attractive shareholder returns***

DFS has a long-term track record of profitability. Its sales have grown by 6.2% per year on a compound annual growth basis since 1999.<sup>1</sup> According to DFS’s calculations based on Verdict data, its market share has increased from 12.5% to 25.7%, largely as a result of its promotional initiatives, product sourcing and customer proposition investment, making it today’s clear market leader in the UK upholstered furniture industry, according to Verdict. It has also increased its store footprint from 76 upholstery stores in 2010 to 105 today.

The Group has achieved strong Adjusted EBITDA Margins during the last three financial years despite significant increases in headcount in business functions such as web development, commercial finance and marketing. In Financial Year 2014, the Group delivered an Adjusted EBITDA margin of 12.5%. The Group has also continued to deliver consistent annual Adjusted EBITDA-to-cash flow conversion rates of 81.9% on average over the last three financial years, despite the significant capital expenditure incurred over this period.

The Group operates a negative working capital business model that has consistently generated cash from growth of the business. It continued to show strong cash generation during the recent gross domestic product and upholstery market contraction in the UK and the Directors believe that this demonstrates the resilience of the Group’s business model.

The Directors believe that a combination of the Group’s strong market position, exceptional customer proposition and strong cash flow generation gives its business the ability to generate attractive total shareholder returns.

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<sup>1</sup> All sales figures prior to Financial Year 2012 were prepared under UK GAAP and audited in accordance with auditing standards generally accepted in the UK.

### 3.5 *Highly experienced management team—combining the best of DFS’s proven long-standing talent with new key hires*

The Group benefits from a senior management team of experienced retail executives with an average tenure of over 25 years in the retail, service and consumer goods sectors that has successfully led the business through a period of expansion and profitable sales growth. The team is led by the Group’s Chief Executive Officer Ian Filby, former senior executive of Alliance Boots. Ian Filby is supported by Jon Massey as Chief Operating Officer and Bill Barnes as Group Finance Director, with 34 and 24 years of experience in the retail sector respectively. They are supported by an experienced Board of Directors (the “**Board**”) led by Non-Executive Chairman Richard Baker, former chief executive of Alliance Boots.

Since the Acquisition, and as part of DFS’s transition from a founder-led business to a professionally led organisation, it has recruited several key individuals to its management team, including the appointment of a new Chief Marketing Officer, Online and Business Development Director and Commercial Finance Director. This has helped reinforce the Group’s professional management structure, reporting lines and information systems. The Directors believe that the collective industry knowledge and leadership of DFS’s senior management team and their record of accomplishment in responding to challenging economic conditions and achieving profitable sales growth demonstrate their ability to continue to execute the Group’s strategy profitably.

## 4 **Strategy**

The Directors’ strategy is to take DFS from being a great British business to a world class business by striving to deliver: the widest choice of sofas in the market; best value at every price point; and world class customer experience, in each case without compromising quality. To achieve this strategy, the Group has a number of proven and developing levers of growth.

### 4.1 *Clear progress in capturing the ‘Quality Seeker’ customer*

The ‘Quality Seeker’ upholstery market is worth £1.3 billion per year, or 43% of the total upholstery market by value making it the largest segment by value. For an explanation of how this segment is defined, see paragraph 2, Section B (*Industry Overview*) of Part VII (*Information on the Group and the industry in which it operates*). Whilst DFS currently accounts for c.25.7% of all UK upholstery market sales according to Verdict, its market share in the ‘Quality Seeker’ segment is currently c.21%. DFS has proven its ability to capture market share in this segment as it has increased its market share from c.18% in 2012 to c.21% in 2014 with the growth coming from a combination of own brand development, marketing refinement, brand partnerships and acquisitions. A further c.1% has recently been added to the Group’s aggregate market share through the acquisitions of Sofa Workshop and dwell. The Directors believe that the Group can continue this momentum through increasing contributions from own brands, brand partnerships and maximising the benefit from Sofa Workshop and dwell.

In recent years, DFS has maintained a focussed effort to increase the choice and marketing of branded products to enhance its appeal to the Quality Seeker. In 2012 the Group launched its external brand partnerships initiative, which now includes Country Living, House Beautiful, French Connection and G-Plan. The number of own-brand and brand partnership ranges offered has increased from 19 sold during Financial Year 2012 to 42 ranges sold during Financial Year 2014 and over the same timeframe order value for own-brand and brand partnerships products has grown from £10.5 million (Financial Year 2012) to £67 million (Financial Year 2014). DFS intends to continue refining and strengthening its range of branded products and partnerships.

Sofa Workshop and dwell were acquired by the Group in Financial Year 2014. Both Sofa Workshop’s and dwell’s brands and customer propositions have a strong appeal to the ‘Quality Seeker’ segment. The Group intends to roll-out 2-3 new Sofa Workshop stores per year for at least the remaining three years of the current strategic plan, with between 2-4 stores expected to be opened during calendar year 2015. A typical 3,000 sq. ft. Sofa Workshop store has the potential to contribute over £1 million sales per year. From the next financial year onwards, the Group intends to roll-out 2-4 new dwell stores per year for at least the remaining three years of the current strategic plan, with a typical 5,000 sq. ft. store having the potential to contribute over £1 million sales per year. The Group will seek to enhance the returns from the Sofa Workshop and dwell by fulfilling unexploited online potential, realising operational synergies and exploring range cross-marketing by DFS and store-in-store concepts.

## 4.2 UK DFS store roll-out

The Group intends to continue to open new UK stores utilising its bespoke customer catchment area model, developed in partnership with CACI Limited, which has proved highly effective in predicting returns. Using this model, DFS has rolled-out 27 UK stores in the past four years, delivering an average payback of 21 months.<sup>1</sup> The Group has to date identified up to 20 further sites for 10-15,000 sq. ft. stores and intends to roll out 3-5 new UK DFS-branded stores per year. The Directors expect that the gross capital expenditure for each such new DFS-branded store is likely to be c.£1 million (excluding landlord contributions). As new stores are added and the impact on catchment area impact is assessed, it is expected that additional sites will be identified. In addition, the Group is considering the roll-out of smaller format stores of typically between 2,000-5,000 sq. ft. to target urban areas and small market towns to capture further share from local independents. The first such store is expected to open shortly in Westfield Stratford.

## 4.3 International store roll-out

The Group has proven its ability to enter new markets having entered the Republic of Ireland in Financial Year 2012 by opening stores in Dublin and Cork, providing a basis for further expansion into the Republic of Ireland. A further store was opened in Carrickmines (South Dublin) in December 2014. The DFS brand has grown to be the second biggest player by sales in the upholstered retail furniture market in the Republic of Ireland and this expansion has also provided the Group with valuable insights (e.g. about websites, regulatory and legal considerations and foreign exchange management) which will prove important in further international expansion.

The Group, with the assistance of external management consultants, has carried out a global opportunity review to determine where next to continue the international expansion programme following the success in the Republic of Ireland. The Netherlands has been identified as the optimal location and the first store was opened in Cruquius in November 2014. The Directors believe that there is potential for up to a further 20 DFS stores in the country should the initial trial store be successful. The Group has also identified further potential opportunities which will remain under consideration.

## 4.4 Additional retail space from conversion of onsite store warehouses

Customer Distribution Centre (“CDC”) conversions provide further retail space by moving and consolidating warehouse facilities currently located on retail store sites to lower rent and more logistically efficient locations. To date the Group has converted three CDCs, one in the south east of England which opened in autumn 2012 and released c.17,000 sq. ft. of retail space across three stores, one in North West England which opened in spring 2014 releasing c.19,300 sq. ft. across five stores, and one in Glasgow which opened in November 2014 releasing c.27,000 sq. ft supporting four stores. The South East CDC conversion which has been operating for two years in a test-and-learn phase has driven like-for-like in-store sales growth of over 5% from additional retail space as well as generating supply chain and distribution efficiencies. DFS has to date used this additional retail space to offer a complementary range of dining furniture and beds, and has recently begun trials to assess the relative returns of broadening its in-store upholstery offering. The Group is targeting 17 CDCs across the country releasing c.400,000 sq. ft. of additional retail space with three new CDCs each year. The Directors expect that the gross capital expenditure for each new DFS-branded CDC cluster is likely to be c.£1 million.

## 4.5 Online channel

DFS has the market leading online upholstery platform and has a proven track record of growth of margin-enhancing sales through this channel achieving an online sales compound annual growth rate of 12% from Financial Year 2010 to Financial Year 2014.<sup>2</sup> While the primary role of the platform will continue to be to inspire and attract customers to physical stores, the Group’s online channel lends itself to convenience shoppers who may not be willing to visit a physical retail store. Approximately 70% of DFS’s web sales are from customers that have not visited a physical DFS store in the last three months, implying that online sales are generally incremental to existing store sales. The Group intends to leverage its leading presence in this expanding marketplace through adding ranges of direct home delivery furniture both in the

<sup>1</sup> Payback is calculated as the return of the initial store contributions (set-up and start-up costs) and reflects centrally-allocated marketing costs and property rentals on a cash basis. It is also adjusted for cannibalisation from existing DFS stores.

<sup>2</sup> The figures for Financial Years 2010 and 2011 have been prepared under UK GAAP and have been subsequently adjusted using information from management accounts of the Group to maintain comparability to information prepared under IFRS for Financial Years 2012, 2013 and 2014.

upholstery and wider furniture markets, utilising better the Group's existing traffic and IFC offer and maximising the Sofa Workshop and dwell online opportunity.

#### **4.6 Other Identified Growth Opportunities**

There are three further potential growth opportunities that DFS is progressing.

##### *Direct marketing*

DFS has a historical customer database of c.5.5 million individuals (of which c.1.9 million have given consent to be emailed for marketing purposes) available to support customer relationship management initiatives. DFS has also identified the importance of key life events that can trigger a sofa purchase and has developed and trialled direct email marketing initiatives to these prospects. The Group conducted a number of direct marketing test and learn trials in Financial Year 2014 with a significant number showing promising return on investment and has recently appointed an agency partner to expand the programme.

##### *Adjacent category extensions*

The wider UK furniture market includes *inter alia* beds, living/dining and kitchen products, and was valued by Verdict at approximately £10.3 billion in 2014. The Group has historically sold a limited range of dining, bedroom and living room products and accessories online and through in-store kiosks. DFS is expanding its offering in existing and other adjacent categories to leverage its website traffic, the potential of in-store kiosks and the ability to offer IFC, in particular where appropriate, as an extension of credit to an upholstery order.

##### *DFS contract furniture*

According to publicly available information from AMA Research Limited,<sup>1</sup> the UK business-to-business upholstery market is highly fragmented with an estimated market size of c.10% of the overall upholstery market, implying an opportunity of c.£300 million per annum based on Verdict data. Domestic upholstery products are not suitable for use in a contract environment due in particular to the regulatory and durability requirements of such products. In March 2014, the Group launched a partnership with Curtis Furniture Limited, a specialist contract furniture and soft furnishings designer, manufacturer and supplier to sell a full range of contract furniture. The scale and strength of DFS's brand, reputation and supply chain will be leveraged to secure new customer orders and the upholstery product orders that the partnership receives will be manufactured by the Group.

### **5 Product range, sales channels and marketing**

#### **5.1 Sales product range**

DFS's large furniture retail stores generally display 60-70 exclusive upholstered furniture product ranges, depending on available retail floor space. Within a given product range, customers can generally select between different product units: four-seater, three-seater or two-seater sofas, footstools, corner sofas/combination units and armchairs, some of which offer reclining units. Multiple colour, fabric and upholstery cover options are available to customers for each product in addition to a variety of actions, trims and accent cushions and a wide range of accessories. In addition customers are able to purchase enhanced protection for their products in the form of five year leather or fabric stain protection warranty insurance. The selection of ranges is refreshed and updated at least every promotional period (typically four to six weeks). The Directors believe that DFS offers the broadest range of products available in the market in terms of styles and unit types.

##### *Branded products*

DFS has consistently offered customers a wide range of styles covering contemporary, basic, classic and traditional designs and its price points have consistently covered a wide spectrum of price ranges. Since 2011, in order to enhance its product appeal with certain customer segments, DFS introduced exclusive brand upholstery ranges such as Capsule Collection and Grand Tour and developed exclusive brand partnerships with Country Living and House Beautiful, monthly interior design publications owned by Hearst Magazines, French Connection, the fashion clothing retailer, and G-Plan, the branded upholstery manufacturer. Based on sales volume, this branded product initiative has been well received by Quality

<sup>1</sup> Source: AMA Research, Upholstered Furniture and Beds Market Report—Summary of Contents at [http://www.amaresearch.co.uk/upholstered\\_furniture\\_14s.html](http://www.amaresearch.co.uk/upholstered_furniture_14s.html)

Seeker DFS customers and the Group intends to continue to explore partnerships with other brands in the future. It has also recently acquired Sofa Workshop and dwell to gain ownership of additional well-recognised furnishing brands and also to provide a broader product range and new channels to market. All DFS partner brand sofas are designed by or for DFS and key ranges including Country Living and French Connection are internally manufactured.

## 5.2 Stores

The Group currently has a portfolio of 105 DFS stores, providing it with nationwide coverage throughout the UK. As detailed below, all of the stores are leased. The Group has opened 31 new stores since December 2010. Through extensive marketing, DFS benefits from high customer awareness and brand consideration, which enables it to operate from different types of stores, including retail parks, solo sites and small developments. DFS's store expansion programme has allowed it to start exploring new store formats, including city centre stores and 10,000 sq. ft. format retail park stores. In addition, the Group has already expanded its store network geographically by opening its first stores outside the UK—in the Republic of Ireland and in the Netherlands.

The Directors believe the overwhelming majority of DFS-branded stores are situated in strong trading locations, most of which are located in retail parks, with the average customer drive time to a store currently being c.21 minutes. Most of these stores are well established trading outlets, with 73 out of 105 stores having more than five years of trading history. All DFS-branded upholstery stores are profitable (measured by operating profit per store before allocation of marketing and central office costs), and its sales density, measured as total revenues per square foot of available retail space, is among the highest in the retail industry. The average revenue and Adjusted EBITDA per DFS store for the Financial Year 2014 were £6.3 million and £0.8 million, respectively, based on DFS revenue (before incremental sales from Sofa Workshop and dwell) of £634.7 million and Adjusted EBITDA of £82.3 million across 100 stores as at the end of Financial Year 2014. In Financial Year 2014, the Group generated revenue of £656.8 million and Adjusted EBITDA of £82.3 million with an Adjusted EBITDA Margin of 12.5%. See 'Summary—Summary Historical Financial Information and Other Data'.

All of DFS's upholstered furniture stores are open seven days a week, 363 days a year. The typical store is approximately 20,000 square feet in size, comprising approximately 15,000 square feet of upholstered furniture retailing space and approximately 5,000 square feet of warehouse, office and amenity space. They offer a well-invested, modern and elegant environment to display DFS's products to best effect, with ambience and décor that are used to produce the best possible effect. Each store is easy for customers to navigate with wide walkways and uses mirrors and vaulted ceilings to provide a spacious open environment. The products are typically displayed in room sets with accessories such as rugs, wall hangings, mirrors and lamps. The typical retail store has a store manager and approximately seven sales people, four administrative staff, eight warehouse and delivery staff and two after-sales service representatives.

The Group has recently opened three c.10,000 sq. ft. reduced footprint stores in retail parks. These stores bring the opportunity for significant infill expansion into cities and market towns that have not previously fit with the operating and rental costs of the standard c.20,000 sq. ft. store approach. The reduced footprint stores bring additional flexibility when conducting site targeting and identifying expansion opportunities.

Following recent acquisitions, the Group has also added 13 stores under the Sofa Workshop brand and five stores under the dwell brand, both aimed in part at aspirational, Quality Seeker customers. These stores are significantly smaller (between 2,000 and 5,000 sq. ft.) than the typical DFS store and are mainly located in the centres of large cities.

The below table summarises the development of the Group's store portfolio:

Name	Financial Year 2012	Financial Year 2013	Financial Year 2014	Q1 2015
Total DFS stores at start of the year . . . . .	76	90	97	100
New DFS store openings . . . . .	14	7	3	5
Total DFS stores at end of the year . . . . .	90	97	100	105
Sofa Workshop . . . . .	—	—	14	13
dwell . . . . .	—	—	5	5

## 5.3 Omnichannel approach

DFS engages with its customers using multiple communication channels, including through DFS stores, websites, software applications, digital kiosks in stores, live chat and telephone call centres. Whether using

an in store or online channel, customers are able to receive advice on, view and purchase any product from the range at the same price allowing DFS's customers to engage with DFS using the channel they prefer. The Group continues to experience significant growth in visitor numbers and website sales driven by the strength of the DFS brand.

The primary role of the online channel is research, with 63% of online visitors reporting that they are then likely to visit a DFS store within 30 days of a website visit (according to survey data collected by ForeSee on behalf of DFS).<sup>1</sup> The Directors believe that this is because most customers, when considering the purchase of a durable, style and comfort led product, wish to sit on the product to test it prior to purchase. DFS's website is a critical element of its online presence and, according to Experian Hitwise Marketing Services data, DFS has a 40% share of web traffic within its custom industry,<sup>2</sup> with approximately 1.5 million Unique Visitors per month. "DFS" is also the second most popular search on Google in the sofa segment (after "sofa" but before "sofas") and DFS's online channels have experienced traffic growth of c.26% during 2014.

DFS's website is also an increasingly important sales channel generating approximately 10% of Group sales in Financial Year 2014. The web sales channels serve a "direct" or convenient method of purchase for some customers. Approximately 70% of customers who buy through the DFS website have not visited a store in the previous three months and c.51% have neither visited nor bought from DFS before. To place an order after viewing DFS's products online, customers are typically invited to contact DFS's call centre via a freephone telephone number or alternatively provide DFS with their contact details online to request a call back from a sales representative to complete their order. This personal approach, rather than relying on a transactional website, ensures DFS's customers are given comprehensive advice on their purchase, minimising the risk of incorrect orders, and also giving DFS's sales team the chance to explain the benefits of, and offer customers the opportunity to purchase, a choice of product and service enhancements such as material upgrades.

Reflecting its growing importance in the Group's operations, in Financial Years 2013 and 2014, the Group invested a total of £3.5 million in website enhancement and re-platforming. This investment has allowed DFS to move its operations to a high performance platform that utilises IBM Websphere that is customised to DFS's needs and has enabled it to introduce additional features designed to enhance customers' experience, extend its online transactional capabilities and generate footfall to DFS stores. The new, optimised UK and Ireland website was launched in August 2013 and its introduction was followed by an improvement of DFS's natural search rankings. The website contains comprehensive details of DFS's product portfolio and allows customers to explore a wide range of model options, fabrics and colours online. DFS has also recently introduced applications for Android and iOS, including a room planning application that allows customers to visualise how a new sofa would fit in their living room.

Whether using the website or one of DFS's applications, customers are able to participate in a video or text conversation with a dedicated personal shopper, receiving advice and having queries answered, while potentially co-browsing the website. DFS's market leading "live" video chat is an exclusive offering within the upholstery market and currently employs 24 staff who are primarily incentivised based on customer service and not sales volumes.

Additionally, DFS has enhanced its customers' in-store experience by introducing digital kiosks at its stores that allow customers to explore a wider range of non-upholstery products than may be available at a given store location. It has also equipped its in-store sales staff with iPads that they can use to help customers explore DFS's product range. The DFS Outlet store on eBay and the new internal DFS Direct site, launched in June 2013 and June 2014 respectively, enable efficient and profitable sales of ex-display stock. There are plans to add further custom ranges to the eBay store and to accelerate the roll out of the internal site.

DFS's online offering also allows customers outside the UK to purchase DFS's products. This is particularly popular among expatriates in Portugal, Spain and France and a third party fulfilment partner has been contracted for deliveries. This aspect of DFS's business has significant potential to grow and is profitable.

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<sup>1</sup> Source: Foresee's Online Satisfaction Survey at <http://www.foresee.com/>.

<sup>2</sup> Source: Experian Ltd—this data is based on a custom industry created by DFS to include the following websites: DFS, Furniture Village, Harveys, SCS, Sofaworks, Sofa.com, Sofa Workshop and Sofa Sofa.

The Group's online platform has four key sustainable competitive advantages:

- A market leading presence in the online retail upholstered furniture market with c.3x the visitor traffic share of the next competitor.
- Through its leading traffic volumes, DFS benefits from higher natural searches and lower per-click advertisement costs relative to many competitors.
- DFS's web platform is optimised for mobile and tablet devices, is capable of efficiently hosting sites in currencies other than pounds sterling and can support DFS's business-to-business opportunities.
- The DFS business model is already built for online, through a fulfilment model that has always been direct and based on home delivery; i.e. no incremental delivery costs when compared to an in-store order.

The Directors believe this omnichannel approach helps the Group deliver quality service to its customers and allows its customers to explore DFS's full range of products and services using the medium they prefer, thereby generating stronger customer interest and sales. The Group's online channels are margin accretive, with incremental revenue not incurring all of the same costs as in-store sales, particularly rent and rates.

#### 5.4 *Customer financing*

As part of the Group's overall marketing strategy and commitment to customer service, it offers customers the opportunity to purchase any of its products (subject to customer credit reference) by paying for them in instalments through IFC options. Approximately 65% of DFS's sales by value are financed by these IFC options, with the remainder of customers paying for purchases in cash, by cheque or by credit or debit card. The Directors believe that DFS's IFC options are an important factor in making big ticket purchases manageable by splitting them into a number of monthly payments at no additional cost, thereby converting customer interest into firm orders. The Directors also believe that this helps to 'upsell' DFS's product range as customers looking for value-based products in-store may realise that they can afford to buy premium products or may purchase additional items due to the attractive IFC offering.

DFS has historically offered financing plans for periods of between six months and five years. More recently, it has generally offered its customers IFC over a period of up to four years. Promotions allow customers the option to defer payments for up to 12 months from the date of order, with repayment commencing in month 13 for a total maximum term of up to 48 months. Although DFS generally offers four year IFC terms to all eligible customers, a significant portion of customers opt for shorter repayment periods, with the average finance term per customer equalling approximately 36 months in Financial Year 2014 and 35 months in Financial Year 2013.

According to research conducted by defaqto,<sup>1</sup> DFS currently has the most competitive customer finance offerings in the UK retail upholstered furniture market, with respect to the length of the interest-free period, the applicability to all products and invoice values and the absence of a minimum deposit requirement. DFS will continue to monitor and evaluate the appropriate terms on which it provides financing options to its customers, taking account of market conditions and its economic performance.

IFC options are provided by consumer credit providers, which, in return for a fee paid by DFS, provide it with immediate payment upon delivery and bear the risk of customer default and changes in prevailing interest rates. As a result, DFS assumes no credit exposure from customers who elect to use IFC options, although a higher rate of default by its customers could result in higher fees imposed on it by its consumer credit providers. Such consumer credit providers charge DFS an up-front fee for each loan term option, which is deducted from DFS's aggregate sales, based on periodically agreed pricing matrices, generally determined with reference to 12-month or other benchmark LIBOR rates and the length of the financing term.

DFS has historically operated with between one and five consumer credit providers, and currently partners with five such providers of IFC: Hitachi Capital, V12, Barclays Partner Finance, IKANO and LaSer UK (formerly known as Creation Financial Services and currently part of BNP). It has written long-term contracts in place with two of these providers and short-term formal contracts or informal arrangements with the other three. DFS is seen to offer an attractive, low-risk customer base to consumer credit providers because of its sizeable credit book of big ticket items, track record of low default rates and the relatively long-term relationships it cultivates with customers compared to other retailers spanning several weeks from the time of sale to the time of delivery to a specific address. The credit approval process for

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<sup>1</sup> Source: defaqto, Analysis of Interest Free Credit in the Home Furnishings Market, 21 July 2014

customers utilising IFC is undertaken directly by consumer credit providers. For approved finance orders, DFS receives the sales proceeds from its consumer credit providers on delivery, net of their fee.

## 5.5 *Marketing and advertising*

### *Marketing strategy*

DFS pursues an active and intensive marketing programme focussed on generating high levels of store footfall to a relatively small number of large retail stores. Over the years, it has made significant investments in its marketing activities, which amounted to a total of £260.3 million in the period between 31 July 2011 and 1 November 2014, or £80.1 million on average in each financial year of that period, which have markedly improved its promotional ratings (despite lower aggregate marketing spend) and made DFS the fourth largest retail, and tenth largest consumer advertiser in the UK during 2013, according to Nielsen.<sup>1</sup>

DFS's historical track record of high levels of expenditure on marketing activity has provided it with significant national brand recognition, thus allowing it to develop a successful retail business based on high footfall to a relatively small number of large retail stores. It has also allowed DFS to expand its store network without incurring significant incremental marketing costs for each new store. DFS has a broad target customer base spread over a wide geographical area, which is reflected in its media advertising purchases. Its advertising media is mainly comprised of television, radio, the internet, national press, inserts, direct mailing, poster sites and in-store points of sale. Consumer advertising is used to create awareness of DFS's brand and promotional activities. Its marketing strategy is designed to ensure that it engages with customers throughout their purchase/ownership journey. This strategy encompasses the initial "trigger" (e.g. redecoration), through looking around for inspiration and shopping around by browsing online or visiting stores, to the point at which the purchase is made (either in store or online). Advertisements are focussed on the products in a given promotion and emphasise the value for money offered by DFS's products and the breadth of its product range in terms of styles, designs and price points, but also bring out headline strengths about DFS such as that its products are handmade to order, and that significant manufacturing is carried out in the UK. DFS's brand messages and marketing are tailored to different customer segments through use of different media channels, and tone of voice.

As part of its overall marketing campaign strategy, DFS advertises the various competitive payment methods available, including IFC options and deferred payment. Mediacom, a leading media agency, helps DFS run its marketing campaigns and coordinates its national press advertising as well as its web based, television and radio campaigns. This has allowed DFS to benefit from efficiencies in its media buying arrangements which have enabled it to achieve substantial savings without affecting its ability to reach consumers. Its ongoing store network expansion across the UK will enable it to achieve further marketing efficiency by allowing it to spread its national advertising costs across a broader store and revenue base, with only limited incremental local marketing support. DFS takes an active role in negotiating with press and television suppliers.

### *Promotional campaigns*

Promotional campaigns are a key driver of customer order intake levels, with peaks in advertising activity during key seasonal promotional cycles. DFS typically conducts between eight and nine advertising campaigns during the year, focussed around key promotional periods. The greatest proportion of its spending on such advertising campaigns occurs during the winter sale period in December and January, at Easter, and the UK bank holidays in May and August. Sales promotions include price reductions and deferred payment terms. DFS's advertising and marketing department liaises closely with its merchandising team to determine which particular product ranges to promote. During a promotional campaign, product and store performance are monitored on a continuous basis. If a product is observed to be under-performing, DFS adjusts its advertising strategy accordingly and the relevant product is able to be removed from the range at the earliest possible opportunity.

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<sup>1</sup> Source: <http://www.marketingmagazine.co.uk/article/1289560/top-100-uk-advertisers-bskyb-increases-lead-p-g-bt-unilever-reduce-adspend#List>

## 6 Vertically integrated operations

### 6.1 Product sourcing

#### *Overview and suppliers*

In Financial Year 2014, DFS manufactured approximately 29% of the furniture it sold (by order volume) internally at its three upholstered furniture manufacturing facilities (it also has two dedicated frame factories), with the remainder of its products supplied by several external manufacturers located across the UK, continental Europe and Asia.

The following table shows the sourcing of upholstery products sold (measured by order volume), during Financial Year 2014:

Major supplier type	Number of suppliers	Approximate percentage of products sold by order volume	Lead time
DFS manufacturing facilities . . . . .	3	29%	3 - 4 weeks
External UK manufacturers . . . . .	6	13%	4 - 8 weeks
External European manufacturers (excluding the UK) .	2	33%	4 - 6 weeks
External Asian manufacturers . . . . .	4	25%	8 - 12 weeks

DFS's vertically integrated operations coupled with long-standing external partners provide significant cost and quality advantages. DFS's own manufacturing facilities allow shorter product lead times and generate supply chain intelligence that provides DFS with an understanding of the cost drivers and therefore improves its oversight of external suppliers and raw material sourcing capabilities. DFS's long-term partnering with external suppliers allows for labour intensive products (such as leather sofas) to be outsourced and is split worldwide, as mentioned above, to manage lead times. Given the significant volumes of orders DFS generates for upholstery manufacturers, DFS is also a valued and important customer for a number of its suppliers.

With the exception of stock held for showroom display, non-upholstery products and stocks of fabric and other raw materials held in its internal manufacturing operations, the Group only purchases goods for production in response to customer orders. It does not enter into any minimum volume commitments and is not required to contribute any form of payment to its external manufacturers in the event that they purchase raw materials for products to be supplied to the Group where sales volumes do not meet expectations.

### 6.2 Product design

DFS has an established track record of continually reviewing, updating and refreshing or replacing its product offering to reflect new fashion trends and innovative designs. It sources new product designs for its stores through its in-house design capabilities as well as from its carefully selected and long-term external supplier partners. Reflecting DFS's design and buying success, its differentiated products, such as the DFS Orbit and Shout in the Capsule Collection, have been imitated by competitors. DFS's range evolution encourages customers to shorten sofa replacement cycles and allows the Group to respond to fashion influences and present fresh products to its customers in each promotional period, both of which drive footfall. Range planning is centralised and developments are driven by the sales performance of individual models. In Financial Year 2014, DFS introduced 227 new product ranges to its stores, of which 25% were designed internally.

DFS has two design studios, one integrated with its Lincoln House manufacturing facility and one standalone studio close to the Long Eaton factory, which are both kept separate to encourage independently creative designs and competition. Each design studio is led by a head designer who is in charge of the design and fabric buyer team, which consists of 24 employees in total, including a fabric designer. The design capability allows DFS to develop exclusive products that can be put into production faster than when working with external design teams. In addition, DFS's in-house designers are able to react to emerging trends and fashions to maintain and increase their relevance in the market and also adapt designs to reflect the popularity of previous designs.

DFS's in-house design capability works in connection with its in-house manufacturing operations, which enables it to maintain enhanced quality and process control and engineer cost savings from the design stage through the manufacturing processes. Moreover, such in-house designers can work with DFS's buying teams when sourcing products from external manufacturers. Consequently, they can influence the external development of new products that DFS buys as they seek to purchase products that match or complement DFS's own internal designs.

### 6.3 Manufacturing

#### *Internal manufacturing*

Internally manufactured goods comprised approximately 29% of the Group's order volumes in Financial Year 2014. However, because DFS's internal manufacturing operations focus exclusively on fabric products, they supply a significantly higher proportion of orders for fabric covered products.

DFS operates the following five manufacturing facilities in the UK, which currently produce c.10,000 items per week and operated at c.80% capacity in Financial Year 2014:

Name	Location	Production	Annual capacity (furniture units)	Utilisation— Financial Year 2014
Northern Upholstery .	Carcroft, Doncaster	Fabric upholstery	240,000	180,000 (75%)
Lincoln House . . . . .	Alfreton, Derbyshire	Fabric upholstery	225,000	170,000 (76%)
Berkeley Magna . . . .	Long Eaton, Nottinghamshire	Fabric upholstery	110,000	110,000 (100%)
The Frame Factory . .	Alfreton, Derbyshire	Wooden frames	240,000	220,000 (92%)
Heanor Gate Woodmill . . . . .	Heanor Gate, Derbyshire	Wooden frames	220,000	165,000 (75%)

Northern Upholstery, Lincoln House and Berkeley Magna are the captive fabric upholstery manufacturing facilities within the DFS business, with the two frame factories exclusively supplying wooden frames to its factories. Each of DFS's manufacturing facilities is operated as a separate profit centre within its business and the significant volume of orders DFS's retail channels generate allows efficient utilisation levels. Upholstery manufacturing is a labour-intensive process and, as a result, labour costs represent a significant portion of the factories' cost bases (direct and indirect labour together represent c.28% of production value). DFS's total labour costs are typically highly variable because it uses a compensation structure for its direct production staff that is based on the pieces of work produced. To optimise labour and fabric costs, its manufacturing facilities are also fully equipped with computer-aided design and robotic cutting technology. Retail gross margins on the sales of internally manufactured goods are broadly comparable to DFS's external products manufactured in the UK, reflecting arm's-length costing internally within the Group's business.

#### *External manufacturing*

Through its external supply strategy DFS aims to be a major customer for its key suppliers to leverage buying power and develop long-term relationships. This approach has helped it create a carefully selected and stable external supplier base. In Financial Year 2014, c.88% of DFS's externally sourced upholstery product range orders came from its top 5 external manufacturers. In this period, DFS's largest external supplier of products, whose manufacturing operations are based in China, accounted for approximately 18% of goods sold.

DFS also uses external product range designers who provide it, without the need to hire additional staff, with the breadth of design it needs to ensure it has a best-in-class product range. The designs sourced from DFS's supplier partners are sold in the UK, the Republic of Ireland and the Netherlands through DFS on an exclusive basis. This in turn means that DFS is typically well-placed to have first option on preferred designs. These supplier partners have a strong track record of developing commercially successful products and are incentivised to generate new product concepts on a regular basis for selection by DFS to drive volumes through their own manufacturing operations.

The Directors believe that the flexible nature of the Group's external supply base means that it is able to optimise its supply chain across a variety of geographical locations, in particular in the face of changing market conditions. The ability of external manufacturers to meet agreed production times is essential for the maintenance of customer satisfaction. DFS seeks to ensure quality standards and production deadlines are maintained through its quality managers' regulatory visits to all external upholstered furniture suppliers. See paragraph 6.5 of this Section A (*The Group*) of Part VII (*Information on the Group and the industry in which it operates*) below for further details.

DFS's external suppliers are typically paid on credit terms ranging from between 30 to 60 days after the date on which goods are received. 24% of DFS's purchases in Financial Year 2014 (together with freight charges) were denominated in US dollars, mainly because the Group's China-based manufacturers are paid in US dollars. The Group generally hedges its US dollar exposure by buying forward contracts against

its future estimated rolling US dollar requirement for a period of between nine and 18 months. It pays its external upholstered furniture suppliers in Europe in pounds sterling. It also pays for some fabrics it acquires for its internal manufacturing in Euro.

#### **6.4 Warehousing and delivery**

The majority of DFS stores maintain their own integrated warehousing facilities and control the final delivery process to customers. DFS's internal manufacturing operations and external suppliers typically deliver ordered goods to DFS stores, where each item is allocated a unique stock number together with customer details and the agreed date of delivery. Delivery and installation is treated as an integral part of the Group's customer service philosophy as the Directors believe that an important driver of satisfaction for many purchasers of sofas is certainty and ease of delivery of the product. All products have a robust process to identify faults prior to delivery and the retail computer systems provide sales staff with the information necessary to achieve accurate delivery times. Deliveries to customers are targeted within 48 hours of the store receiving a product and, except in limited circumstances, are carried out by DFS's trained delivery staff in each store using purpose-built vehicles. Delivery drivers are trained to install the furniture in customers' homes, remove all product packaging and ensure the customer is satisfied. Orders are usually delivered between three and 12 weeks following the order being placed—the average delivery time in Financial Year 2014 was 5.2 weeks. Order intake is typically greater in the period from August to January of each year. However, any short term order fluctuations are smoothed from production planning based on an order bank which ensures logistical efficiencies, lead-time delivery flexibility, as well as visibility of sales performance.

As at December 2014, DFS owned 199 7.5 tonne delivery vehicles (used for home deliveries) with 410 demountable delivery boxes (vehicle bodies), three 18 tonne delivery vehicles, 44 32-tonne delivery vehicles (for delivery to stores) and 89 branded trailers, each of which are subject to a seven year replacement cycle. DFS's delivery vehicles run at full capacity on average c.98.5% of the time on outbound loads on average. Sub-contract hauliers are only used on a temporary basis for deliveries to customers when capacity needs to be increased, such as during the guaranteed pre-Christmas delivery period and are typically accompanied by a full time DFS employee. DFS currently charges £55 (including VAT) for delivery, installation and removal of packaging, which it subsequently recycles.

DFS is currently trialling a network of CDCs to partly replace the in-store warehouse model. CDCs are dedicated warehousing facilities that serve a number of stores in a given region. The move to CDCs will allow the release of incremental retail space (c.400,000 sq. ft. in total) from existing in-store warehouses and have brought significant distribution operational efficiencies, including potentially lower headcount, and materially lower costs per sq. ft. of storage space as compared to in-store warehouses. The Group has opened three CDCs to date in the South East and the North West of England and in Glasgow (each servicing clusters of four stores). The South East CDC has released c.17,000 sq. ft. of retail space across three stores in the cluster and the North West CDC has released c.19,300 sq. ft. of retail space. In November 2014, the Group opened its third CDC in Glasgow to support deliveries for four Scottish stores, releasing c.27,000 sq. ft. of retail space.

It is estimated that 80% of DFS stores are suitable for conversion to a CDC approach and others have integral warehouses that can be relocated off-site. The CDC supply chain approach facilitates efficiency in manufacturing through better batch production planning and shorter lead times.

#### **6.5 Customer service and relationship management**

DFS has a large customer database of c.5.5 million records, which in the Directors' opinion is the largest across the upholstery sector in the UK. DFS complements its broad product offering to its customers with in-store customer service and advice, comprehensive after-sales service, a 10 year guarantee on frame and frame springs and ongoing product support in relation to the products it sells.

DFS displays its products in well-invested, modern, elegant showroom environments, designed to optimise its product display through a focus upon the core upholstery product. DFS's staff are well-trained and will give guidance to customers on product selection and ongoing care. The Group delivers and installs its products to its customers' home addresses using directly employed staff. Its retail computer systems allow for rapid response to customer enquiries and provide sales staff with the information necessary to achieve accurate delivery times.

### *Quality control*

DFS has a long history of emphasising its service proposition. As upholstery is a hand-crafted product, with substantial challenges in transporting and installing products in customer homes without causing product damage it has maintained experienced, directly-employed specialist upholstery delivery teams to maximise likelihood of successful delivery, and service upholsterers to support the long-term structural guarantee that is offered with its products.

Each product sold by DFS is allocated a unique stock number. This ensures DFS maintains a record of every item of furniture from its order to delivery and installation in a customer's home, ensuring quality control and an order record system which the Directors believe is the best in the retail upholstered furniture market as it allows audit control and safety and quality issues to be efficiently dealt with, while identifying and pre-empting any manufacturing problems.

Products are inspected upon delivery to a store or a CDC and again upon installation. Each such inspection is tracked, with outcomes recorded electronically in DFS's central database. Where an external manufacturer demonstrates consistently strong performance, DFS will remove the store-delivery inspection of products stage, which is beneficial for manufacturers as it allows the original factory packaging to remain intact, giving the manufacturer direct control over all stages of their product quality. Defect rates both upon delivery and in ongoing customer use are measured and reported centrally monthly to DFS's senior management and, if necessary are followed up on with manufacturers.

DFS's staff make frequent and regular visits to all external upholstered furniture suppliers to ensure that production is proceeding smoothly and that quality standards are maintained, while suppliers are held responsible for quality defects in the products they manufacture. DFS conducts NPS scoring of suppliers at point of delivery and six months post-delivery across the three metrics of appearance, comfort and build quality. This process has been enhanced by the introduction of QLAs with twelve suppliers since Financial Year 2014, which ensure performance against quality and lead-time targets. In addition, a number of key suppliers are invited each year to present their manufacturing, delivery and quality performance at a review meeting at which DFS's CEO is present and outline forecasted improvements over the next calendar year. The Directors believe these factors emphasise DFS's focus on high quality standards, which is not commonly seen within the Group's industry.

### *Product guarantee*

DFS's standard guarantee offers 10 years of cover against manufacturing defects on the construction of the frame and frame springs. The Group also covers the furniture it sells for two years against any defects which may arise, under normal use, through faulty factory workmanship, including sofa bed and recliner mechanisms. The Group offers customers five-year anti-stain and leathercare warranty insurance for upholstered products (at an extra costs), which is administered and underwritten by third party insurance providers. Following product delivery, customers are able to contact their local store for repairs and claims under its product guarantees or insurance policies. The after sales treatment work with respect to anti-stain care is carried out by Guardsman, and after-sales treatment work with respect to leathercare is carried out by Castellan. DFS's directly-employed after-sales service staff carry out work in connection with the standard DFS guarantee. Each store has at least one trained service upholsterer equipped to carry out such repairs.

The Directors believe that DFS's scale enables it to offer a leading aftercare service while still maintaining leading margins amongst specialist furniture chains.

### *Staff*

DFS invests heavily in the recruitment, training and development of its sales staff, placing significant focus on recruiting individuals who are a natural fit with DFS's culture and sales philosophy and incentivise staff using performance-based (including NPS-linked) remuneration schemes. DFS offers two weeks of classroom training to new recruits to its sales team within the framework of an initial three-month overall training programme, which the Directors believe to be unique in the retail upholstered furniture industry, and regularly offers further training thereafter. As a result, DFS's sales teams are well-trained on DFS product information and the manufacturing process, and are, therefore, able to use effective but customer friendly techniques to establish customers' needs, advise DFS's customers and maximise the probability of converting customer footfall into sales.

DFS monitors the quality of staff performance and customer service through customer-surveyed NPS measurement, regular inspections and audits by internal staff, as well as independent “mystery” shoppers. This comprehensive service proposition contributes to a high level of customer satisfaction and brand recognition, leading more people to DFS’s retail channels and generating customer loyalty, potential repeat purchases and recommendations to friends and family.

## 7 Employees

As of 3 January 2015, the Group employed approximately 3,500 people, all of whom work in the UK (with the exception of c.30 employees in the Republic of Ireland and c.20 in the Netherlands).

The average number of the Group’s employees during the following Financial Periods, analysed by category, was as follows:

	Q1 2015	Q1 2014	Financial Year 2014	Financial Year 2013	Financial Year 2012
	(unaudited)				
Production . . . . .	1,015	985	1,011	896	761
Warehouse and transport . . . . .	739	761	729	732	710
Sales and administration . . . . .	1,822	1,778	1,798	1,615	1,524
<b>Total . . . . .</b>	<b>3,576</b>	<b>3,524</b>	<b>3,538</b>	<b>3,243</b>	<b>2,995</b>

As the Group’s business is subject to fluctuations in order volumes, due to the effects of promotional periods, it will typically use a significant number of temporary employees in sales support roles at peak trading periods. As at 31 January 2015, the Group had approximately 1,000 such employee agreements in place and during the three trading weeks post Christmas, during the start of its winter sale trading period, an average of approximately 200 staff were employed. However, the Group is not committed to minimum levels of employment for any sales support staff and, during the first quarter of Financial Year 2015, an average of c.40 sales support staff were employed each week.

DFS’s on-going expansion programme has created opportunities for both new and existing staff, as DFS recruits additional staff and is able to offer opportunities for promotion to its talented employees. Reflecting DFS’s commitment to its staff, the Selling Shareholders have agreed to allocate 1% of any profit arising in connection with their sale of Ordinary Shares to DFS employees under the DFS Partnership Scheme (the “**Partnership Scheme**”). The Partnership Scheme is described in further detail in paragraph 12 of Part XIV (*Additional Information*) of this document.

## 8 Property

DFS’s head office is located near Doncaster. The Group leases 110 properties (including 20 standalone warehouses and five factories) in the UK, five properties in the Republic of Ireland and one in the Netherlands with in excess of one million square feet of total retail space in aggregate. This amount includes leases (each on broadly similar terms) of 27 of its properties, including 20 of its stores, with various landlords who purchased the leases from Delphi Properties Limited (formerly known as DFS Properties Limited) (the “**Delphi Leases**”). At the time of DFS’s entry into the Delphi Leases in 2005, they were priced on what was intended to be an arm’s-length basis. The Delphi Leases are due for expiry in 2030 and will have the current rent payable until 2020 with rent reviews in 2020 and 2025 based on the former rent or open market rent for each property (whichever is higher). Although DFS does not have a standard lease for each of its remaining retail stores in the UK, the leases of such stores are subject to typical rates, the terms are generally for 25-year or 15-year periods and contain requirements that the Group bears the cost of repairs, reinstatement, any relevant service charges and insurance for all leased facilities. DFS’s leases are subject to rent reviews. The majority of such leases are due for rent review within the next five years and some have overdue and currently unresolved rent reviews. If its advisers believe a rent review will result in a rental increase, the Group factors such estimated increase into its financial accounts. The Directors do not anticipate any material adverse impact as a result of these unresolved rent reviews. Most of the lease terms will expire prior to 2030. Rental expense per square foot varies considerably across DFS’s property portfolio. In addition, the Group sublets or licences five of its leased premises to retail tenants. DFS’s property portfolio is managed internally and supported by external specialists where appropriate. This team is responsible for ensuring that each site is in compliance with statutory requirements, including health and safety requirements.

For a full list of the Group's retail stores and their size, together with a list of its warehouses, factories and other property interests, see Part XIV (*Additional Information*).

## **9 Information technology**

DFS's business depends on the ability of its employees to process transactions on secure information systems and its capacity to store, retrieve, process and manage information. Its information technology systems are managed in-house by a team of IT professionals based in Doncaster who are supported by third parties. The Group's core IT applications include a mixture of in-house developed systems and packaged solutions. Its key front-office IT systems are used to manage, track and deliver orders, monitor stock and quality control and interface with suppliers, finance partners and credit agencies. Its core manufacturing system receives order information from the retail system and enables production plan development, raw material stock management, piecework calculation and finished stock control and despatch control. DFS also relies on licensed software for its back-office systems. Although it has contributed to the development of certain of the software platforms that it licenses, the proprietary rights in the intellectual property of these software platforms rest with their licensors. The Group, however, exclusively owns the business process intellectual property resulting from the integration of these software platforms with its existing systems and the customisation of these platforms. It constantly monitors and updates its IT systems and processes to ensure reliability, business continuity and performance. Its key IT systems are replicated and stored at a disaster recovery site near its head office and all of its stores are linked to this head office as well as to its disaster recovery site. DFS's business continuity planning is managed by its Head of IT and is reported on at Board level. Various business continuity plans have been created to respond to possible future incidents and include a 65 desk workplace recovery area at the Group's disaster recovery site along with contractual access to a further 50 desks at a third party recovery centre in close proximity to the head office. These plans are regularly reviewed, tested and updated. There have been no security breaches reported over the course of the last two years. Management expect the current core server to support currently planned business growth and current international expansion.

## **10 Intellectual property**

The Group relies on trade mark and copyright laws, confidentiality procedures, registration procedures and contractual provisions to protect its intellectual proprietary rights. It regards its intellectual property as a valuable asset in the marketing of its products and actively takes steps to protect its intellectual property rights when and where it deems appropriate. The Group markets all of its products and services under approximately 43 registered trade marks, primarily covering the "DFS" logo, the "think sofas, think DFS" logo and the "DFS making every day more comfortable" logo. It also owns trade marks pertaining to its other brands, including "DWELL", "SOFA WORKSHOP" and the "Northern Upholstery" logo. Eight of its registered trade marks are registered as Community Trade Marks ("CTM"s), 19 of its trade marks are registered as national marks in the UK and one trade mark is registered as a national mark in the Republic of Ireland. Another three trade marks are currently going through the CTM registration procedure and one trade mark is going through the UK registration procedure. The Directors believe that the Group's trade marks enhance its competitive advantage and are essential to its business. The Group also uses the "DFS" name as a trade name. The Group owns or controls approximately 46 domain names, including its core customer-facing website. These domain names are either used by its business to deliver services and information to its customers or held to protect trading names and brands developed by the business. In general, the Group owns the copyrights in the designs created or commissioned by it. It also owns certain intellectual property rights with respect to its customer database. It presently has no registered designs, patents, registered design applications or patent applications pending.

## **11 Dividend policy**

Strong cash generation has meant that the Group has consistently returned cash to stakeholders. Assuming that sufficient distributable reserves are available at the time, the Board intends to adopt a progressive dividend policy which reflects the long-term earnings and cash flow potential of the Group, with a dividend pay-out ratio of around 40-50% of profit after tax, split one-third and two-thirds between interim and final dividends respectively.

The Directors expect that the first dividend to be declared following Admission will be the final dividend in respect of the current financial year which is expected to be paid in January 2016.

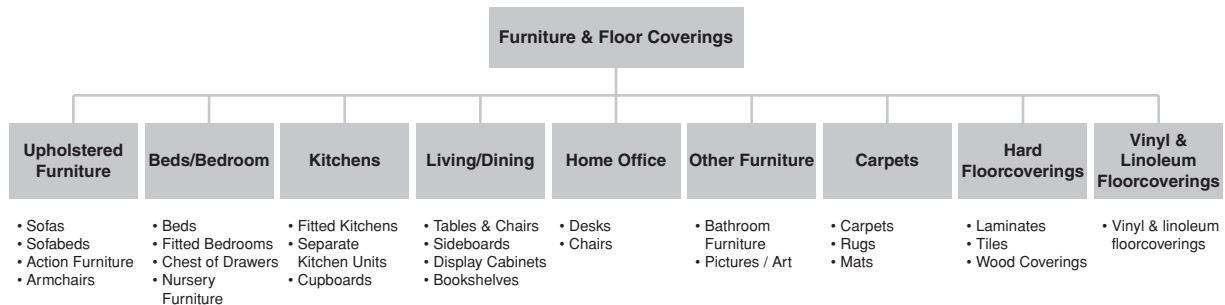
The Company may revise its dividend policy from time to time.

## Section B: Industry Overview

### 1 Overview

The Group has a specialist focus on the retail upholstered furniture market in the UK, which is part of the broader furniture and floorcoverings market. Verdict estimate that the broader furniture and floorcoverings market was worth c.£12 billion in 2014. The UK retail upholstered furniture market accounts for over 25% of the total furniture and floorcoverings market, and was estimated by Verdict to be c.£3.0 billion in 2014 with DFS the clear market leader with 25.7% share by value, with the next competitor being ScS with 7.9% market share by value.

The retail furniture and furnishing market is divided into the following market segments:



The retail upholstered furniture market encompasses the sale of leather or fabric upholstered two-seater, three-seater and four-seater sofas, sofa beds, armchairs and reclining chairs, footstools, combinations of module sofa units (e.g. corner units), and action furniture (which refers to furniture with moving parts such as recliners and unfolding footrests).

#### The retail upholstered furniture market

##### 1.1 Demand drivers

The Directors believe demand for upholstered furniture in the UK is predominantly driven by three factors:

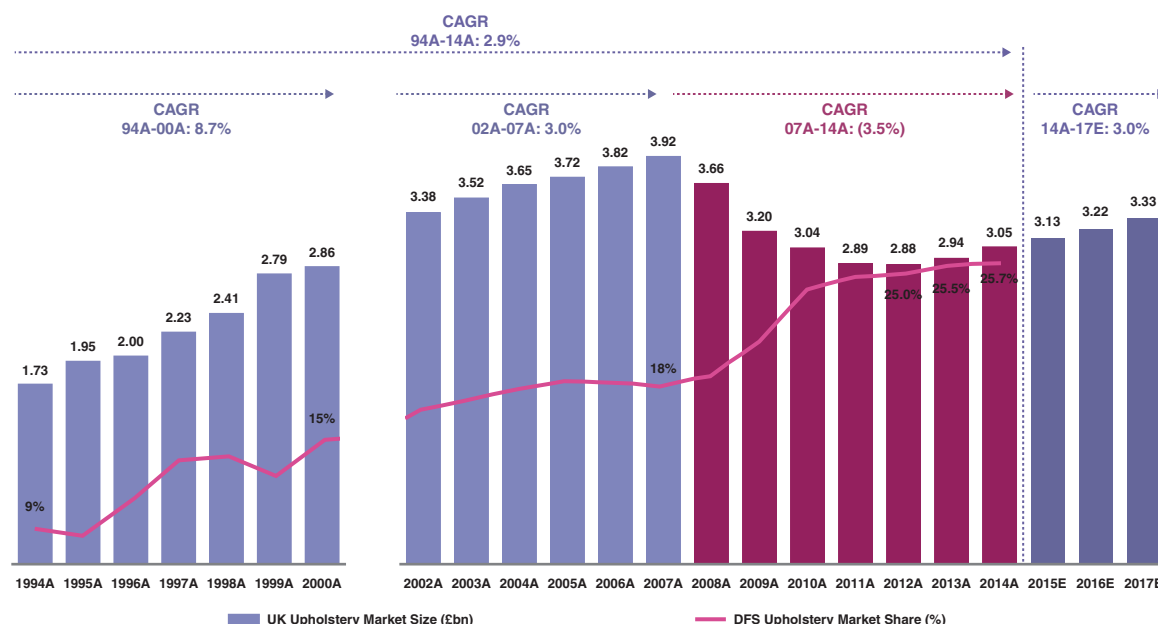
- **consumer confidence:** levels of consumer spending are influenced by general consumer confidence, which in turn is affected by several macroeconomic factors, including income and employment levels, household disposable income and interest rates;
- **level of housing market activity:** research conducted on behalf of DFS suggests that approximately 21% of upholstery purchases are derived from moving home and are therefore underpinned by the strength of the prevailing housing market; and
- **consumer credit availability:** upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling.

##### 1.2 Trends

Between 2002 and 2007, the UK upholstered furniture market grew by 3.0% on a compound annual growth basis,<sup>1</sup> peaking (according to Verdict) at £3.9 billion. Given the weakness in the three main drivers of the UK upholstered furniture market driven by general macroeconomic trends, the market declined to £2.9 billion in 2011 from where it has since stabilised to c.£3.0 billion in 2014. The market is forecast to reach c.£3.1 billion in 2015, and on the basis that the demand drivers have generally continued to show improvement, Verdict forecasts this momentum to continue with the UK upholstery market estimated to grow by c.3.0% on a compound annual basis between 2014 and 2017. Verdict also believes that the UK

<sup>1</sup> Upholstery market share data for 2002-2007 has been derived by DFS based on the relative size of the upholstered furniture market within the overall furniture market, with both market sizes sourced from Verdict estimates (Source: Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict. Statements describing DFS's leading market position refer to the upholstered furniture market as defined by Verdict).

upholstery market is set to perform strongly due to its products being a “comfort” purchase, which encourages shoppers to prioritise this product over other durables.

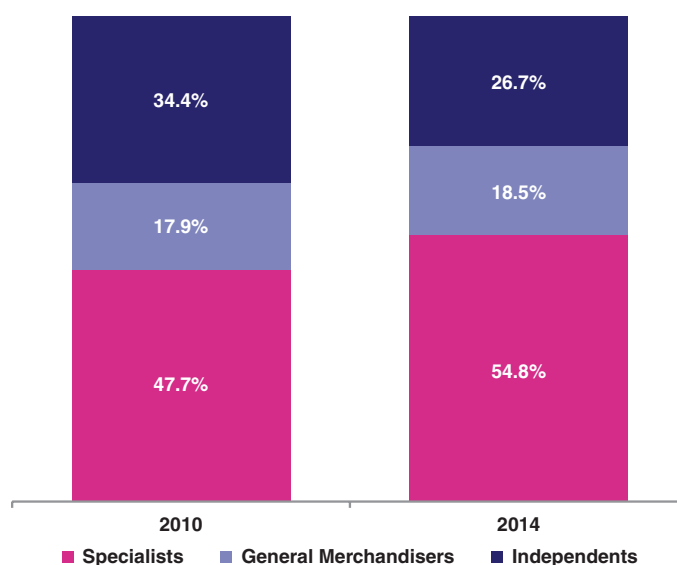


Source: Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict. Statements describing DFS’s leading market position refer to the upholstered furniture market as defined by Verdict.

According to Verdict, the furniture and floorcoverings market in 2013 was dominated by store purchases, constituting c.90.7% of total value versus online purchases of c.9.3%. The online channel for many UK upholstery retailers is predominantly an important element of an omnichannel approach; their online channels will typically be the first point of contact for potential customers and a source of potential inspiration prior to customers visiting a retail store. As a result, many furniture retailers have invested and developed their online proposition in recent years through responsive web sites hosting rich content including high resolution photos and video. Online “pure play” retailers such as sofa.com have had a small impact on the market. However, the Directors believe that pure play online penetration rates will ultimately be constrained by customers’ desire to test the product (typically by sitting on it) before purchasing.

### 1.3 Competition

The UK retail upholstered furniture market is broken down into three main categories:



Sources: Copyright © 2015, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict/DFS’s internal analysis

### *Omnichannel and online furniture and upholstery specialists*

Upholstered products typically comprise a significant proportion, if not the vast majority, of furniture and upholstery specialist retailers' product offerings and the main competitors to DFS in the UK are ScS, Harveys, Sofaworks and Furniture Village. Collectively, they make up over 50% of the market, with DFS representing nearly half of this segment. The specialists are able to offer a deeper range of products, together with bespoke services including IFC, delivery, installation and after-sales care.

Between 2010 and 2014, market share held by this segment grew by 7.1%. This market share gain was largely at the expense of the independent sector which has struggled to match the scale and customer proposition of the larger specialist retailers.

Online penetration is expected to rise faster than the general market, due to the emergence of the 'pure play' online retailers, but also due to successful omnichannel strategies of specialists. Most of the larger specialists provide an online platform as part of their omnichannel approach for their customers to conduct research and make purchases via the internet. According to internal estimates, DFS is the leading online retailer in the upholstered furniture market with a c.28% share.

### *General merchandisers' segment*

General merchandisers offering upholstered furniture typically comprise of high street extensions of general retailers and entry level retailers. This segment had a 18.5% share of the overall market in 2014. Between 2010 and 2014, the general merchandisers segment saw a small gain in market share of 0.6%.

DFS's competitors include high street extensions of general retailers, which generally dedicate a material proportion of their overall furniture offering to upholstered furniture. The main competitors in the segment include Next, John Lewis and M&S.

Entry-level retailers, for whom upholstered furniture is a less significant portion of their offerings (as compared to high-street extensions), also compete for market share in the upholstered furniture market in the UK. Such retailers include IKEA and Argos and diversified retail grocery chains such as Asda and Tesco that offer a broad range of food and non-food products (including upholstered and other furniture) from within their extensive UK store networks, as well as from their fully transactional websites.

### *The independent segment*

The remaining retailers offering upholstered furniture mainly comprise of local independent stores across the UK. This segment has experienced a significant decline in share of value from 34.4% in 2010 to 26.7% in 2014. The independents have struggled to compete against the larger retailers which have more flexibility on price and are able to offer deeper and broader product ranges.

## **1.4 Business models**

Companies operating within the upholstered furniture market generally operate a stockless business model, a stocked business model, or a combination of both.

- A stockless retailer will only hold showroom stock of their products, with all customer orders manufactured to order. Stockless retailers are able to offer a very wide product choice, using a small number of showroom products combined with material swatches and electronic imagery to illustrate other product choices in the range. Delivery lead times are typically longer for stockless retailers, between three weeks and 16 weeks post order, with the longer lead times typically for products manufactured in Asia.
- A retailer using a stocked business model will hold inventory of their product lines. Given the working capital, logistical and fashion risk characteristics of stocking products, stocked retailers will typically only be able to offer products in a limited number of the most popular colours and styles, and will be unable to change their ranges frequently due to the challenges of inventory clearance. Stocked product deliveries are typically marketed as being available between 72 hours and 14 days post order. Stocked or mixed retailers include furniture specialists such as Furniture Village and Sofaworks, and also general merchandisers such as John Lewis, Next, M&S, Ikea and Argos.

Other than DFS, national upholstered furniture retailers generally do not operate a stockless or a wholly stocked model, instead typically relying on a combination of both a stocked approach on the largest volume on proven ranges with a stockless model on lower volume ranges.

The Directors believe that DFS's virtually stockless model is superior to other approaches for a number of reasons:

- a stockless business model is a far less financially risky model for the retailer:
  - the retailer does not need to hold inventory, thus has a superior working capital profile and lower cost of operation;
  - there is very little fashion risk, as stockless businesses will not have invested in the manufacture of each product until it has been sold. Should customer preferences change, there will be very little, if any, residual stock; and
  - there is a reduced need for warehouse space to hold inventory;
- having a broad product portfolio allows the retailer greater flexibility to upsell to its customers;
- DFS's captive manufacturing model means that the Group is able to shorten delivery lead times to c. three weeks on some products that it manufactures itself. Furthermore, because of DFS's scale, its suppliers are generally able to achieve shorter lead times than other retailers given containerisation<sup>1</sup> of deliveries and the need to have full loads. This facilitates DFS holding a leading market share in Convenience Shopper and Quicker Delivery customer segments where delivery times are a more important factor; and
- the majority of the market by value is comprised of Quality Seekers and Value Seekers for whom delivery lead times are less important, with Quality Seekers preferring a high quality product from a wide choice, while Value Seekers will focus on the overall product value proposition including product price, quality, style and financing options.

## 2 Consumer segments

Based on research conducted on behalf of DFS, the Directors believe consumers in the UK upholstery market are broadly split between the Value Seekers, Quality Seekers, Convenience Shoppers, Quicker Delivery and Bargain Hunters segments. DFS is the clear market leader in each of the segments in the UK. For a detailed explanation of how the Group classifies consumers into segments and calculates the data, please see Part V (*Presentation of Information*).

- *The Quality Seeker segment* is the largest in terms of both volume and value. The Quality Seeker segment accounts for c.£1.3 billion or c.41% of the market by value, in which DFS has a c.21% share (and Sofa Workshop and dwell account for a further c.1%). In the past four years, the market has shifted further towards the Quality Seeker segment, at the expense of the Value Seekers, as Quality Seekers may have been less affected by the macroeconomic environment. Quality Seekers tend to be older and more affluent than other segments, primarily motivated by quality of design, product and service from start to finish. They are prepared (and frequently expect) to spend time and money on finding the right sofa for their home and for it to be individually made and delivered. Brands are important to them as a signifier of trust and quality. These customers tend to make cash or credit card purchases, although just over half who purchase at DFS do so using IFC.
- *The Value Seeker segment* accounts for c.16% of the market by value, in which DFS is the market leader with a c.46% share. This segment skews heavily to middle income families who seek a balance between quality, style and price from a brand they trust. IFC is stated as an extremely important deciding factor by Value Seekers as it affords them the ability to trade up.
- *The Convenience Shoppers segment* accounts for c.19% of the total market by value. This segment generally includes younger adults who are first time buyers of property. These shoppers tend to be inexperienced in furniture shopping and will look for quick, easy and stylish solutions with short and convenient delivery times. Many of these shoppers say they use IFC, particularly when purchasing from DFS.
- *Bargain Hunters* are the fourth largest segment in the market with a c.13% share. These shoppers are primarily motivated by low prices and/or sales and promotions. This segment tends to have fixed budgets and may not be able to obtain credit.

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<sup>1</sup> Containerisation is a system of standardised transport that uses a common size of steel container to transport goods. Such containers can easily be transferred between different modes of transport—from container ships to lorries and trains.

- *The Quicker Delivery segment* accounts for only c.11% of the upholstery market. The segment stands out for its high demands in terms of delivery lead times and is mainly comprised of busy career-focussed individuals in their 30s and 40s, often with younger families. These customers generally research and purchase within their first week.

### **3 Suppliers**

Upholstered furniture retailers in the UK largely source their products from manufacturers located in the UK, continental Europe and Asia. The industry generally sources leather upholstered products from China due to the labour intensive nature of the product's manufacture, although certain premium leather products are manufactured in Italy or other regions in Europe. Fabric upholstered products sold in the UK market are generally manufactured in the UK or Eastern Europe as fabric covers can be machine cut, and finished fabric goods are more difficult to ship without risk of damage.

In addition to sourcing from other manufacturers, a small number of upholstered furniture retailers, in particular DFS and Harveys, which is wholly owned by Steinhoff Europe AG, develop and operate proprietary manufacturing facilities for a portion of their supply requirements in which exclusive furniture ranges are designed and manufactured. The combination of designing and manufacturing one's own products offers retailers several advantages, including added value and margin opportunity, shorter design-to-showroom times, experimentation and innovation in product design and development, valuable experience and intelligence of supply chain dynamics that can be used in discussions with external suppliers and a certain level of protection from disruptions in the supply chain.

Upholstery manufacturers which are not owned by retailers operate different models when selling their products to retailers. Some suppliers will sell their sofas to retailers on a white-label basis whilst others sell their sofas branded on an exclusive or non-exclusive basis (such as Sofa Brands International which sell their G-Plan, Parker Kroll and Duresta brands).

### **4 Consumer finance**

Given that upholstery purchases represent a significant expenditure, consumer finance can play a central role in making the purchase more manageable, and where appropriate allowing the retailer to upsell. The Directors believe that the most attractive form of consumer finance is IFC which allows customers to pay for their purchase over a typical period of two to four years in monthly instalments, and can sometimes include a payment deferral of up to one year.

## Section C: Regulatory overview

The Group's operations are governed by a range of laws and regulations. The most pertinent of such laws and regulations are summarised below.

### 1 FINANCIAL SERVICES

The Group offers certain financial services to its customers, including IFC options provided by consumer credit providers, which is subject to various degrees of government regulation.

#### *FCA and FSMA*

On 1 April 2014, responsibility for the regulation of consumer credit activities transferred from the OFT to the FCA. FSMA replaces certain of the provisions of the Consumer Credit Act 1974 ("CCA") that cover licensing and other aspects of the regulatory framework for consumer credit. Consumer credit activities that were licensable under the CCA have therefore become regulated activities under FSMA. Certain companies in the Group, at present DFS Trading Limited and Sofa Workshop, are authorised to promote and arrange credit for customers from third party finance providers.

Companies carrying on consumer credit-related regulated activities must comply with the remaining elements of the CCA that cover, *inter alia*, documentary and information processes to be used in relation to consumer credit and the relevant provisions and guidance set out in the Consumer Credit sourcebook issued by the FCA. In addition such companies must: (a) be authorised by the FCA with the appropriate permission; or (b) be exempt from regulation (e.g. for credit agreements exceeding £25,000 that are entered into by the debtor wholly or predominantly for the purposes of a business). An interim permission regime is running until April 2016 and will allow companies that have previously been regulated by the OFT to continue trading while transitioning across to the FCA regime. Each company holding an interim permission has been granted a three month application window by the FCA during which that company must apply for a replacement authorisation. There are two categories of replacement authorisation: "limited permission" and "full permission". Companies that qualify for limited permission should present reduced risks to their customers and therefore have a proportionately reduced regime. Companies that only promote and arrange for the provision of credit for their customers from third parties to allow those customers to buy goods from them require a limited permission. Once an authorisation is applied for it normally takes up to six months for this to be reviewed and, if appropriate, granted by the FCA, but this period can extend up to 12 months.

DFS Trading Limited's three month application window commenced on 1 December 2014 and DFS Trading Limited has applied for a limited permission during its application window. The FCA is currently considering the grant of such interim permission and, while the Directors believe this will be granted, they cannot guarantee that this will be the case. Sofa Workshop's three month application window will commence on 1 September 2015.

If a company carries on regulated consumer credit activities without permission it will be committing a criminal offence under FSMA and the company will be at risk of enforcement action. In addition, any agreements made may be unenforceable. There is also an alternative dispute resolution scheme, run by the Financial Ombudsman Service, to which customers may have recourse on consumer credit matters. The scheme is mandatory for all businesses authorised for consumer credit activities under the FCA. The documentary and information requirements for consumer credit agreements under the CCA include provisions setting out information that must be supplied to customers before they enter into consumer credit agreements. The Directors believe the Group's selling processes are in compliance with these requirements. For more information on the risks to our business with respect to CCA, see Part II (*Risk Factors—Risks Relating to the Group's business and the industry in which it operates—Consumer-related legislation and various government regulations could affect the Group's trading operations*).

#### *Enhanced product warranty insurance*

The Group offers enhanced product warranty insurance. Under applicable law, whilst sofa care products are insurance products, the sale of such products is not regulated by the FCA as long as the entities offering it do not otherwise carry on a regulated activity. Therefore, the Group currently does not need to be authorised by the FCA in relation to the sales of the warranty insurance. However, once the relevant Group companies obtain limited permission from the FCA in relation to their consumer credit activities, they may no longer benefit from this exemption. The Group may, therefore, need to be either authorised

for insurance mediation activities, or be an appointed representative of an authorised firm. In the latter case, amendments to the Group's existing agreements in relation to sofa care insurance products would be required to ensure that they comply with the FCA's prescribed terms for appointed representative agreements.

#### *PPI investigation*

The Group previously earned insurance commission income on the sale of payment protection insurance (“PPI”) to customers as an add-on to IFC sales (historically up to £13 million in Financial Year 2005). Its PPI offerings provided insurance coverage to customers in circumstances (such as sickness, unemployment or death) that may have prevented them from servicing their payment obligations during the finance term. Between September 2007 and November 2008, the FSA conducted an investigation into the Group's records and practices with respect to its PPI offerings to customers, particularly in relation to the Group's compliance with the conduct of business rules applicable to sales of this type of financial product from January 2005. The FSA concluded in November 2008 that no mandatory disciplinary regulatory action would be taken with respect to DFS's PPI offerings at that time, and took no further subsequent action. DFS elected to cease the sale of PPI from 23 March 2012 and applied for cancellation of its permission under Part IV of FSMA, which was granted with effect from 28 December 2012. The volume of customer complaints regarding PPI increased significantly from March 2012 as a result of the publication of FSA guidelines on PPI complaints, increased publicity regarding PPI claims and the proliferation of companies making claims on behalf of customers and consequently DFS has had to deal with historical complaints within a specified timeframe. It may still receive further customer complaints regarding PPI which may collectively result in a significant cost to the business in the handling, assessment and settlement of such complaints. In connection with the Group's PPI related customer remediation programme, it accrued a reserve of £3.8 million in Financial Year 2009 (and continues to hold a reserve that is equivalent to more than three times the current annual run rate of remediation costs) and it has not considered there to be a need for any further reserves since then. See Part II (*Risk Factors—Risks related to the Group's Business and the industry in which it operates—Residual Liabilities may remain in relation to the Group's previous PPI offerings*).

## **2 DATA PROTECTION**

All personal data held by the Group, including the Group's customer database, is subject to numerous laws, including laws in relation to data protection. The primary law in relation to data protection, the European data protection Directive 95/46/EC, has been implemented in the UK by the Data Protection Act 1998 (the “DPA”). The DPA regulates the use of personal data in accordance with eight key principles, which include, amongst others, that personal data shall: be processed fairly and lawfully; only be processed for specified purposes; be processed in accordance with the rights of individuals; be subject to appropriate technical and organisational measures; and not be transferred outside of the European Economic Area unless certain conditions or exceptions apply. Additionally, the Privacy and Electronic Communications (EC Directive) Regulations 2003 (“PECR”) implement the privacy and electronic communications Directive 2002/58/EC. PECR applies to the sending of any electronic marketing messages in the UK (including by telephone, email, text message or by using an automated calling system). Broadly, PECR prevents unsolicited marketing material being sent to individuals without their prior consent, subject to exceptions. The Group is unaware of any ongoing data protection complaints or investigations by the Information Commissioner's Office (the independent UK body responsible for administering and enforcing the DPA and PECR). However, it is uncertain what impact, if any, further changes to data protection regulations could have on DFS's operations, and the Group cannot provide any assurance that future changes in the requirements or enforcement and interpretation of these regulations will not have a material adverse effect on its business, financial condition or results of operations.

## **3 GENERAL**

The Group's operations are also subject to governmental regulation concerning, among other things, export and import quotas and other customs regulations; consumer and data protection; the advertisement, promotion and sale of merchandise; product safety; the health, safety and working conditions of the Group's employees; the safety of the Group's stores and their accessibility for the disabled; and the Group's competitive and marketplace conduct. The Directors are not aware of any material non-compliance by the Group with these regulations. The Directors cannot provide any assurance, however, that any future changes in the requirements or mode of enforcement of these laws and regulations will not have a material adverse effect on the Group's business, financial condition or results of operations.

## PART VIII

### DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

#### 1 Directors

The Board will comprise:

Name	Position	Date of Appointment to the Board	Year of joining DFS
Richard Baker . . . . .	Non-Executive Chairman	2 February 2015	2010
Ian Filby . . . . .	Chief Executive Officer	2 February 2015	2010
Bill Barnes . . . . .	Finance Director	2 February 2015	2003
Luke Mayhew . . . . .	Senior Independent Non-Executive Director	2 February 2015	2014
Gwyn Burr . . . . .	Independent Non-Executive Director	2 February 2015	2014
Julie Southern . . . . .	Independent Non-Executive Director	2 February 2015	2015
Andy Dawson . . . . .	Non-Executive Director	2 February 2015	2010

The business address of each Director is: 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA.

**Richard Baker** has 29 years of experience in the consumer and retail sector. Richard joined DFS in 2010 following the acquisition of the business by Advent, for whom he has acted as an operating partner since August 2009. Between 2003 and 2007, he was Chief Executive of Boots Group and Alliance Boots, and oversaw the merger between Boots Group and Alliance Unichem in 2006. Prior to joining Boots, Richard was Chief Operating Officer at the supermarket group Asda. Since September 2014, Richard has acted as non-executive Chairman of Whitbread plc, following his appointment as a non-executive director in September 2009. He is also currently non-executive Chairman of the Global Advisory Council of Aimia Inc, which owns and runs the Nectar loyalty programme in the UK and he is an independent director of the Lawn Tennis Association. Richard has an MA (Hons) in Engineering Science from Cambridge University and a Diploma in Strategic Retail Management from Harvard.

**Ian Filby** joined DFS in September 2010 and has 34 years of retail experience, primarily at Alliance Boots, where his most recent roles were Retail Brand Development Director and Trading Director. Until January 2010, Ian was also Interim Chief Executive Officer of Nectar, the UK's leading coalition loyalty programme. He is also currently non-executive Chairman of Shoe Zone plc and is a member of the British Retail Consortium Board, and Chairman of the British Retail Consortium Policy Board. Ian has an MA (Hons) in Chemistry from Cambridge University.

**William ("Bill") Barnes** has 25 years of experience in the retail sector. He joined DFS in October 2003 having spent 14 years at retailer Next plc where he was Group Financial Controller and Company Secretary. Bill has a B.Com (Bachelor of Commerce) from the University of Birmingham. He is a fellow of the Institute of Chartered Accountants.

**Luke Mayhew** joined DFS in October 2014 as Senior Independent Non-Executive Director. Luke previously served for 13 years on the Board of John Lewis Partnership, including as Managing Director of the Department Store division. Luke also spent five years at British Airways Plc and seven years at Thomas Cook Group PLC in senior positions. He was also previously Chairman of the British Retail Consortium, a Non-Executive Director of WH Smith PLC and Chairman of Pets at Home Group Limited. He is currently an independent non-executive director of InterContinental Hotels Group PLC and Trustee of BBC Children in Need. Luke has a BA (Hons) from Oxford University and a Masters in Economics from the University of London.

**Gwyn Burr** joined DFS in December 2014, and chairs its Remuneration Committee. She previously served on the operating board of J Sainsbury plc with responsibility for customer service, human resources, corporate responsibility and corporate communications, as well as key sponsorship schemes including the Paralympic Games programme. Before that, she held various management positions within the supermarket group Asda. She is currently an independent non-executive director of Metro AG, Wembley National Stadium Limited, Hammerson plc and Just Eat plc. She is also a non-executive director of Sainsbury's Bank plc and the Financial Ombudsman Service. Gwyn has a BA (Hons) in Economics and History from Bradford University.

**Julie Southern** joined DFS in February 2015, and chairs its Audit Committee. She was previously with Virgin Atlantic from 2000 to 2013, first spending ten years as CFO before taking on the role of Chief Commercial Officer in 2010. Prior to joining Virgin Atlantic, Julie was Group Finance Director of Porsche Cars GB and Finance and Operations Director of WH Smith's subsidiary HJ Chapman & Co. Julie currently is a non-executive director of NXP Semiconductors N.V. and also Rentokil Initial plc where she also chairs the Audit Committee. She is a qualified accountant, having trained with Price Waterhouse, and has an BA (Hons) in Economics from Cambridge University.

**Andy Dawson** joined the Board in 2010 in connection with the acquisition of DFS by Advent. He is a Partner of Advent and coordinates Advent's retail activities in Europe. He has over 10 years of experience in private equity focused on the retail sector. Andy has an MA (Hons) in Engineering from Cambridge University.

## 2 Senior managers

The Group's senior management comprises:

Name	Position
Ian Filby . . . . .	Chief Executive Officer
Bill Barnes . . . . .	Finance Director
Jon Massey . . . . .	Chief Operating Officer
Keith Baker . . . . .	Projects Director
Nicola Bancroft . . . . .	Commercial Finance Director
Helen Normoyle . . . . .	Chief Marketing Officer
David Payling . . . . .	Retail Operations Director
Gary Pitchford . . . . .	Buying Director
Tim Stacey . . . . .	Online & Business Development Director
Andrew Stephenson . . . . .	Human Resources Director
Andrew Trofimowicz . . . . .	Business Planning Director

**Ian Filby (Chief Executive Officer).** See "Directors" above for Ian Filby's biography.

**Bill Barnes (Finance Director).** See "Directors" above for Bill Barnes' biography.

**Jonathan ("Jon") Massey (Chief Operating Officer)** has 42 years' experience in the retail sector. He joined DFS in 1988. Prior to this he spent 16 years working for retailer Allied Carpets, for eight years of which he was director of accounting and management information systems. Jon is a fellow of the Institute of Chartered Accountants and started his qualified career as a member of the predecessor of what is now KPMG LLP.

**Keith Baker (Projects Director)** has 35 years' experience in the retail sector and joined DFS in 1992 having spent nine years with retailer Sears plc. Keith has a B.Ed from Birmingham University College of Education. Keith has worked extensively within the stores network, spending approximately 10 years as Retail Operations Director (South). From 2012, Keith has worked on/led the new store opening programme, initiated the CDC programme and is currently living in the Netherlands leading the DFS International expansion programme.

**Nicola Bancroft (Commercial Finance Director)** has 27 years of experience in the retail sector. She joined DFS in January 2013 from Alliance Boots where she held a series of senior finance roles, latterly Commercial Finance Director and Retail & Transformation Finance Director. At DFS, Nicola has established the commercial finance function and is now responsible for strategic planning, financial planning and analysis and finance partnering supporting all business areas. She has a BA (Hons) in Accounting and Finance and is a fellow of the Chartered Institute of Management Accountants.

**Helen Normoyle (Chief Marketing Officer)** joined DFS in 2012 from the BBC where she was Director of Marketing and Audiences and responsible for the corporation's marketing, audience services, research and planning across its television, radio, online and news programming. Helen's career has spanned brand and marketing communications, new product development and market research, and broadcast and telecoms regulation. She has worked across multiple sectors including media, telecommunications and pharmaceuticals. In addition to the BBC Helen has previously worked for GfK, Motorola and Ofcom.

**David Payling (Retail Operations Director)** has 33 years of experience in the retail sector and joined DFS in 1989 from retailer GUS. Dave began his career with DFS as a salesman and has held the roles of Store

Manager, Area Manager, Regional Manager, becoming Retail Operations Director (North) in 2001 before being appointed Retail Operations Director for the whole Group in 2012. He is responsible for the performance of all DFS stores and their warehouses in the UK and Ireland, and also customer administration and the customer aftercare service. Dave has a keen interest in promoting business, motivating the team and providing world class customer service.

**Gary Pitchford (Buying Director)** joined DFS in 1999 and has over 25 years' furniture experience. As Buying Director for DFS, Gary has overall responsibility for sourcing, price negotiations, ranging and design. Gary also heads up DFS's in house design and development teams for its fully owned manufacturing facilities.

**Tim Stacey (Online & Business Development Director)** joined DFS in 2011 to lead the omnichannel transformation of the business and the growing on line channels. Tim also leads the acquisition, integration and development of Sofa Workshop and dwell. Prior to DFS, he spent 12 years working for Alliance Boots, where he was Multi Channel Director responsible for Boots.com and introducing Order and Collect. He was also Commercial Finance Director and is a qualified Chartered Accountant, having trained with KPMG.

**Andrew Stephenson (Human Resources Director)** joined DFS in 2009 having previously held sales, store and regional management, programme management and human resources roles at Dixons Retail, Virgin, B&Q and Vodafone. His role covers HR, Facilities Management, Corporate Responsibility, Customer Experience and Conferencing. Andrew has an MA from Staffordshire University in Strategic Human Resource Management, is a Certified Net Promoter System practitioner and is a Chartered Fellow of the Chartered Institute of Personnel and Development (FCIPD).

**Andrew Trofimowicz (Business Planning Director)** has been at DFS for over 28 years, joining the management team in 1986 and serving as Marketing Director from 2001 to 2011. Andrew has joint responsibility with the Strategy Board for managing risk, legislative retail compliance and developing a consistent world class brand experience for DFS customers. He graduated from University of Lancashire (BA (Hons) in Accounting) before starting his career in retail store management.

### **3 Corporate governance**

#### **3.1 UK Corporate Governance Code**

The UK Corporate Governance Code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The UK Corporate Governance Code recommends that for a company in the FTSE 350 (such as the Company), at least half the board, excluding the chairman, should be 'independent' non-executive directors, being individuals determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement. It also recommends that a FTSE 350 company's remuneration and audit committees should comprise at least three 'independent' non-executive directors, and that its nomination committee should comprise a majority of 'independent' non-executive Directors.

From Admission, certain provisions of the UK Corporate Governance Code will apply to the Company, and it intends to be fully compliant with all applicable requirements of the UK Corporate Governance Code, save as set out below. It will report to Shareholders on compliance with the UK Corporate Governance Code in accordance with the Listing Rules.

#### **3.2 Board composition and independence**

The Board is committed to the highest standards of corporate governance. The UK Corporate Governance Code recommends that at least half of the Board (excluding the Non-Executive Chairman) should comprise independent non-executive directors, who should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. On Admission, the Board will comprise seven members, including the Non-Executive Chairman, three Independent Non-Executive Directors, two Executive Directors and one Non-Executive Director, Andy Dawson who, by virtue of his employment by an affiliate of the Advent Shareholder, is not deemed to be independent for the purposes of the UK Corporate Governance Code. The Board intends that in the future at least half of its members should be independent non-executive directors. To achieve this objective, a fourth Independent Non-Executive Director may be appointed to the Board following Admission, although such person has not been identified as at the date of this Prospectus.

On and following Admission, the Board will not fully comply with the UK Corporate Governance Code as the Company's Non-Executive Chairman, Richard Baker, is, for the purposes of the UK Corporate Governance Code, not considered to have been independent on his appointment as Chairman due to his role as an Operating Partner at Advent. Following Admission, Richard will not act on behalf of Advent in respect of its investment in the business, nor will he receive any remuneration from Advent in respect of his role at DFS. The Board is unanimously of the opinion that he is an extremely valuable asset to the Company bringing a wealth of experience in public companies and a keen understanding of retail businesses, as well as being independent in character and judgement.

The UK Corporate Governance Code recommends that the Board appoint one of the independent non-executive directors to be the senior independent non-executive directors (“SID”). The SID should be available to shareholders if they have concerns that the normal channels of chairman, chief executive officer or other executive directors have failed to resolve or for which such channels of communication are inappropriate. On Admission, the Company's SID will be Luke Mayhew.

Under the Listing Rules, the Advent Shareholder, the Advent Companies, the Advent Funds and Richard Baker are controlling shareholders of the Company. A ‘controlling shareholder’ is, broadly, a shareholder which, together with its concert parties, holds 30% or more of the voting rights in the Company. For so long as the Company has a controlling shareholder, any election or re-election of an independent director by Shareholders must also be approved by independent Shareholders (being shareholders other than the controlling shareholder). If the approval of independent Shareholders to the appointment of a director is not obtained, the Company may propose a further shareholder resolution to appoint that person between 90 and 120 days after the vote on the first resolution. Independent shareholder approval is not required for any such second resolution.

### 3.3 *Board committees*

As envisaged by the UK Corporate Governance Code, the Board has established Audit, Remuneration and Nomination Committees.

#### (a) *Audit Committee*

The Audit Committee has responsibility for, among other things, the monitoring of the Group's financial integrity of the financial statements and the involvement of its auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board. The Audit Committee will normally meet at least three times a year at the appropriate times in the reporting and audit cycle.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, together with requirements for quorum and notice procedure and the right to attend meetings. The responsibilities of the Audit Committee covered in the terms of reference include external audit, internal audit, financial reporting and internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The UK Corporate Governance Code recommends that, for companies in the FTSE 350, the Audit Committee comprises at least three members who are Independent Non-Executive Directors and includes one member with recent and relevant financial experience. The Audit Committee's terms of reference require that its composition comply with these recommendations. The Audit Committee currently comprises three members who are all Independent Non-Executive Directors (Luke Mayhew, Gwyn Burr and Julie Southern). The committee is chaired by Julie Southern.

#### (b) *Remuneration Committee*

The Remuneration Committee has responsibility, subject to any necessary Shareholder approval, for the determination of the terms and conditions of employment, remuneration and benefits of each of the Executive Directors and certain other senior executives, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior management and the implementation of share option or other performance-related schemes. The Remuneration Committee will meet at least twice a year.

The terms of reference of the Remuneration Committee cover such issues as membership and frequency of meetings, together with the requirements for quorum and notice procedure and the right to attend

meetings. The responsibilities of the Remuneration Committee covered in its terms of reference include determining and monitoring policy on and setting levels of remuneration, termination, performance-related pay, pension arrangements, reporting and disclosure, share incentive plans and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to carry out its responsibilities.

The UK Corporate Governance Code recommends that, for companies in the FTSE 350, the Remuneration Committee comprises at least three members who are Independent Non-Executive Directors, one of whom may be the Chairman (but who may not chair the Remuneration Committee). The terms of reference of the Remuneration Committee require that its composition comply with these requirements. The Remuneration Committee currently comprises three members, who are all Independent Non-Executive Directors (Luke Mayhew, Gwyn Burr and Julie Southern). The committee is chaired by Gwyn Burr.

#### *(c) Nomination Committee*

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary.

The Nomination Committee's terms of reference deal with such issues as membership and frequency of meetings, together with the requirements for quorum and notice procedure and the right to attend meetings. The responsibilities of the Nomination Committee covered in its terms of reference include review of the Board composition, appointing new Directors, re-appointment and re-election of existing Directors, succession planning taking into account the skills and expertise that will be needed on the Board in the future, reviewing time required from Non-Executive Directors, determining membership of other Board committees and ensuring external facilitation of the evaluation of the Board. The Nomination Committee will meet at least twice a year.

The UK Corporate Governance Code recommends that a majority of the members of the Nomination Committee should be Independent Non-Executive Directors. The terms of reference of the Nomination Committee require that its composition complies with these requirements. The Nomination Committee comprises four members, three of whom are Independent Non-Executive Directors (Luke Mayhew, Gwyn Burr and Julie Southern), and one is the Chairman (Richard Baker). The committee is chaired by Richard Baker.

### **3.4 Remuneration policy**

The Company's remuneration strategy is to provide a remuneration framework that will:

- attract, motivate and retain executives and senior management in order to deliver the Company's strategic goals and business outputs;
- encourage and support a high performance sales and service culture, ensuring good customer outcomes;
- reward delivery of the Company's business plan and key strategic goals;
- adhere to the principles of good corporate governance and appropriate risk management; and
- align employees with the interests of Shareholders and other external stakeholders and encourage widespread equity ownership across the Group.

Consistent with this remuneration strategy, the Remuneration Committee has agreed a post-Admission remuneration policy for the Senior Managers, including the Executive Directors, whereby:

- on and from the date of Admission, Ian Filby and Bill Barnes will receive base salaries of £390,000 and £294,283 per annum respectively
- each Executive Director will remain eligible for a non-pensionable annual bonus with a maximum bonus opportunity of 100% of annual base salary. Any bonus awarded will be discretionary and subject to the achievement of performance conditions which will be set by the Remuneration Committee each year. The performance conditions are expected to be a combination of financial and non-financial metrics. Consistent with best practice, malus and clawback provisions may be operated at the discretion of the Remuneration Committee in respect of awards granted under the bonus plan in certain circumstances.

The terms of the bonus plan that applies to any bonus that is payable in respect of the financial year ending 31 July 2015 will be unaffected by Admission;

- it is intended that salaries and packages applying post Admission will be broadly in line with those of UK listed companies of a similar size and complexity. To reach this position the base salary of Ian Filby will be increased to £425,000, subject to satisfactory performance, at the next annual pay review in October 2015;
- the Company has adopted several new incentive plans, an overview of which is set out in paragraph 13 of Part XIV (*Additional Information*) of this Prospectus; and
- whilst both of the current Executive Directors will, at the time of Admission, have shareholdings worth in excess of their salaries, the Remuneration Committee wishes to ensure that the remuneration policy is fit for purpose in the event of new senior hires. Accordingly, with effect from Admission, the Company has adopted share ownership guidelines under which future Executive Directors are required to build or maintain (as relevant) a shareholding in the Company equivalent in value to 200% of base salary for the CEO, 200% of base salary for the Finance Director and 100% for other relevant senior employees. Ordinary Shares held by individuals on Admission, together with any Ordinary Shares acquired following Admission, will count towards this threshold.

### 3.5 *Model Code*

From Admission, the Company will require the Directors and other persons discharging managerial responsibilities within the Group to comply with the Model Code, and will take all proper and reasonable steps to secure their compliance. Such steps will include the introduction of a code for dealings in securities applicable to relevant individuals and the monitoring of such individuals' compliance with that code.

### 3.6 *Relationship with the Advent Shareholder*

Insofar as it is known to the Company as at the date of this Prospectus, following Admission and assuming: (i) that the Offer Price is set at the mid-point of the Price Range; (ii) the Offer Size is set at the mid-point of the Offer Size Range; (iii) no exercise of the Over-allotment Option; and (iv) the numbers of Existing Ordinary Shares to be sold by each of the Selling Shareholders pursuant to the Offer are as set out in paragraph 10.2 of Part XIV (*Additional Information*), the Advent Shareholder is expected to be interested in approximately 49.5% of the Ordinary Shares. Richard Baker, who may be deemed to be acting in concert with the Advent Shareholder, is expected to be interested in approximately 2.4% of the Ordinary Shares (on the same assumptions). The Advent Shareholder has entered into the Relationship Agreement, which governs its, Richard Baker's and the Advent Companies' (including the Advent Funds) and its and their respective associates' conduct in relation to the Company. The Relationship Agreement is intended to ensure that the Group is capable of carrying on an independent business as its main activity at all times after Admission. The Relationship Agreement complies with the requirements of the Listing Rules and the Company has entered into the Relationship Agreement on the basis of Listing Rule 6.1.4C.

The Relationship Agreement grants the Advent Shareholder the right to, *inter alia*, nominate one person as a Director for so long as the Advent Shareholder and its associates (including the Advent Companies and the Advent Funds, who are controlling shareholders of the Company for the purposes of the Listing Rules) collectively hold, in the aggregate, 15% or more of the Ordinary Shares or voting rights in the Company (a "**Minimum Interest**").

If a matter gives rise to a conflict of interest between any member of the Group and the Advent Shareholder or any of its associates, the Advent Director may not vote in relation to that matter. The Advent Director may, and shall if required by a majority of the Independent Non-Executive Directors present at the meeting, remove himself from any board or committee meeting during which any conflict of interest is discussed. The Advent Director may elect not to receive, and shall not receive if so required by a majority of the Independent Non-Executive Directors, any related board papers.

If the Advent Shareholder ceases to be entitled to appoint an Advent Director as a result of the Ordinary Shares held by the Advent Shareholder and by its associates no longer representing, in the aggregate, a Minimum Interest, then the Shareholder shall procure that the Advent Director resigns forthwith without seeking compensation for loss of office and waives all claims that the Advent Director may have against the Company in connection thereto.

For further information in relation to the Relationship Agreement, see paragraph 17.2 of Part XIV (*Additional information*).

## PART IX

### SELECTED FINANCIAL INFORMATION

*The following tables summarise the Group's consolidated historical financial information as at the dates and for the periods indicated, and has been extracted without material adjustment from the consolidated historical financial information included in Part XI (Historical financial information).*

#### Consolidated income statement

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
<b>Gross sales</b> . . . . .	197.0	175.6	853.4	804.3	748.7
<b>Revenue</b> . . . . .	152.7	134.9	656.8	614.4	567.9
Cost of sales . . . . .	(133.2)	(120.7)	(544.9)	(503.5)	(464.1)
<b>Gross profit</b> . . . . .	19.5	14.2	111.9	110.9	103.8
Administrative expenses . . . . .	(9.2)	(7.7)	(31.9)	(26.3)	(22.6)
<b>Underlying operating profit before depreciation and amortisation</b> . . . . .	10.3	6.5	80.0	84.6	81.2
Depreciation . . . . .	(3.3)	(3.0)	(12.3)	(11.4)	(9.4)
Amortisation . . . . .	(0.6)	(0.5)	(2.4)	(1.2)	(0.3)
Non-underlying items . . . . .	(1.7)	(0.5)	(4.4)	–	–
<b>Operating profit</b> . . . . .	4.7	2.5	60.9	72.0	71.5
Finance income . . . . .	–	–	0.2	0.2	0.3
Finance expenses . . . . .	(15.9)	(14.0)	(57.5)	(59.9)	(58.2)
Exceptional refinancing costs . . . . .	–	–	–	(22.4)	–
<b>Profit/(loss) before tax</b> . . . . .	(11.2)	(11.5)	3.6	(10.1)	13.6
Taxation . . . . .	0.8	1.4	(8.1)	(7.0)	(12.3)
<b>Profit/(loss) for the period</b> . . . . .	<u>(10.4)</u>	<u>(10.1)</u>	<u>(4.5)</u>	<u>(17.1)</u>	<u>1.3</u>
<b>Attributable to:</b>					
Owners of the Company . . . . .	(9.1)	(8.9)	(5.0)	(14.5)	1.4
Non-controlling interests . . . . .	(1.3)	(1.2)	0.5	(2.6)	(0.1)
	<u>(10.4)</u>	<u>(10.1)</u>	<u>(4.5)</u>	<u>(17.1)</u>	<u>1.3</u>
<b>Earnings per share</b>					
Basic and diluted . . . . .	(21.2)p	(20.8)p	(11.7)p	(34.1)p	3.2p

# **Consolidated statement of comprehensive income**

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
<b>(Loss)/profit for the year . . . . .</b>	<b>(10.4)</b>	<b>(10.1)</b>	<b>(4.5)</b>	<b>(17.1)</b>	<b>1.3</b>
<b>Other comprehensive income</b>					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Effective portion of changes in fair value of cash flow hedges . . . . .	3.8	(4.2)	(8.1)	2.8	3.4
Net change in fair value of cash flow hedges reclassified to profit or loss . . . . .	1.1	(0.3)	2.4	(1.1)	(0.8)
Income tax on items that are or may be reclassified subsequently to profit or loss	<u>(1.0)</u>	<u>0.9</u>	<u>1.2</u>	<u>(0.3)</u>	<u>(0.6)</u>
<b>Other comprehensive income/(expense) for the period, net of income tax . . . . .</b>	<b><u>3.9</u></b>	<b><u>(3.6)</u></b>	<b><u>(4.5)</u></b>	<b><u>1.4</u></b>	<b><u>2.0</u></b>
<b>Total comprehensive (expense)/income for the period . . . . .</b>	<b><u>(6.5)</u></b>	<b><u>(13.7)</u></b>	<b><u>(9.0)</u></b>	<b><u>(15.7)</u></b>	<b><u>3.3</u></b>
<b>Attributable to:</b>					
Owners of the Company . . . . .	(5.2)	(12.5)	(9.5)	(13.1)	3.4
Non-controlling interests . . . . .	<u>(1.3)</u>	<u>(1.2)</u>	<u>0.5</u>	<u>(2.6)</u>	<u>(0.1)</u>
	<u>(6.5)</u>	<u>(13.7)</u>	<u>(9.0)</u>	<u>(15.7)</u>	<u>3.3</u>

# **Consolidated balance sheet**

	1 November 2014	26 October 2013 (unaudited)	2 August 2014	27 July 2013	28 July 2012
	£m	£m	£m	£m	£m
<b>Non-current assets</b>					
Property, plant and equipment . . . . .	53.4	49.5	50.9	47.7	42.1
Intangible assets . . . . .	490.0	490.8	490.2	483.7	481.2
Other financial assets . . . . .	–	–	0.1	0.2	–
Deferred tax assets . . . . .	11.0	11.7	11.2	9.8	11.2
	<u>554.4</u>	<u>552.0</u>	<u>552.4</u>	<u>541.4</u>	<u>534.5</u>
<b>Current assets</b>					
Inventories . . . . .	30.6	26.7	28.8	23.1	20.5
Other financial assets . . . . .	1.9	0.1	–	2.5	1.0
Trade and other receivables . . . . .	21.5	22.4	26.0	25.5	24.7
Cash and cash equivalents . . . . .	33.0	22.0	53.8	38.4	27.0
	<u>87.0</u>	<u>71.2</u>	<u>108.6</u>	<u>89.5</u>	<u>73.2</u>
<b>Total assets</b> . . . . .	<u>641.4</u>	<u>623.2</u>	<u>661.0</u>	<u>630.9</u>	<u>607.7</u>
<b>Current liabilities</b>					
Trade payables and other liabilities . . . . .	(331.8)	(310.7)	(337.8)	(305.1)	(340.6)
Provisions . . . . .	(6.0)	(6.0)	(5.8)	(6.0)	(6.4)
Other financial liabilities . . . . .	–	(1.9)	(3.1)	–	–
Current tax liabilities . . . . .	(5.5)	(5.2)	(7.3)	(6.6)	(6.3)
	<u>(343.3)</u>	<u>(323.8)</u>	<u>(354.0)</u>	<u>(317.7)</u>	<u>(353.3)</u>
<b>Non-current liabilities</b>					
Senior secured notes . . . . .	(306.8)	(305.9)	(306.6)	(305.7)	(186.6)
Provisions . . . . .	(4.4)	(4.5)	(4.4)	(4.5)	(4.8)
Other liabilities . . . . .	(69.1)	(69.0)	(70.8)	(68.0)	(60.7)
	<u>(380.3)</u>	<u>(379.4)</u>	<u>(381.8)</u>	<u>(378.2)</u>	<u>(252.1)</u>
<b>Total liabilities</b> . . . . .	<u>(723.6)</u>	<u>(703.2)</u>	<u>(735.8)</u>	<u>(695.9)</u>	<u>(605.4)</u>
<b>Net (liabilities)/assets</b> . . . . .	<u>(82.2)</u>	<u>(80.0)</u>	<u>(74.8)</u>	<u>(65.0)</u>	<u>2.3</u>
<b>Equity</b>					
Share capital . . . . .	42.6	42.6	42.6	42.6	42.6
Cash flow hedging reserve . . . . .	1.9	(1.8)	(3.0)	2.7	1.0
Retained earnings . . . . .	(124.5)	(118.0)	(113.5)	(108.7)	(41.9)
<b>Equity attributable to owners of the Company</b> . . . .	<u>(80.0)</u>	<u>(77.2)</u>	<u>(73.9)</u>	<u>(63.4)</u>	<u>1.7</u>
Non-controlling interests . . . . .	(2.2)	(2.8)	(0.9)	(1.6)	0.6
<b>Total equity</b> . . . . .	<u>(82.2)</u>	<u>(80.0)</u>	<u>(74.8)</u>	<u>(65.0)</u>	<u>2.3</u>

# **Consolidated statement of changes in equity**

	Share capital £m	Cash flow hedging reserve £m	Retained earnings £m	Non- controlling interest £m	Total equity £m
<b>Balance at 31 July 2011</b> . . . . .	<b>42.6</b>	<b>(1.6)</b>	<b>(42.7)</b>	<b>–</b>	<b>(1.7)</b>
Profit/(loss) for the year . . . . .	–	–	1.4	(0.1)	1.3
Other comprehensive income . . . . .	–	2.6	(0.6)	–	2.0
Total comprehensive income for the period . . . . .	–	2.6	0.8	(0.1)	3.3
Issue of shares in subsidiary . . . . .	–	–	–	0.7	0.7
<b>Balance at 28 July 2012</b> . . . . .	<b>42.6</b>	<b>1.0</b>	<b>(41.9)</b>	<b>0.6</b>	<b>2.3</b>
Loss for the year . . . . .	–	–	(14.6)	(2.5)	(17.1)
Other comprehensive income/(expense) . . . . .	–	1.7	(0.3)	–	1.4
Total comprehensive income/(expense) for the period . . . . .	–	1.7	(14.9)	(2.5)	(15.7)
Issue of shares in subsidiary . . . . .	–	–	–	0.3	0.3
Dividends . . . . .	–	–	(51.9)	–	(51.9)
<b>Balance at 27 July 2013</b> . . . . .	<b>42.6</b>	<b>2.7</b>	<b>(108.7)</b>	<b>(1.6)</b>	<b>(65.0)</b>
Loss for the year . . . . .	–	–	(5.0)	0.5	(4.5)
Other comprehensive income/(expense) . . . . .	–	(5.7)	1.2	–	(4.5)
Total comprehensive income/(expense) for the period . . . . .	–	(5.7)	(3.8)	0.5	(9.0)
Issue of shares in subsidiary . . . . .	–	–	–	0.2	0.2
Dividends . . . . .	–	–	(1.3)	–	(1.3)
Capital contribution . . . . .	–	–	0.3	–	0.3
<b>Balance at 2 August 2014</b> . . . . .	<b>42.6</b>	<b>(3.0)</b>	<b>(113.5)</b>	<b>(0.9)</b>	<b>(74.8)</b>
Loss for the period . . . . .	–	–	(9.1)	(1.3)	(10.4)
Other comprehensive income/(expense) . . . . .	–	4.9	(1.0)	–	3.9
Total comprehensive income/(expense) for the period . . . . .	–	4.9	(10.1)	(1.3)	(6.5)
Dividends . . . . .	–	–	(0.9)	–	(0.9)
<b>Balance at 1 November 2014</b> . . . . .	<b>42.6</b>	<b>1.9</b>	<b>(124.5)</b>	<b>(2.2)</b>	<b>(82.2)</b>
<b>Balance at 27 July 2013</b> . . . . .	<b>42.6</b>	<b>2.7</b>	<b>(108.7)</b>	<b>(1.6)</b>	<b>(65.0)</b>
Loss for the period . . . . .	–	–	(8.9)	(1.2)	(10.1)
Other comprehensive income/(expense) . . . . .	–	(4.5)	0.9	–	(3.6)
Total comprehensive income/(expense) for the period . . . . .	–	(4.5)	(8.0)	(1.2)	(13.7)
Dividends . . . . .	–	–	(1.3)	–	(1.3)
<b>Balance at 26 October 2013 (unaudited)</b> . . . . .	<b>42.6</b>	<b>(1.8)</b>	<b>(118.0)</b>	<b>(2.8)</b>	<b>(80.0)</b>

## Consolidated cash flow statement

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
<i>Adjustments for:</i>					
Depreciation, amortisation and impairment . . . . .	3.9	3.5	14.7	12.6	9.7
Gain on sale of property, plant and equipment . . . . .	(0.1)	(0.1)	(0.7)	(0.6)	(0.4)
Share based payment expense . . . . .	–	–	0.3	–	–
Increase in trade and other receivables . .	4.5	3.8	0.2	(0.4)	(6.1)
Increase in inventories . . . . .	(1.8)	(2.9)	(5.0)	(2.5)	(5.1)
Increase in trade and other payables . . .	5.1	14.8	13.2	3.3	14.8
Decrease in provisions . . . . .	0.1	(0.1)	(0.4)	(0.9)	(2.4)
	<u>16.4</u>	<u>21.5</u>	<u>83.2</u>	<u>83.5</u>	<u>82.0</u>
Tax paid . . . . .	(1.7)	(1.4)	(8.0)	(5.7)	(11.3)
<b>Net cash from operating activities . . . . .</b>	<b>14.7</b>	<b>20.1</b>	<b>75.2</b>	<b>77.8</b>	<b>70.7</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment . . . . .	0.1	0.1	0.8	0.7	6.6
Interest received . . . . .	–	–	0.2	0.2	0.3
Acquisition of subsidiaries . . . . .	–	(1.4)	(1.4)	(0.6)	–
Acquisition of property, plant and equipment . . . . .	(5.3)	(4.1)	(12.9)	(14.9)	(18.4)
Acquisition of other intangible assets . . .	(0.4)	(1.2)	(2.5)	(3.2)	(1.8)
<b>Net cash from investing activities . . . . .</b>	<b>(5.6)</b>	<b>(6.6)</b>	<b>(15.8)</b>	<b>(17.8)</b>	<b>(13.3)</b>
<b>Cash flows from financing activities</b>					
Proceeds from new loan . . . . .	–	–	–	310.0	–
Interest paid . . . . .	(28.7)	(28.5)	(42.1)	(117.2)	(35.6)
Repayment of borrowings . . . . .	–	–	–	(189.3)	(33.7)
Payment of finance lease liabilities . . . . .	(0.3)	(0.1)	(0.6)	(0.2)	–
Dividends paid . . . . .	(0.9)	(1.3)	(1.3)	(51.9)	–
<b>Net cash from financing activities . . . . .</b>	<b>(29.9)</b>	<b>(29.9)</b>	<b>(44.0)</b>	<b>(48.6)</b>	<b>(69.3)</b>
Net (decrease)/increase in cash and cash equivalents . . . . .	(20.8)	(16.4)	15.4	11.4	(11.9)
Cash and cash equivalents at beginning of period . . . . .	<u>53.8</u>	<u>38.4</u>	<u>38.4</u>	<u>27.0</u>	<u>38.9</u>
<b>Cash and cash equivalents at end of period</b>	<b><u>33.0</u></b>	<b><u>22.0</u></b>	<b><u>53.8</u></b>	<b><u>38.4</u></b>	<b><u>27.0</u></b>

## PART X

### OPERATING AND FINANCIAL REVIEW

*The following is a discussion and analysis of the Group's results of operations and financial condition based on the consolidated financial information of the Company and its consolidated subsidiaries (the "Group") as of and for the Financial Years 2012, 2013 and 2014, as well as Q1 2014 and Q1 2015 (all such periods being referred to herein as the "periods under review"), included in Part XI (Historical financial information), prepared in accordance with IFRS (except as stated otherwise). The consolidated financial information for Q1 2014 is unaudited.*

*The following discussion should be read in conjunction with the other information in this Prospectus, including Part IX (Selected financial information) as well as the consolidated financial information and related notes included in Part XI (Historical financial information). This discussion contains forward-looking statements, which, although based on assumptions that the Directors consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. Such risks and uncertainties, include, but are not limited to those described in Part II (Risk factors). Actual results may differ materially from those contained in the forward-looking statements. See paragraph 6 of Part V (Presentation of Information).*

#### 1 Overview

##### 1.1 Financial information presented

The Company was incorporated in April 2010 in connection with the acquisition of DFS Furniture Company by the Company (the "**Acquisition**"). For the periods under review, the historical financial information presented is of the Company and its consolidated subsidiaries.

Following Admission, the Company will be the ultimate holding company for the Group, which will report its results on the basis of the Company and its consolidated subsidiaries.

##### 1.2 The Group

According to Verdict, the retail consultants, DFS is the leading retailer of upholstered furniture in the UK, with a 25.7% share of the estimated c.£3.0 billion upholstered furniture market in 2014.<sup>1</sup> This share was over three times that of any other upholstered furniture retailer. DFS designs, manufactures, sells, delivers and installs for its customers an extensive range of upholstered and other furniture products. Its product offering is complemented by market-leading consumer financing options, in-store, online and call-centre customer service, a long-term structural product guarantee and ongoing comprehensive after-sales support in relation to the products it sells. It attracts customers to its stores and website through its substantial and continued investment in nationwide marketing activities and its reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options.

Almost all of the upholstery products DFS sells are made-to-order and, as a result, DFS does not trade from stock and is exposed to minimal inventory risk. This, combined with other factors such as scale and specialism, allows it to have the broadest upholstery product range amongst national furniture retailers in the UK market in terms of styles and price points. It offers a variety of upholstered furniture product ranges, all of which are exclusive to the Group, with each range typically consisting of different product units, including sofas, armchairs, reclining chairs and footstools. In order to enhance its product appeal for certain customer segments DFS has recently strengthened its exclusive own brand upholstery ranges and developed exclusive brand partnerships with Country Living, House Beautiful, French Connection and G-Plan. It has also acquired the Sofa Workshop and dwell brands to enhance its premium product proposition, and has strategies in place to further its share of the Quality Seeker market.

Since its establishment in 1969, DFS has developed a national footprint with 105 stores in the UK, the Republic of Ireland and the Netherlands, totalling approximately 1.6 million square feet of retail trading space. The Directors believe that the overwhelming majority of DFS's stores are situated in strong trading locations, most of which are located in retail parks. Most of these stores are well established trading outlets, with 73 out of 105 stores having more than five years of trading history. All of DFS's upholstery stores are profitable (measured by operating profit per store before allocation of marketing and central

<sup>1</sup> Source: Copyright © 2015, Verdict extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict. Statements describing DFS's leading market position refer to the upholstered furniture market as defined by Verdict.

office costs), and its sales density, measured as total revenues per square foot of available retail space, is among the highest in the retail industry (and more than 30% greater than its general retail peers).

DFS seeks to engage with its customers through multiple channels of communication, comprising its stores, live chat service, telephone call centres, websites and software applications. DFS's websites and mobile apps serve an important role as typically the first point of engagement with prospective customers, and also as sales channels. Supported by significant investment of £3.5 million in Financial Year 2013 and Financial Year 2014 to re-platform DFS's websites, DFS's online channels have experienced traffic growth of c.26% in 2014 and during the first four months of the current financial year has received approximately 1.5 million Unique Visitors per month. The Directors therefore believe that the investment has delivered incremental direct sales, improved DFS's customer service proposition and reinforced a powerful marketing tool, generating footfall to DFS's stores.

The Group has five proprietary manufacturing facilities, comprising three upholstery manufacturing facilities and two frame factories, all of which are located in the UK. It manufactured internally approximately 29% of its furniture orders by volume in Financial Year 2014. With its recent capacity expansions, DFS expects to manufacture internally between 25% and 30% of the furniture it sells. It sources the remaining products from carefully selected and long-term supply partners in the UK, continental Europe and Asia.

DFS complements its product offering with a high quality customer service proposition with an emphasis on delivering good customer outcomes, underpinned by well-trained and motivated employees, expedient order management and timely product deliveries. DFS's service proposition includes delivery and installation of its products in customers' homes, comprehensive after-sales service and a 10 year structural guarantee. DFS generally offers its customers a consumer financing option of up to four years of IFC, with no upfront deposit requirement and an option to defer payment for up to 12 months from the date of order. DFS's credit proposition has been rated by defaqto<sup>1</sup> to be the most competitive consumer IFC offerings in the UK upholstered furniture market.

DFS invests substantial resources in the recruitment, training and development of its staff. It offers two weeks of classroom training to its newly recruited sales staff within the framework of a formal three month training programme. This training approach, which the Directors believe to be unique in the industry, emphasises establishing customer needs, advising DFS's customers appropriately and maximising sales orders.

DFS advertises its products and services through a wide range of marketing and media channels, including television, radio, the internet, national press, inserts, direct mailing, outdoor advertising boards and in-store points of sale. Over the years, it has made significant investments in its marketing activities, which amounted to a total of £260.3 million in the period between 31 July 2011 and 1 November 2014, or £80.1 million on average in each financial year of that period, which made DFS the fourth largest retail, and tenth largest consumer advertiser in the UK during 2013, according to Nielsen.<sup>2</sup> DFS's historical track record of high levels of expenditure on marketing activity has provided it with significant national brand recognition, thus allowing it to develop a successful retail business based on high footfall to a relatively small number of large retail stores. It has also allowed DFS to expand its store network without incurring significant incremental marketing costs for each new store.

### **1.3 *dwell***

dwell was acquired by DFS out of administration in June 2013 and operates five stores in London, Manchester and Glasgow. dwell's product range is aimed at urban professionals and encompasses a wide range of homewares and non-upholstery furniture. dwell contributed £11.4 million to the Group's revenues in Financial Year 2014.

### **1.4 *Sofa Workshop***

Sofa Workshop was acquired by DFS in October 2013 and offers a range of highly-customisable, premium upholstered furniture. It is currently trading from 13 stores, with a concentration in London, and a growing web channel. Sofa Workshop contributed £10.7 million to the Group's revenues in Financial Year 2014.

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<sup>1</sup> Source: defaqto, Analysis of Interest Free Credit in the Home Furnishings Market, 21 July 2014

<sup>2</sup> Source: <http://www.marketingmagazine.co.uk/article/1289560/top-100-uk-advertisers-bskyb-increases-lead-p-g-bt-unilever-reduce-adspend#List>

## 2 Current trading and prospects

The strong sales momentum reported for Q1 2015 has continued into 2015. The Group's Gross Sales for the 26 weeks ending 31 January 2015 were up 9% before including incremental sales from dwell and Sofa Workshop. Order intake in the important trading period from Boxing Day has also been positive in comparison to the same period during Financial Year 2014 and in line with the Directors' expectations. This performance underpins the Board's confidence that the Group enjoys excellent prospects for the current year and for long term profitable growth as one of the UK's best-known brands, a major British manufacturer and the country's leading retailer of upholstered furniture.<sup>1</sup>

## 3 Segmental analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Board. Segment performance is assessed based on Underlying EBITDA.

The Group has only one reportable segment, which derives its revenues from the retailing of upholstered furniture and related products. Activities included in other segments comprise the manufacture and distribution of upholstered furniture within the Group.

The Group's operations and related assets and its external revenue in the financial periods covered by Part XI (*Historical Financial Information*) derive wholly within the UK and the Republic of Ireland and accordingly no separate analysis by geographical area has been presented.

	External sales		Internal sales		Total gross sales	
	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013
	£m	(unaudited) £m	£m	(unaudited) £m	£m	(unaudited) £m
Retail . . . . .	197.0	175.6	–	–	197.0	175.6
Other segments . . . . .	–	–	21.6	18.8	21.6	18.8
Eliminations . . . . .	–	–	(21.6)	(18.8)	(21.6)	(18.8)
Gross sales . . . . .	<u>197.0</u>	<u>175.6</u>	<u>–</u>	<u>–</u>	<u>197.0</u>	<u>175.6</u>

	External sales			Internal sales			Total gross sales		
	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retail . . . . .	853.4	804.3	748.7	–	–	–	853.4	804.3	748.7
Other segments . . . . .	–	–	–	89.1	76.1	68.5	89.1	76.1	68.5
Eliminations . . . . .	–	–	–	(89.1)	(76.1)	(68.5)	(89.1)	(76.1)	(68.5)
Gross sales . . . . .	<u>853.4</u>	<u>804.3</u>	<u>748.7</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>853.4</u>	<u>804.3</u>	<u>748.7</u>

## 4 Factors affecting the Group's results of operations and their comparability

Several combined macroeconomic factors affect the retail market for upholstered furniture, and consequently the results of the Group's operations, including the general state of the UK and the Republic of Ireland economy, in particular consumer confidence and credit availability, the housing market, currency exchange and LIBOR. In addition, company-specific and operational factors also impact the results of the Group's operations. Set out below is an overview of the key factors that have historically affected DFS's business, and which may impact its business in the future.

### 4.1 Operational efficiencies and other initiatives

Since the Acquisition, the Group has implemented various initiatives to enhance its sales volumes and product gross margins, manage its operational costs and maximise free cash flow. These initiatives include the following:

- expanding its retail network selectively, with a total of 31 stores opened since 31 July 2010;
- continuing to enhance its omnichannel development;

<sup>1</sup> Leading position based on Verdict market data.

- increasing internal manufacturing capacity;
- continuing to achieve marketing efficiencies;
- improving the execution of its customer proposition in terms of its product range, design content, customer service levels and IFC options;
- continuing to invest in employee training, development and engagement;
- managing the level of markdowns;
- investing in the Group's central functions;
- managing its operational costs, including managing its overall staff costs; and
- continuing to measure customer satisfaction.

These initiatives have affected the Group's historical results of operations since 31 July 2010. These initiatives may also affect its results in the future, as the Directors intend to continue pursuing the same or similar initiatives to optimise the Group's sales volumes, margins and ability to convert profit into cash flow.

#### **4.2 Factors affecting consumer demand for the Group's products**

Due to the discretionary nature and timing of most furniture purchases and the fact that such purchases often represent a significant expenditure, consumers are more likely to defer the purchase of upholstered furniture in times of economic uncertainty, personal economic hardship or in environments of constrained consumer credit. Given that at present the Group derives substantially all of its revenue and profits from the UK and the Republic of Ireland, its results are, and have been, impacted by the prevailing economic climate in those countries affecting consumer spending on upholstered furniture products, as well as specific factors that affect consumer demand for the products it sells.

General economic factors affecting consumer spending on upholstered furniture products include consumer confidence, levels of disposable income, interest rates, the availability and terms of consumer credit and the level of housing activity across the UK and the Republic of Ireland (such as house moves and renovations). A significant change in any or all of these factors is likely to impact the Group's revenue. Because consumer demand for upholstered furniture products in the UK and the Republic of Ireland is affected by several different and unpredictable economic and other factors, the Directors cannot provide any assurance that the Group's revenue will not experience volatility as its business adjusts to changes in the economic climate in which DFS operates.

#### **4.3 Seasonality**

The Group's business is subject to sales order peaks due to the effects of promotional periods and, historically, a significant proportion of its annual revenue has been derived from orders generated during specific promotional periods. Promotional periods are generally aligned with periods over which consumers seek to make more purchases. The Group's most important trading periods in terms of order volumes have been in the promotional periods during the post-Christmas winter sale, Easter, the pre-Christmas guaranteed delivery period, and other public bank holidays. These increases in its order volumes (as opposed to its revenue, which is recognised upon completion of delivery, typically between three and 12 weeks after orders are placed) have generally been influenced, *inter alia*, by increases in the Group's spending on marketing and promotions in the period immediately prior to, and during, these promotional periods.

#### **4.4 Marketing costs**

The cost of the Group's marketing activities, including all direct and indirect costs related to its advertising campaigns, is the second largest component of its cost of sales. The Group spends more money on marketing activities than any other retailer in the upholstered furniture market. In the period between 31 July 2011 and 1 November 2014, it invested £260 million in marketing activities, with a particular focus on marketing campaigns during promotional periods. This high level of expenditure on marketing activities, repeated year after year over DFS's long operating history, has strengthened significantly public recognition of its brand nationally, thus allowing it to develop a successful retail business based on high volumes of customer visits to a relatively small number of large retail stores. This has also allowed the Group to expand its store network without incurring significant incremental local marketing costs for each

new store that the Group adds to the network. At the same time, most of the Group's expenditure on marketing activities is directly controllable and not committed in advance and, consequently, may be rapidly reduced at the discretion of management if market conditions and/or the Group's operating results would justify such course of action. The Group has recently implemented several initiatives to streamline its marketing related expenditure and as a result it has been able to achieve substantial cost savings without compromising the volume or impact of its advertising. These substantial cost savings resulted from its contractual arrangement with MediaCom, a leading media agency with an established media buying platform. The Directors believe that the Group's on-going store network expansion across the UK will enable it to achieve further marketing efficiency by allowing it to spread its national advertising costs across a broader store and revenue base, with only limited incremental local marketing support.

#### **4.5 Omnichannel platform**

The Directors believe in the value of engaging with the Group's customers using their preferred channel of communication, including DFS stores, website, software applications, such as DFS's room planner application, digital kiosks at its stores, live chat and its telephone call centres. This omnichannel offering increases engagement with DFS's customers and the options available to its customers to learn about and purchase its products and services. The Directors believe that online channels provide DFS with a significant opportunity for future sales growth. In recent years the Group has continued to experience steady growth in the number of online visitors and a significant increase in sales attributable to the DFS website. The majority of DFS's customers visit its website before making a purchase at one of its store locations or through one of its call centres. In Financial Years 2013 and 2014, the Group invested £3.5 million in website enhancement and it intends to continue to invest significantly in further developing and updating its online platform to create a fully omnichannel experience for its customers, introduce features designed to enhance its customers' online experience and generate footfall to its stores.

#### **4.6 Customer finance costs**

As part of the Group's overall marketing strategy and commitment to customer service, it partners with consumer credit providers to offer customers the opportunity to purchase any of its products (subject to customer credit reference) by paying for them in instalments through IFC options.

Approximately 65% of DFS's sales by value are financed through these IFC options, with the remainder of customers paying for purchases in cash, by cheque or by debit or credit card.

DFS has historically offered alternative financing plans for periods of between six months and five years. More recently, to maximise its ability to compete in a very challenging economic environment, DFS has offered its customers IFC options over a period of up to 48 months on all products. Promotions allow customers the option to defer payments for up to 12 months, with repayment commencing in month 13 for a total maximum term of up to 48 months on all promotions. Although DFS offers four year IFC terms to all eligible customers, a significant portion of customers opt for shorter repayment periods, with the average finance term per customer equalling approximately 36 months in Financial Year 2014 and 35 months in Financial Year 2013.

DFS currently offers these IFC options through five consumer credit providers (Hitachi Capital, V12, Barclays Partner Finance, IKANO and LaSer UK (formerly known as Creation Financial Services and currently part of BNP)) but it may increase or decrease the number of providers it partners with depending on commercial terms and availability. DFS's consumer credit providers settle their payment obligations to DFS promptly on delivery of the order to the customer and, in return for a fee, assume the entire credit risk. The fee due to the credit provider is deducted from the payment the credit provider makes to DFS. As a result, DFS assumes no credit exposure from customers who elect to use IFC options. The consumer credit providers charge DFS a fee for each consumer loan taken by DFS's customers, which is calculated based on periodically agreed pricing matrices, generally determined with reference to 12-month or other benchmark LIBOR rates and the length of the financing term. The fee paid to the provider increases with the term of the relevant loan.

The Group's operating profit has been and will continue to be affected by the cost of IFC to its customers. A fall in LIBOR rates will have a positive impact on its operating profit and a rise in LIBOR rates will impact its operating profit negatively (an increase by one percentage point will reduce the Group's revenue by 0.4 percentage points). However, any fall in LIBOR rates at present will be largely offset by LIBOR "floor" mechanisms used by three of DFS's consumer credit providers.

Due to the volume and individual order value of customer orders that the Group generates, the delivery of all of its products to its customers' home addresses and its track record of low default rates, the Directors believe consumer credit providers regard DFS as an attractive retailer that offers them high quality credit applicants, leading to high acceptance rates.

In the future, the Group's customer financing costs will be influenced by any increases of LIBOR rates above the level of the LIBOR floors on its customer financing costs, the continued appetite of the providers to extend consumer credit to the upholstered furniture retail sector in general and DFS's customers in particular, and the average term and overall structure of the IFC options the Group offers. The Group will continue to monitor and evaluate the appropriate terms on which it provides financing options to its customers, taking account of market conditions and its own economic performance.

#### **4.7 Supply chain and sourcing fundamentals**

The Group's results of operations and financial condition are affected by the economic effects of its supply chain. In its three proprietary upholstered furniture manufacturing facilities, all of which are located in the UK, DFS manufactured internally approximately 29% of the furniture it sold by volume in Financial Year 2014, and with its recent capacity expansions (such as the move from a single shift to a two shift model in its factories in Financial Year 2012, which increased capacity by 50%), it expects to manufacture internally between 25% and 30% of the furniture it sells. It sources the remaining products from carefully selected and long-term supply partners in the UK, continental Europe and Asia, the latter of which exposes DFS to foreign currency transaction effects. Further, its ability to design and manufacture some of the products it sells enables it to generally bring new products to its stores more quickly than its competitors and gives it the platform to source key raw materials (such as particular fabrics) on a preferential or exclusive basis. Further, DFS's leading market position and the significant sales volumes it generates provide it with strong buying power with its suppliers and enable it to achieve economies and cost efficiencies across its supply chain and high standards of product quality, exclusivity and competitive pricing. These factors have positive effects on the Group's profit margins. As with any other retailer in the Group's industry, the Group is also subject to fluctuations in transportation costs and the prices of the raw materials that it uses.

In sourcing raw materials or products from suppliers outside the UK, the Group has significant exposure to the value of the US dollar relative to the pound sterling. In Financial Year 2014, the equivalent of £71 million of purchases of products from the Far East was denominated in US dollars. Consequently, the Group's financial results have been, and in the future will be, subject to currency transaction effects resulting from fluctuations in exchange rates, primarily the pound sterling/US dollar exchange rate. The Group seeks to hedge its US dollar exposure by buying forwards against its full estimated future US dollar requirements for rolling periods of between nine and 18 months.

#### **4.8 Store roll-out programme**

The Group's results of operations and financial condition are affected by DFS's store roll-out programme. Since the end of Financial Year 2010, DFS has opened 31 new stores, in line with its previously announced store expansion programme, and it plans to continue expanding its retail store portfolio selectively and at a rate of between three and five stores per annum. Over the past four years, DFS has taken advantage of opportunities to target new customers and is exploring new store concepts including city centre stores, smaller format retail park stores and has opened its first stores outside the UK, in the Republic of Ireland and the Netherlands. In connection with the opening of each new DFS-branded store, the Group's initial capital expenditures on fittings and equipment and various pre-opening costs such as staff recruitment and training are incurred before the store generates any revenue. For an initial period of two to three months, each new store typically generates customer orders but does not book any revenue until the products are actually delivered. After this initial period, each new store generates sales volumes and typically immediately becomes profitable on a contribution basis (measured by operating profit per store before allocation of marketing and central office costs). The Directors estimate that the gross capital outlay for each larger DFS-branded store (excluding any contributions from landlords in favourable real estate transactions) will be approximately £1 million.

#### **4.9 Exceptional re-financing costs in Financial Year 2013**

The Group undertook a refinancing in Financial Year 2013 by issuing the Notes, which enabled repayment of DFS Furniture Holdings' £240 million 9.75% senior secured notes due 2017 (the "**2017 Notes**"), and enabled a total of £130.0 million to be returned to shareholders through a combination of equity dividends

and repayment of indebtedness. The £22.4 million cost of this refinancing was recognised as exceptional in Financial Year 2013 and the consequential changes to the Group's financing structure have affected the comparability of the Group's results by varying its finance costs.

#### **4.10 Non-underlying items**

Certain non-underlying items, relating to unusual or non-recurring costs or income, may impact the Group's financial results in future periods. The non-recurring nature of these items and their impact on the results of its operations may affect the comparability of its results of operations in future periods with historical results of operations.

#### **4.11 Acquisitions**

During the periods under review the Group acquired two businesses, which it deemed as having complementary product ranges and offering synergistic benefits. Because the results of operations of acquired businesses are included in the Group's results of operations from the date of acquisition, such acquisitions can affect the comparability of results between periods. Recent acquisitions have included the acquisitions of Sofa Workshop and dwell in Financial Year 2014.

The Group does not expect to incur material integration costs as a result of any of the acquisitions described above.

DFS may make additional acquisitions in the future.

#### **4.12 Currency fluctuations**

For the purpose of presenting the Group's consolidated financial statements, purchases of products denominated in foreign currencies are expressed in sterling using exchange rates prevailing at the date of the relevant transaction. The Group's 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 (which is further described in note 21 to the consolidated historical financial information set out in Part XI (*Historical financial information*)) allows for the use of forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases up to 18 months in advance; these contracts are designated as cash flow hedges. Where a foreign currency denominated product purchase is covered by an effective cash flow hedge, the gain or loss arising on the related forward contract is recognised in the income statement in the same period as the purchase. The net result in the income statement is that the overall effect of the purchase is expressed at the contracted rate.

Monetary assets and liabilities denominated in foreign currencies at the end of a reporting period are retranslated into pounds sterling at the foreign exchange rates ruling at that date, and therefore the Group is also subject to currency translational risk.

### **5 Explanation of income statement items**

#### **5.1 Revenue**

Revenue represents the fair value of consideration receivable by DFS for the provision of goods and services to its customers generated through both DFS's stores and its online sales channels. Revenue includes delivery charges and net commissions payable to DFS for sales to customers of leathercare and anti-stain warranty insurance products (in respect of which the Group acts as agent for the insurers), and also reflects the reduction in sale prices from the clearance of stock at marked-down prices. However, returns, sales allowances, charges made by providers of IFC to customers and VAT and other sales taxes are deducted. Revenue is recognised at the point the Group fulfils its commercial obligations to the customer. Substantially all of the Group's revenue is derived from sales to customers in the UK and the Republic of Ireland.

#### **5.2 Cost of sales**

Cost of sales comprises the cost of inventories recognised as an expense and other indirect costs of sales.

**(a) *Cost of inventories recognised as an expense***

The Group sources certain product supplies from its in-house manufacturing operations, which, in Financial Year 2014, accounted for approximately 29% of products sold by volume, and the balance from external suppliers. All of the raw material costs of DFS's internal manufacturing operations (but not labour, rent, rates or other indirect costs relating to internal manufacturing facilities, all of which are included in other indirect costs of sales) are reflected within consolidated cost of inventories recognised as an expense. In addition, cost of inventories recognised as an expense also include amounts paid to external manufacturers for the supply of products, including the cost of shipping and delivery of products to the Group's stores.

**(b) *Other indirect costs of sales***

Other indirect costs of sales include store costs, manufacturing costs, and marketing costs, net of other income, which includes various discounts and contributions received from the Group's suppliers.

Store costs include the costs of occupying and running the Group's stores, including store and web personnel costs (including incentives payable to sales staff), rent and rates payable for the Group's retail premises (net of rent-free periods and leasehold incentives), costs related to delivery of products from DFS's store warehouses to its customers (including personnel costs for delivery staff and costs related to delivery vehicles and warehouses), and store utility and cleaning costs. In aggregate, store/web level wages, net rent and delivery costs account for 80% of the Group's store costs.

Manufacturing costs include direct production labour costs and indirect costs such as rent, rates and other indirect costs relating to DFS's internal manufacturing facilities.

Marketing costs comprise all direct and indirect costs related to the Group's marketing campaigns, including fees paid to advertising agencies and to media outlets for the placement of advertising.

**5.3 *Administrative expenses***

Administrative expenses comprise rent and associated charges for the Group's corporate headquarters, personnel costs for the Group's management team and for its corporate staff and area-based teams (including accounting, payroll, information technology and training staff), motor and travel costs for corporate staff, fees and expenses payable to third party accounting, legal and other professional advisers and other miscellaneous central overhead costs.

**5.4 *Taxation***

Tax on the profit or loss for the year 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. Due to the refinancing of the 2017 Notes in Financial Year 2013, the Group made larger tax deductions and therefore paid less tax than in Financial Year 2012.

Excluding non-deductible interest payments and goodwill adjustments on consolidation, effective current tax rates for the Group have been 25.1% in Financial Year 2012, 26.2% in Financial Year 2013 and 25.1% in Financial Year 2014. These have generally been between 2% and 3% higher than the statutory rate due to accounting depreciation being in excess of capital allowances for those periods and other disallowable expenditures.

**5.5 *Amortisation and depreciation***

Amortisation is charged on computer software and other intangible assets (excluding goodwill) over the useful life of the asset. Goodwill is not amortised but tested annually for impairment. Depreciation is charged on tangible fixed assets on a straight line basis over the estimated useful lives of each part of an item of property, plant or equipment including motor vehicles held under finance leases. Land is not depreciated.

**5.6 *Exceptional refinancing costs***

Exceptional refinancing costs of £22.4 million apply to Financial Year 2013 only and relate to the early repayment and redemption in full of the 2017 Notes and their refinancing with the issue of the Notes.

## 5.7 Finance income

Finance income comprises interest accrued on the Group's cash balances. Interest income is recognised in profit and loss as it accrues, using the effective interest method.

## 5.8 Finance expenses

Finance expenses include interest charges payable on the Group's outstanding indebtedness (including the Notes) and finance leases, in addition to certain bank fees accrued in connection with the restructuring and refinancing of the Group's borrowings, parent company loans and unwinds relating to £3 million per annum fair value lease adjustments as at Financial Year 2014 (mainly in relation to the Delphi Leases) and discounts on provisions. Any profit or loss on buyback of senior secured notes, including the 2017 Notes, is also included under this item. Interest payable is recognised in profit and loss as it accrues, using the effective interest method.

## 6 Non-IFRS measures

Presented in this Prospectus are various non-IFRS measures, including Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Change in Working Capital, Free Cash Flow Generation and Cash Conversion.

- Gross Sales means the total amounts payable by external customers, without adjustment for the time value of money, 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. Gross Sales is stated net of returns and sales allowances and is recognised at the point the Group fulfils its commercial obligations to the customer;
- EBITDA is profit/(loss) before interest and tax, amortisation of intangible assets and depreciation of property, plant and equipment;
- Underlying EBITDA is EBITDA adjusted to exclude certain material, unusual or non-recurring items which the Directors believe are not indicative of the Group's underlying performance. These non-underlying items are disclosed separately in the income statement and include one-off costs associated with the Offer and start-up costs associated with the Group's recent acquisitions or the establishment of operations in new geographical territories;
- Underlying EBITDA Margin is: (a) Underlying EBITDA; divided by (b) revenue, with the quotient expressed as a percentage;
- Adjusted EBITDA means Underlying EBITDA as adjusted for: (i) the re-allocation of a discretionary incentive payment to the period to which it relates; and (ii) the exclusion of initial trading losses associated with newly acquired subsidiaries;
- Adjusted EBITDA Margin is: (a) Adjusted EBITDA; divided by (b) revenue, with the quotient expressed as a percentage;
- Gross Capital Expenditure is calculated by adding: (a) the "Acquisition of property, plant and equipment"; and (b) the "Acquisition of other intangible assets" line items in the Group's cash flow statement for a given Financial Period, as set out in Part XI (*Historical financial information*);
- Change in Working Capital is calculated by adding: (a) the "Share based payment expense"; (b) the "Increase in trade and other receivables"; (c) the "Increase in inventories"; (d) the "Increase in trade and other payables"; and (e) the "Decrease in provisions" line items in the Group's cash flow statement for a given Financial Period, as set out in Part XI (*Historical financial information*);
- Free Cash Flow Generation is calculated by adding: (a) Adjusted EBITDA; (b) Gross Capital Expenditure; and (c) Change in Working Capital; and
- Cash Conversion is: (a) Free Cash Flow Generation, divided by (b) Adjusted EBITDA, with the quotient expressed as a percentage.

Each of Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion is a supplemental measure of financial performance that is not required by, or presented in accordance with, IFRS. Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in

Working Capital, Free Cash Flow Generation and Cash Conversion are not measures of performance under IFRS and you should not consider them as an alternative to: (a) revenue for the period (as determined in accordance with IFRS) as a measure of the Group's operating performance; (b) cash flows from operating and financing activities as a measure to meet the Group's cash needs; or (c) any other measures of performance under generally accepted accounting principles. You should exercise caution in comparing Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion as reported by the Group to the same or similar measures published by other companies.

The Directors believe that Gross Sales is a useful indicator of the Group's overall activity in its market and can assist in comparing its performance to that of its competitors. The Directors believe that EBITDA is a useful indicator of the Group's ability to incur and service its indebtedness and can assist securities analysts, investors and other parties to evaluate the Group. The Directors believe that Underlying EBITDA and Adjusted EBITDA are relevant measures for assessing the Group's performance because they are adjusted for certain items which, the Directors believe, may not be indicative of the Group's underlying operating performance. The Directors believe that Underlying EBITDA Margin and Adjusted EBITDA Margin are useful indicators to show trends in relative profitability of the business. The Directors believe that Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion are useful indicators to show the amount of operational cash generation and trends in operational cash generation.

In evaluating Gross Sales, EBITDA, Underlying EBITDA, Underlying EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion, you are encouraged to evaluate each adjustment and the reasons the Directors consider it appropriate as a method of supplemented analysis. See Part V (*Presentation of Information*). In addition, you should be aware that the Group is likely to incur expenses similar to the adjustments in this presentation in the future and that certain of these items could be considered recurring in nature.

### **Gross Sales**

The following table shows how Gross Sales are derived from the historical financial information of the Group contained in Part XI (*Historical financial information*).

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
Value added and other sales taxes . . . . .	30.6	27.3	131.8	124.2	116.3
Cost of interest-free credit and aftercare services . . .	13.7	13.4	64.8	65.7	64.5
<b>Gross Sales . . . . .</b>	<b>197.0</b>	<b>175.6</b>	<b>853.4</b>	<b>804.3</b>	<b>748.7</b>

### **EBITDA**

The following table shows how EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*).

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
<b>EBITDA . . . . .</b>	<b>8.6</b>	<b>6.0</b>	<b>75.6</b>	<b>84.6</b>	<b>81.2</b>

### *Underlying EBITDA and Underlying EBITDA Margin*

The following table shows how Underlying EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Underlying EBITDA Margin is derived from such figures.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
EBITDA . . . . .	8.6	6.0	75.6	84.6	81.2
Non-underlying items . . . . .	1.7	0.5	4.4	–	–
<b>Underlying EBITDA . . . . .</b>	<b>10.3</b>	<b>6.5</b>	<b>80.0</b>	<b>84.6</b>	<b>81.2</b>
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
Underlying EBITDA Margin . . . . .	6.8%	4.8%	12.2%	13.7%	14.3%

### *Adjusted EBITDA and Adjusted EBITDA Margin*

The following table shows how Adjusted EBITDA is derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Adjusted EBITDA Margin is derived from such figures.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Depreciation . . . . .	3.3	3.0	12.3	11.4	9.4
Amortisation . . . . .	0.6	0.5	2.4	1.2	0.3
EBITDA . . . . .	8.6	6.0	75.6	84.6	81.2
Non-underlying items . . . . .	1.7	0.5	4.4	–	–
Underlying EBITDA . . . . .	10.3	6.5	80.0	84.6	81.2
<i>Adjusted items</i>					
Enhanced staff rewards re prior year . . . . .	–	0.8	0.8	(0.8)	–
Losses from initial period of ownership . . . . .	0.1	0.2	1.5	–	–
<b>Adjusted EBITDA . . . . .</b>	<b>10.4</b>	<b>7.5</b>	<b>82.3</b>	<b>83.8</b>	<b>81.2</b>
Revenue . . . . .	152.7	134.9	656.8	614.4	567.9
<b>Adjusted EBITDA Margin . . . . .</b>	<b>6.8%</b>	<b>5.6%</b>	<b>12.5%</b>	<b>13.6%</b>	<b>14.3%</b>

### *Gross Capital Expenditure, Change in Working Capital, Free Cash Flow Generation and Cash Conversion*

The following table shows how Gross Capital Expenditure and Change in Working Capital are derived from the historical financial information of the Group contained in Part XI (*Historical financial information*). It also shows how Free Cash Flow Generation and Cash Conversion are derived from such figures.

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
<b>Adjusted EBITDA</b> . . . . .	<b>10.4</b>	<b>7.5</b>	<b>82.3</b>	<b>83.8</b>	<b>81.2</b>
Share based payment expense . . . . .	—	—	0.3	—	—
Increase in trade and other receivables . .	4.5	3.8	0.2	(0.4)	(6.1)
Increase in inventories . . . . .	(1.8)	(2.9)	(5.0)	(2.5)	(5.1)
Increase in trade and other payables . . .	5.1	14.8	13.2	3.3	14.8
Decrease in provisions . . . . .	0.1	(0.1)	(0.4)	(0.9)	(2.4)
<b>Change in Working Capital</b> . . . . .	<b>7.9</b>	<b>15.6</b>	<b>8.3</b>	<b>(0.5)</b>	<b>1.2</b>
Acquisition of property, plant and equipment . . . . .	(5.3)	(4.1)	(12.9)	(14.9)	(18.4)
Acquisition of other intangible assets . . .	(0.4)	(1.2)	(2.5)	(3.2)	(1.8)
<b>Gross Capital Expenditure</b> . . . . .	<b>(5.7)</b>	<b>(5.3)</b>	<b>(15.4)</b>	<b>(18.1)</b>	<b>(20.2)</b>
<b>Free Cash Flow Generation</b> . . . . .	<b>12.6</b>	<b>17.8</b>	<b>75.2</b>	<b>65.2</b>	<b>62.2</b>
<b>Cash Conversion</b> . . . . .	<b>121.2%</b>	<b>237.3%</b>	<b>91.4%</b>	<b>77.8%</b>	<b>76.6%</b>

## **7 Results of operations**

### **7.1 Comparison of Q1 2014 and Q1 2015**

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)
	£m	£m
<b>Gross sales</b> . . . . .	<b>197.0</b>	175.6
<b>Revenue</b> . . . . .	<b>152.7</b>	134.9
Cost of sales . . . . .	(133.2)	(120.7)
<b>Gross profit</b> . . . . .	<b>19.5</b>	14.2
Administrative expenses . . . . .	(9.2)	(7.7)
<b>Underlying operating profit before depreciation and amortisation</b> . . . . .	<b>10.3</b>	6.5
Depreciation . . . . .	(3.3)	(3.0)
Amortisation . . . . .	(0.6)	(0.5)
Non-underlying items . . . . .	(1.7)	(0.5)
<b>Operating profit</b> . . . . .	<b>4.7</b>	2.5
Finance income . . . . .	—	—
Finance expenses . . . . .	(15.9)	(14.0)
<b>Loss before tax</b> . . . . .	<b>(11.2)</b>	(11.5)
Taxation . . . . .	0.8	1.4
<b>Loss for the period</b> . . . . .	<b>(10.4)</b>	(10.1)
<b>Attributable to:</b>		
Owners of the Company . . . . .	(9.1)	(8.9)
Non-controlling interests . . . . .	(1.3)	(1.2)
	<b>(10.4)</b>	(10.1)

(a) *Revenue*

Revenue increased by £17.8 million, or 13.2%, from £134.9 million in Q1 2014 to £152.7 million in Q1 2015. This increase reflected a corresponding increase in Gross Sales which rose by £21.4 million, or 12.2%, from £175.6 million in Q1 2014 to £197.0 million in Q1 2015. The increase in revenue reflected the continuing impact of DFS's store opening programme and also included the increased contribution of businesses which were acquired in June 2013 (dwell) and October 2013 (Sofa Workshop).

(b) *Cost of sales*

Cost of sales increased by £12.5 million, or 10.4% from £120.7 million in Q1 2014 to £133.2 million in Q1 2015. This increase was predominantly due to the increase in trading volumes noted above, but also reflected the changes in product sales margin mix.

(c) *Administrative expenses*

Administrative expenses increased by £1.5 million, or 19.5%, from £7.7 million in Q1 2014 to £9.2 million in Q1 2015. This increase was primarily due to higher staff costs and additional costs relating to the central functions of businesses acquired in June 2013 (dwell) and October 2013 (Sofa Workshop).

(d) *Taxation*

The taxation credit for the quarter decreased by £0.6 million, or 42.9%, from £1.4 million in Q1 2014 to £0.8 million in Q1 2015. This resulted from an increase in expenses not deductible for corporation tax in Q1 2015 compared to Q1 2014.

(e) *Amortisation and depreciation*

Amortisation increased by £0.1 million, or 20%, from £0.5 million in Q1 2014 to £0.6 million in Q1 2015 as a result of increased computer software assets held by the Group.

Depreciation increased by £0.3 million, or 10%, from £3.0 million in Q1 2014 to £3.3 million in Q1 2015. This increase was due to the Group's continued investment in plant, equipment and motor vehicles.

(f) *Non-underlying items*

In Q1 2015, the Group incurred certain unusual and non-recurring items which, in accordance with the Group's accounting policies, were presented separately in the income statement in order to facilitate a better understanding of the Group's underlying trading performance.

These non-underlying items comprised legal and professional costs incurred in preparation for the Offer, and costs associated with the set-up of the Group's first operations in continental Europe.

(g) *Finance expenses*

Finance expenses increased by £1.9 million, or 13.6%, from £14.0 million in Q1 2014 to £15.9 million in Q1 2015. This increase primarily relates to interest payable on loans from the Group's parent companies as a result of higher outstanding balances in Q1 2015 compared to Q1 2014.

## 7.2 Comparison of Financial Years 2013 and 2014

	53 weeks to 2 August 2014	52 weeks to 27 July 2013
	£m	£m
<b>Gross sales</b> . . . . .	853.4	804.3
<b>Revenue</b> . . . . .	656.8	614.4
Cost of sales . . . . .	(544.9)	(503.5)
<b>Gross profit</b> . . . . .	111.9	110.9
Administrative expenses . . . . .	(31.9)	(26.3)
<b>Underlying operating profit before depreciation and amortisation</b> . . . . .	80.0	84.6
Depreciation . . . . .	(12.3)	(11.4)
Amortisation . . . . .	(2.4)	(1.2)
Non-underlying items . . . . .	(4.4)	–
<b>Operating profit</b> . . . . .	60.9	72.0
Finance income . . . . .	0.2	0.2
Finance expenses . . . . .	(57.5)	(59.9)
Exceptional refinancing costs . . . . .	–	(22.4)
<b>Profit/(loss) before tax</b> . . . . .	3.6	(10.1)
Taxation . . . . .	(8.1)	(7.0)
<b>Loss for the period</b> . . . . .	<u>(4.5)</u>	<u>(17.1)</u>
<b>Attributable to:</b>		
Owners of the Company . . . . .	(5.0)	(14.5)
Non-controlling interests . . . . .	0.5	(2.6)
	<u>(4.5)</u>	<u>(17.1)</u>

### (a) Revenue

Revenue increased by £42.4 million, or 6.9%, from £614.4 million in Financial Year 2013 to £656.8 million in Financial Year 2014. This increase reflected a corresponding increase in Gross Sales which rose by £49.1 million, or 6.1%, from £804.3 million in Financial Year 2013 to £853.4 million in Financial Year 2014. The increase in revenue included £22.1 million contributed by businesses which were acquired in June 2013 (dwell) and October 2013 (Sofa Workshop). The remainder of the increase reflected the continuing impact of DFS's store opening programme and website development and the impact from the additional week of trading in Financial Year 2014.

### (b) Cost of sales

Cost of sales increased by £41.4 million, or 8.2%, from £503.5 million in Financial Year 2013 to £544.9 million in Financial Year 2014. This increase was predominantly due to the increase in trading volumes noted above, but also reflected the changes in product sales margin mix.

### (c) Administrative expenses

Administrative expenses increased by £5.6 million, or 21.3%, from £26.3 million in Financial Year 2013 to £31.9 million in Financial Year 2014. This increase was due to higher staff costs, including head office personnel employed to develop strategic growth initiatives, and additional costs relating to the central functions of businesses acquired in June 2013 (dwell) and October 2013 (Sofa Workshop).

### (d) Taxation

Taxation increased by £1.1 million, or 15.7%, from £7.0 million in Financial Year 2013 to £8.1 million in Financial Year 2014. This increase reflected the increase in the Group's taxable profits, mitigated by the reduced effective rate of taxation applicable which decreased from 23.67% in Financial Year 2013 to 22.33% in Financial Year 2014.

(e) *Amortisation and depreciation*

Amortisation increased by £1.2 million, or 100%, from £1.2 million in Financial Year 2013 to £2.4 million in Financial Year 2014, reflecting the increase in computer software assets in Financial Years 2013 and 2014.

Depreciation increased by £0.9 million, or 7.9%, from £11.4 million in Financial Year 2013 to £12.3 million in Financial Year 2014. This increase was due to the Group's additional investment in plant, equipment and motor vehicles.

(f) *Non-underlying items*

In Financial Year 2014, DFS incurred certain unusual and non-recurring items which, in accordance with the Group's accounting policies, were presented separately in the income statement in order to facilitate a better understanding of the Group's underlying trading performance.

These non-underlying items comprised legal and professional costs mainly incurred in preparation for the Offer, accounting charges relating to employee share based payments connected to the Offer, costs associated with the set-up of the Group's first operations in continental Europe; and costs associated with the acquisitions made in Financial Year 2014 together with certain costs in the initial set-up and restructuring of those businesses.

(g) *Finance expenses*

Finance expenses decreased by £2.4 million, or 4.2%, from £59.9 million in Financial Year 2013 to £57.5 million in Financial Year 2014. This increase was primarily due to a lower amount of interest payable on loans from the Group's parent companies as a result of lower average balances outstanding in Financial Year 2014 compared to Financial Year 2013 as a consequence of the refinancing of the 2017 Notes. This was offset by an increase in interest payable on the Notes in Financial Year 2014 as interest was payable on the Notes for the whole of the financial year, whereas for part of Financial Year 2013 the 2017 Notes were outstanding, which carried a higher interest rate but on a smaller amount of principal.

**7.3 Comparison of Financial Years 2012 and 2013**

	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m
<b>Gross sales</b> . . . . .	804.3	748.7
<b>Revenue</b> . . . . .	614.4	567.9
Cost of sales . . . . .	(503.5)	(464.1)
<b>Gross profit</b> . . . . .	110.9	103.8
Administrative expenses . . . . .	(26.3)	(22.6)
<b>Underlying operating profit before depreciation and amortisation</b> . . . . .	84.6	81.2
Depreciation . . . . .	(11.4)	(9.4)
Amortisation . . . . .	(1.2)	(0.3)
Non-underlying items . . . . .	–	–
<b>Operating profit</b> . . . . .	72.0	71.5
Finance income . . . . .	0.2	0.3
Finance expenses . . . . .	(59.9)	(58.2)
Exceptional refinancing costs . . . . .	(22.4)	–
<b>Profit/(loss) before tax</b> . . . . .	(10.1)	13.6
Taxation . . . . .	(7.0)	(12.3)
<b>Loss for the period</b> . . . . .	(17.1)	1.3
<b>Attributable to:</b>		
Owners of the Company . . . . .	(14.5)	1.4
Non-controlling interests . . . . .	(2.6)	(0.1)
	(17.1)	1.3

(a) *Revenue*

Revenue increased by £46.5 million, or 8.2%, from £567.9 million for Financial Year 2012 to £614.4 million for Financial Year 2013. This increase was primarily due to growth in Gross Sales of £55.6 million (or 7.4%). The growth in Gross Sales reflected the integration of new stores which opened in Financial Year 2012 but which only contributed a full year's trading in Financial Year 2013.

(b) *Cost of sales*

Cost of sales increased by £39.4 million, or 8.5%, from £464.1 million in Financial Year 2012 to £503.5 million in Financial Year 2013. This partly reflected the increased trading volumes, but also an increase in the numbers of production and warehouse and transport staff, with the average number of such employees increasing by 157, or 10.7%, from 1,471 in Financial Year 2012 to 1,628 in Financial Year 2013.

(c) *Administrative expenses*

Administrative expenses increased by £3.7 million, or 16.4%, from £22.6 million for Financial Year 2012 to £26.3 million for Financial Year 2013. This increase was due to a rise in the numbers of the Group's management team and its corporate staff based in the Doncaster headquarters and the related overhead costs. These appointments reflect the implementation of the Group's expansion plans developed since the Acquisition in 2010.

(d) *Taxation*

Taxation decreased by £5.3 million, or 43%, from £12.3 million for Financial Year 2012 to £7.0 million for Financial Year 2013. This decrease was largely due to the one-off costs incurred in the refinancing of the 2017 Notes on 8 March 2013 and their refinancing with the Notes. In addition, reductions in the rate of UK corporation tax from 26% to 24% (effective from 1 April 2012) and then to 23% (effective 1 April 2013) had an impact on the tax charged to the Group. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013, which reduced the Group's deferred tax assets.

(e) *Amortisation and depreciation*

Amortisation increased by £0.9 million, or 300%, from £0.3 million for Financial Year 2012 to £1.2 million for Financial Year 2013. This reflected the increase in computer software assets in Financial Year 2013.

Depreciation increased by £2.0 million, or 21.3%, from £9.4 million for Financial Year 2012 to £11.4 million for Financial Year 2013. This increase was due to the Group's additional investment in plant, equipment and motor vehicles.

(f) *Exceptional refinancing costs*

Exceptional refinancing costs were only incurred in Financial Year 2013 and relate to the early repayment and redemption in full of the 2017 Notes and their refinancing with the issue of the Notes.

(g) *Finance income*

Finance income decreased by £0.1 million, or 33%, from £0.3 million for Financial Year 2012 to £0.2 million for Financial Year 2013. This decrease was due to the small interest income on the Group's bank deposits.

(h) *Finance expenses*

Finance expenses increased by £1.7 million, or 2.9%, from £58.2 million for Financial Year 2012 to £59.9 million for Financial Year 2013. This increase was primarily due to a £2.0 million gain arising on repurchases of the 2017 Notes during Financial Year 2012.

## **8 Liquidity and capital resources**

### **8.1 Overview**

During Financial Years 2012, 2013 and 2014, as well as Q1 2015, the Group has been cash generative. The main source of its liquidity came from its operating activities and its bond financing, including the 2017

Notes (which were repaid in March 2013) and the Notes (which on Admission are to be redeemed and replaced by the New Debt Facilities, further details of which are set out in paragraphs 8.4 and 8.5 of this Part X (*Operating and Financial Review*) below). The Group's business has generated sufficient cash from operating activities to fund its capital expenditures, finance its acquisitions of dwell and Sofa Workshop, meet its tax liabilities and retain cash balances. As at 31 January 2015 (being the date of the Group's last set of management accounts prior to the date of this Prospectus) the liquidity available to the Group (cash and cash equivalents) was £49.7 million. The Group maintains cash, principally held in pounds sterling, to fund the daily cash requirements of its business.

Following Admission, the Directors anticipate that the Group's store-opening programme and other capital expenditure will continue to be funded through a combination of cash flow from operating activities and borrowing facilities available under the New Debt Facilities.

The key risks to the Group's sources of liquidity include the risk of stagnant or declining revenues and the possibility of access to finance facilities being restricted or withdrawn.

## 8.2 Cash flow

### (a) Net cash flows from operating activities

The following table sets out the net cash flows from operating activities for Financial Years 2012, 2013 and 2014, as well as Q1 2014 and Q1 2015:

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
Operating profit . . . . .	4.7	2.5	60.9	72.0	71.5
Adjustments for:					
Depreciation, amortisation and impairment . . . . .	3.9	3.5	14.7	12.6	9.7
Gain on sale of property, plant and equipment . . . . .	(0.1)	(0.1)	(0.7)	(0.6)	(0.4)
Share based payment expense . . . . .	—	—	0.3	—	—
Increase in trade and other receivables . .	4.5	3.8	0.2	(0.4)	(6.1)
Increase in inventories . . . . .	(1.8)	(2.9)	(5.0)	(2.5)	(5.1)
Increase in trade and other payables . . .	5.1	14.8	13.2	3.3	14.8
Decrease in provisions . . . . .	0.1	(0.1)	(0.4)	(0.9)	(2.4)
	16.4	21.5	83.2	83.5	82.0
Tax paid . . . . .	(1.7)	(1.4)	(8.0)	(5.7)	(11.3)
<b>Net cash from operating activities . . . . .</b>	<b>14.7</b>	<b>20.1</b>	<b>75.2</b>	<b>77.8</b>	<b>70.7</b>

#### Comparison of Q1 2014 and Q1 2015

Although operating profits for Q1 2015 (£4.7 million) were £2.2 million higher than those for Q1 2014 (£2.5 million), net cash flows from operating activities were £5.4 million lower (£14.7 million in Q1 2015 compared to £20.1 million in Q1 2014). The most significant factor accounting for this difference was a more significant increase in trade and other payables in Q1 2014 (£14.8 million) compared to Q1 2015 (£5.1 million).

#### Comparison of Financial Years 2013 and 2014

Although operating profits for Financial Year 2014 (£60.9 million) were £11.1 million lower than those for Financial Year 2013 (£72.0 million), net cash flows from operating activities were only £2.6 million lower (£75.2 million in Financial Year 2014 compared to £77.8 million in Financial Year 2013). Operating cash flows in Financial Year 2014 were enhanced by a significant increase in trade payables, partially offset by an increase in tax paid from £5.7 million in Financial Year 2013 to £8.0 million in Financial Year 2014.

#### Comparison of Financial Years 2012 and 2013

For Financial Year 2012, the Group generated net cash flows from operating activities of £70.7 million compared to £77.8 million for Financial Year 2013. Despite the operating profits for Financial Year 2012

(£71.5 million) and Financial Year 2013 (£72.0 million) being at similar level, this change was primarily a result of a decrease in the tax paid from £11.3 million in Financial Year 2013 to £5.7 million in Financial Year 2013. In addition, increases in trade payables and other working capital movements were more favourable in Financial Year 2013 than Financial Year 2012.

**(b) Net cash flows from investing activities**

The following table sets out the net cash flows from investing activities for Financial Years 2012, 2013 and 2014 as well as Q1 2014 and Q1 2015:

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment . . . . .	0.1	0.1	0.8	0.7	6.6
Interest received . . . . .	–	–	0.2	0.2	0.3
Acquisition of subsidiaries . . . . .	–	(1.4)	(1.4)	(0.6)	–
Acquisition of property, plant and equipment . . . . .	(5.3)	(4.1)	(12.9)	(14.9)	(18.4)
Acquisition of other intangible assets . . .	(0.4)	(1.2)	(2.5)	(3.2)	(1.8)
<b>Net cash from investing activities . . . . .</b>	<b>(5.6)</b>	<b>(6.6)</b>	<b>(15.8)</b>	<b>(17.8)</b>	<b>(13.3)</b>

*Comparison of Q1 2014 and Q1 2015*

For Q1 2015, net cash outflow from investing activities was £5.6 million compared to £6.6 million for Q1 2014. This decrease of £1.0 million was primarily due to the cash cost of acquisitions of subsidiaries and additional investment in the Group's website in Q1 2014. This was partly offset by higher expenditure on property, plant and equipment in Q1 2015 due to the timing of new store openings, both in the UK and abroad.

*Comparison of Financial Years 2013 and 2014*

For Financial Year 2014, net cash outflow from investing activities was £15.8 million compared to £17.8 million for Financial Year 2013. This decrease of £2.0 million reflected a slightly lower expenditure on property, plant and equipment due to the timing of new store openings.

*Comparison of Financial Years 2012 and 2013*

For Financial Year 2012, net cash outflow from investing activities was £13.3 million compared to £17.8 million for Financial Year 2013. This increase of £4.5 million was primarily due to receipt of the deferred consideration of £6.1 million relating to the sale and leaseback of the Group's Inverness freehold store in Financial Year 2012, which was partially offset by the increased property, plant and equipment expenditure in respect of new store openings.

**(c) Net cash flows from financing activities**

The following table sets out the net cash outflows from financing activities for Financial Years 2012, 2013 and 2014, as well as Q1 2014 and Q1 2015:

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
<b>Cash flows from financing activities</b>					
Proceeds from new loan . . . . .	–	–	–	310.0	–
Interest paid . . . . .	(28.7)	(28.5)	(42.1)	(117.2)	(35.6)
Repayment of borrowings . . . . .	–	–	–	(189.3)	(33.7)
Payment of finance lease liabilities . . . . .	(0.3)	(0.1)	(0.6)	(0.2)	–
Dividends paid . . . . .	(0.9)	(1.3)	(1.3)	(51.9)	–
<b>Net cash from financing activities . . . . .</b>	<b>(29.9)</b>	<b>(29.9)</b>	<b>(44.0)</b>	<b>(48.6)</b>	<b>(69.3)</b>

### *Comparison of Q1 2014 and Q1 2015*

For both Q1 2015 and Q1 2014 net cash outflow from financing activities was static at £29.9 million. There were minor differences in that the interest and finance lease liabilities paid in Q1 2015 were slightly higher, but this was offset by lower equity dividends being paid when compared to Q1 2014.

### *Comparison of Financial Years 2013 and 2014*

For Financial Year 2013, net cash outflow from financing activities was £48.6 million compared to £44.0 million for Financial Year 2014. Following the refinancing of the 2017 Notes in Financial Year 2013, £130.0 million was returned to shareholders through a combination of equity dividends of £51.9 million and repayment of accrued interest on indebtedness. Interest paid in Financial Year 2013 also includes exceptional early redemption costs on the 2017 Notes. Interest paid in Financial Year 2014 reflects a full year of payments on the Notes.

### *Comparison of Financial Years 2012 and 2013*

For Financial Year 2012, net cash outflow from financing activities was £69.3 million compared to £48.6 million for Financial Year 2013. This decrease of £20.7 million primarily reflects repayments of the 2017 Notes in Financial Year 2012, which were made separately and prior to the refinancing of the 2017 Notes in Financial Year 2013.

## **8.3 Capitalisation and indebtedness**

The table below sets out the Group's capitalisation as at 1 November 2014. The figures have been extracted from the Group's historical financial information as at 1 November 2014, which is contained in Part XI (*Historical financial information*).

	<b>At 1 November 2014</b>
	<b>£m</b>
<b>TOTAL CURRENT DEBT</b>	
Unguaranteed/unsecured <sup>(1)</sup> . . . . .	1.1
<b>Total current debt</b> . . . . .	<b>1.1</b>
<b>TOTAL NON-CURRENT DEBT</b>	
Guaranteed/secured <sup>(2)</sup> . . . . .	306.8
Unguaranteed/unsecured <sup>(3)</sup> . . . . .	2.9
<b>Total non-current debt</b> . . . . .	<b>309.7</b>
<b>SHAREHOLDERS' EQUITY</b>	
Share capital . . . . .	42.6
Cash flow hedging reserve . . . . .	1.9
<b>Total equity (excluding retained earnings)</b> . . . . .	<b>44.5</b>
<b>Total capitalisation</b> . . . . .	<b>355.3</b>

(1) Comprises finance lease liabilities.

(2) Comprises the Notes, which are calculated net of unamortised issue costs. The Notes are guaranteed on a senior basis by DFS Furniture Company and DFS Trading Limited (the "Guarantors"). The Notes and such guarantees are secured on a first priority basis over the capital stock and substantially all of the assets (subject to certain exceptions) of DFS Furniture Holdings and the Guarantors. Following Admission, the Notes will be redeemed and the New Debt Facilities will be entered into.

(3) Comprises finance lease liabilities.

There have been no material changes in the capitalisation of the Group since 1 November 2014.

The table below sets out the Group's net indebtedness as at 31 January 2015. The figures (which are unaudited) have been extracted from management accounts that have prepared using policies that are

consistent with those used in the preparation of the Group's historical financial information for Financial Year 2014 and Q1 2015 as set out in Part XI (*Historical financial information*).

	At 31 January 2015
	£m
<b>LIQUIDITY</b>	
Cash .....	49.7
<b>Liquidity</b> .....	<b>49.7</b>
<b>CURRENT FINANCIAL DEBT</b>	
Finance lease liabilities .....	(1.1)
<b>Current financial debt</b> .....	<b>(1.1)</b>
<b>NON-CURRENT FINANCIAL INDEBTEDNESS</b>	
Senior secured notes (net of unamortised issue costs) <sup>(1)</sup> .....	(307.0)
Finance lease liabilities .....	(3.2)
<b>Non-current financial indebtedness</b> .....	<b>(310.2)</b>
<b>Net financial indebtedness</b> .....	<b>(261.6)</b>

(1) Comprises the Notes which, following Admission will be redeemed and the New Debt Facilities will be entered into.

#### 8.4 Existing facilities

The Group's existing finance arrangements consist of: (i) the Notes issued pursuant to an indenture dated 8 March 2013 between, amongst others, DFS Furniture Holdings (as Issuer), DFS Trading Limited and DFS Furniture Company (each as Guarantors) and Deutsche Bank AG, London Branch as Trustee; and (ii) a multi-currency £30.0 million revolving facility agreement originally dated 22 July 2010 between, among others, DFS Furniture Company (as Company, Original Guarantor and Original Borrower) and Lloyds TSB Bank plc (as Agent and Security Agent) as amended and restated on 8 March 2013 (the "**Existing RCF**", together with the Notes, the "**Existing Facilities**"). The Existing RCF is undrawn and has never been drawn. No defaults are continuing in respect of and no default breaches are expected to occur under the Existing Facilities. Following Admission and drawdown under the New Senior Facilities Agreement (defined below), the undrawn Existing RCF will be cancelled and the Notes will be redeemed in full. For further information in relation to the Existing Facilities, see Part XIV (*Additional information*).

#### 8.5 New Debt Facilities

In preparation for the Offer, the Group has entered into a legally binding commitment letter which was issued on 5 February 2015 by, amongst others, Barclays Bank PLC, HSBC Bank plc, Jefferies Finance LLC, Lloyds Bank plc, The Royal Bank of Scotland plc and UBS AG, London Branch (the "**New Lenders**") and countersigned by DFS Furniture Holdings on 10 February 2015 (the "**Commitment Letter**") pursuant to which the New Lenders have agreed to provide a £200.0 million term facility (the "**Term Facility**") and a revolving facility of £30.0 million (the "**Revolving Credit Facility**", and together with the Term Facility, the "**New Debt Facilities**") pursuant to the terms of the agreed form senior facilities agreement appended to the Commitment Letter (the "**New Senior Facilities Agreement**"). The New Facilities Agreement will be entered into shortly after Admission between, amongst others, Barclays Bank PLC, HSBC Bank plc, Jefferies Finance LLC, Lloyds Bank plc, The Royal Bank of Scotland plc and UBS (as Mandated Lead Arrangers), the New Lenders (as Original Lenders), Lloyds Bank plc as agent (the "**Agent**"), Lloyds Bank plc as security agent (the "**Security Agent**"), the Company, DFS Furniture Holdings, DFS Furniture Company and DFS Trading Limited (each together with the Company as "**Original Borrowers**").

The Term Facility may be utilised by way of loans for the purpose of directly or indirectly refinancing and/or cancelling the Existing Facilities and financing the fees, costs and expenses in connection with such refinancing. The Revolving Credit Facility may be utilised by way of loans for the purpose of directly or indirectly financing or refinancing the general corporate purposes or working capital requirements of the Group.

The Term Facility is required to be repaid in one single repayment due on the date which falls on the fifth anniversary of the date of first utilisation of the New Debt Facilities (the "**First Utilisation Date**"). Each loan made under the Revolving Credit Facility is repayable on the last day of its interest period and can be

rolled over for further interest periods, subject only to there having been no acceleration under the New Senior Facilities Agreement. The interest period of a loan made under the Revolving Credit Facility can be one, two, three or six months or any such period as agreed by the Agent (or if greater than six months, all lenders participating in the relevant loan). The scheduled final maturity date of the Revolving Credit Facility is the date which falls on the fifth anniversary of the First Utilisation Date.

Interest is payable on amounts drawn by way of loans under the New Senior Facilities Agreement at a margin over LIBOR, or in the case of a loan in Euro, the Euro Interbank Offered Rate, ranging between: (i) in respect of the Term Facility, 2.75% and 2.00% (depending on the ratio of total net debt to consolidated EBITDA); and (ii) in respect of the Revolving Credit Facility, 2.50% and 1.75% (depending on the ratio of total net debt to consolidated EBITDA). For the first 12 months following the First Utilisation Date, the margin is fixed at 2.50% for the Term Facility and 2.25% for the Revolving Credit Facility. Additionally: (i) a ticking fee is payable on the committed amount of the New Debt Facilities at a rate of 0.5% per annum of each New Lender's available commitment under the New Debt Facilities for the period commencing on the date falling 61 days from the date the Commitment Letter is signed by all parties up to (and excluding) the First Utilisation Date; and (ii) a commitment fee is payable on unutilised amounts under the Revolving Credit Facility at a rate of 40% of the applicable margin each lender's available commitment under the Revolving Credit Facility for the availability period of the Revolving Credit Facility. Customary fees are payable to the Agent and Security Agent.

The New Senior Facilities Agreement is guaranteed by the guarantors thereto, and the Original Lenders' rights under it are secured with reference to security pursuant to an English law debenture to be entered into between, amongst others, the Company and DFS Furniture Holdings (as Chargors) and the Security Agent (the "**New Debenture**"). The New Debenture will secure the New Senior Facilities Agreement on a first priority basis with fixed and floating charges over all or substantially all of the Company's and DFS Furniture Holdings' assets. Such security must be released by the Security Agent if requested by a member of the Group, provided certain conditions are met.

The New Senior Facilities Agreement contains two financial covenants: a fixed charge cover ratio and a leverage ratio (total net debt to consolidated EBITDA), each tested semi-annually from 31 July 2015, at a ratio of, in the case of fixed charge cover, 1.50:1, and in the case of the leverage ratio, on the basis set out below:

31 July 2015 and 31 January 2016 .....	3.35:1
31 July 2016 .....	3.25:1
31 January 2017 and each half-year date thereafter .....	3.00:1

In addition to the financial covenants, the New Senior Facilities Agreement contains prepayment, cancellation and default provisions and customary representations and warranties (subject to certain exceptions and qualifications), including:

- if required by a lender, mandatory repayment of all utilisations provided by that lender upon a change of control;
- voluntary prepayment of loans (subject to minimum amounts and prior notice);
- events of default including non-payment, failure to comply with financial covenant (subject to equity cure provisions), breaches of representation and other obligations, insolvency, cross default (in relation to certain other financial indebtedness of the Group, subject to a £10,000,000 de minimis threshold), invalidity, unlawfulness and repudiation of the finance documents, cessation of business, intercreditor default and material adverse change (in each case, subject to customary grace periods and thresholds);
- certain ongoing financial information provisions; and
- certain positive and negative covenants, including with respect to authorisations and consents, compliance with laws, *pari passu* ranking, insurances, taxes, pension schemes, environmental laws, change of business, centre of main interests, guarantees and security and a negative pledge.

## 8.6 Capital expenditures

The following table sets out the Group's capital expenditures (including assets acquired in acquisitions) for the periods under review.

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
Land and buildings . . . . .	0.2	0.3	0.5	1.1	0.9
Plant and equipment . . . . .	4.5	2.8	9.0	11.4	13.5
Motor vehicles . . . . .	1.1	1.7	6.1	4.6	4.2
Property, plant and equipment . . . . .	5.8	4.8	15.6	17.1	18.6
Computer software . . . . .	0.4	1.2	2.5	3.2	1.8
<b>Total . . . . .</b>	<b>6.2</b>	<b>6.0</b>	<b>18.1</b>	<b>20.3</b>	<b>20.4</b>

Capital expenditures relate mainly to the costs of the ongoing maintenance of the Group's existing stores and the outlay on opening new stores. Some of the other major capital expenditures that have been incurred during the periods under review include those relating to:

- the investment in development of the Group's web platform and e-commerce capability; and
- the continued investment in the Group's delivery vehicle fleet.

This capital expenditure since Financial Year 2012 has largely been driven by the result of initiatives implemented under the Advent Shareholder's ownership. The Directors expect that the Group will invest approximately £24.4 million in capital expenditure during the current financial year, which will include, without limitation:

- the fit out of new stores (and associated costs such as plant, machinery and IT);
- further refurbishment and replacement of the Group's delivery fleet; and
- maintenance and development of IT infrastructure.

The total capital expenditure reflects the low capital intensity of DFS's business model and, between Financial Year 2012 and Financial Year 2014, accounted for an average of 2.4% of the Group's Gross Sales. The capital expenditures have been, and are expected to continue to be, funded from the Group's net cash flows, with the exception of company cars which are purchased through finance leases.

## 9 Like for like revenue

DFS-branded stores are the largest driver of sales growth for the Group. The meaningfulness of like-for-like ("LFL") analysis of DFS performance is, in the view of the Directors, materially impacted by the number of new store openings. However, based on a sample of LFL stores, a positive growth trend may be seen across the period analysed. LFL stores are those which have traded for a minimum of one full financial year and which, in the Directors' opinion, have not been impacted by the opening of a new store in close geographical proximity. The Directors attribute the two periods of store LFL sales decline to the adverse trends in the wider upholstery market that occurred during H2 of Financial Year 2013 and H1 of Financial Year 2014. Recent quarterly performance in H2 of Financial Year 2014 and Q1 2015 has shown a

recovery in LFL sales performance with a return to growth. This data is unaudited and has been sourced from the Group's management accounts.

	Financial Year 2012	Financial Year 2013	Financial Year 2014	Q1 2015
LFL stores . . . . .	79	43	65	87
Total DFS stores <sup>(1)</sup> . . . . .	89	97	100	101
LFL <sup>(2)</sup>				
H1 . . . . .	− 12%	+1%	− 6%	n/a
H2 . . . . .	+2%	+3%	+5%	n/a
Whole period . . . . .	− 5%	+2%	+0%	+10%
Total stores				
Whole period . . . . .	− 2%	+7%	+3%	+13%

(1) Excluding Hull clearance store which closed and four new stores which opened in Q1 2015.

(2) H1 refers to the first half of the relevant Financial Year, while H2 refers to the second half of the relevant Financial Year.

## 10 Contractual obligations

The following table summarises the Group's material contractual obligations and commitments as at 1 November 2014 and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

£million	Contractual obligations			
	Within 1 year	1 - 5 years	Over 5 years	Total
Operating lease obligations . . . . .	55.6	213.6	416.0	685.2
Finance lease liabilities . . . . .	1.3	3.0	–	4.3
Interest bearing loans and borrowings <sup>(1)</sup> . . . . .	22.4	375.6	–	398.0
Forward foreign currency exchange outflow . . . . .	67.0	–	–	67.0
Forward foreign currency exchange inflow . . . . .	(68.8)	–	–	(68.8)
Trade and other payables . . . . .	317.7	–	–	317.7
Other commercial liabilities <sup>(2)</sup> . . . . .	5.9	3.7	2.1	11.7
<b>Total . . . . .</b>	<b>401.1</b>	<b>595.9</b>	<b>418.1</b>	<b>1,415.1</b>

(1) Notes which will be redeemed following Admission.

(2) Cash flows relating to guarantee and property provisions.

## 11 Off-balance sheet arrangements

The Group does not have any off-balance sheet financing arrangements with any of its affiliates or with any unconsolidated entities.

## 12 Contingent liabilities

The Group does not have any contingent liabilities.

## 13 Quantitative and qualitative disclosures on market risk

The Group's exposure to market risk is a function of its borrowing and business activities. The Group is exposed to market risk from changes in both foreign currency exchange rates and interest rates. It faces foreign exchange risk to the extent that its business's sales, costs, assets or liabilities are denominated in currencies other than pounds sterling. The Group has very limited sensitivity to movements in interest rates and does not hold or issue derivative or other financial instruments for trading purposes.

## 14 Interest rate risk

The Group's operating profit has been and will continue to be affected by the cost of IFC to its customers. A fall in LIBOR rates will have a positive impact on its operating profit and a rise in LIBOR rates will impact its operating profit negatively (an increase by one percentage point will reduce the Group's revenue

by 0.4 percentage points). However, any fall in LIBOR rates at present will be largely offset by LIBOR “floor” mechanisms used by three of DFS’s consumer credit providers. The Group is also exposed to fair value interest rate risk on the Fixed Rate Notes and cash flow interest rate risk on the Floating Rate Notes. These risks are managed by maintaining an appropriate mix between fixed and floating borrowings and by the use of interest rate derivatives where this is deemed beneficial. As a result of the predominantly fixed rate debt, the Group has very limited sensitivity to movements in interest rates. Following the redemption of the Notes and drawdown of the New Debt Facilities, the Group’s exposure to cash flow interest rate risk will increase and the Group is currently considering extending its use of interest rate derivatives to protect against future movements in LIBOR. See Part II (*Risk Factors*)—*The Group is exposed to fluctuations in interest rates through its borrowings*.

## **15 Foreign exchange risk**

DFS operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and, to a lesser extent, with respect to the Euro. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group’s functional currency. To manage its foreign exchange risk arising from future commercial transactions denominated in US dollars, the Group utilises forward contracts. Its risk management policy is to hedge all of its estimated US dollar requirements for purchases within nine to 18 months. In Financial Year 2014 the US dollar effective rate was \$1.58 and the Group currently holds cover of \$103.0 million until February 2016 (a 1% change in the rate would have an impact on the Group’s EBITDA of c.£0.6 million).

In the ordinary course of business, the Group maintains foreign exchange facilities with financial institutions that allow it to conduct foreign exchange hedging operations using spot and forward foreign exchange contracts. The Group does not hold or issue derivative or other financial instruments for trading purposes.

## **16 Impact of inflation**

A portion of the Group’s costs is affected by inflation, but the Directors do not believe that the Group is subject to material inflation risk within its current four year strategic plan.

## **17 Critical accounting policies and judgements, estimates and assumptions**

In the application of its accounting policies, which are described in Note 2 to the Group’s consolidated historical financial information in Part XI (*Historical financial information*), the Group is required to make judgements, estimates and assumptions, the most critical of which are described below. It makes such judgements, estimates and assumptions based on historical experience and other factors that it considers to be relevant. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions on which they are based.

### ***Revenue recognition***

Gross Sales represent the total amounts payable by external customers, without adjustment for the time value of money, for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and VAT and other sales taxes.

Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods and services to external customers, being Gross Sales less: VAT and other sales taxes, the charges made by providers of credit to customers and the amounts relating to services for which the Group acts as an agent.

Both Gross Sales and revenue are stated net of returns and sales allowances, and are recognised at the point the at which Group fulfils its commercial obligations to the customer, when the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured.

### ***Business combinations***

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

#### *Acquisitions prior to 31 July 2011 (date of transition to IFRSs)*

IFRS 1 grants certain exemptions from the full requirements of adopted IFRSs in the transition period. The Group 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 costs, 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.

#### ***Tangible fixed assets***

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives 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 . . . . .	4 - 10 years
Motor vehicles . . . . .	4 years
Computer equipment . . . . .	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

#### ***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 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. An impairment loss in respect of goodwill is not reversed.

#### ***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. Estimation is used to calculate the cost of meeting customer guarantees and property related provisions.

#### ***Tax***

Tax on the profit or loss for the year 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 year, 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 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.

### ***Leases***

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. DFS Trading Limited has 27 leases with Delphi Properties Limited (formerly known as DFS Properties Limited) in relation to properties with fixed-rent increases of 3% per annum for the first 10 years until 23 March 2015. The rent will then be fixed for five years until 23 March 2020, following which the rent will be marked to market by rent reviews in 2020 and 2025.

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown under creditors. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### ***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 capital expenditure. Estimation is used in the determination of the net realisable value of inventories.

**PART XI**  
**HISTORICAL FINANCIAL INFORMATION**

**Section A: Accountant's report on the historical financial information of the Group**

The Directors  
DFS Furniture plc  
1 Rockingham Way  
Redhouse Interchange  
Adwick-le-Street  
Doncaster  
DN6 7NA

23 February 2015

Dear Sirs

**DFS Furniture plc (the "Company")**

We report on the financial information set out on pages 120 to 150 for the 52 weeks ended 28 July 2012, the 52 weeks ended 27 July 2013, the 53 weeks ended 2 August 2014 and the 13 week period ended 1 November 2014. This financial information has been prepared for inclusion in the prospectus dated 23 February 2015 of the Company (the "**Prospectus**") on the basis of the accounting policies set out in note 1 of the Historical Financial Information. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose. We have not audited or reviewed the financial information for the 13 weeks ended 26 October 2013 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 of the Historical Financial Information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the UK. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion on financial information**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of DFS Furniture plc as at 28 July 2012, 27 July 2013, 2 August 2014 and 1 November 2014 and of its consolidated profits and losses, cash flows, other comprehensive income and changes in equity for the 52 week period ended 28 July 2012, the 52 week period ended 27 July 2013, the 53 week

period ended 2 August 2014 and the 13 week period ended 1 November 2014 in accordance with the basis of preparation set out in note 1 of the Historical Financial Information and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1 of the Historical Financial Information.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

## Section B: Historical financial information of the Group

### Consolidated income statement

	Note	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
		£m	£m	£m	£m	£m
<b>Gross sales</b> . . . . .	1,2	197.0	175.6	853.4	804.3	748.7
<b>Revenue</b> . . . . .	2	152.7	134.9	656.8	614.4	567.9
Cost of sales . . . . .		(133.2)	(120.7)	(544.9)	(503.5)	(464.1)
<b>Gross profit</b> . . . . .		19.5	14.2	111.9	110.9	103.8
Administrative expenses . . . . .		(9.2)	(7.7)	(31.9)	(26.3)	(22.6)
<b>Underlying operating profit before depreciation and amortisation . . .</b>						
		10.3	6.5	80.0	84.6	81.2
Depreciation . . . . .		(3.3)	(3.0)	(12.3)	(11.4)	(9.4)
Amortisation . . . . .		(0.6)	(0.5)	(2.4)	(1.2)	(0.3)
Non-underlying items . . . . .	3	(1.7)	(0.5)	(4.4)	–	–
<b>Operating profit</b> . . . . .	2,3	4.7	2.5	60.9	72.0	71.5
Finance income . . . . .	5	–	–	0.2	0.2	0.3
Finance expenses . . . . .	5	(15.9)	(14.0)	(57.5)	(59.9)	(58.2)
Exceptional refinancing costs . . . . .	5	–	–	–	(22.4)	–
<b>Profit/(loss) before tax</b> . . . . .		(11.2)	(11.5)	3.6	(10.1)	13.6
Taxation . . . . .	6	0.8	1.4	(8.1)	(7.0)	(12.3)
<b>Profit/(loss) for the period</b> . . . . .		<u>(10.4)</u>	<u>(10.1)</u>	<u>(4.5)</u>	<u>(17.1)</u>	<u>1.3</u>
<b>Attributable to:</b>						
Owners of the Company . . . . .		(9.1)	(8.9)	(5.0)	(14.5)	1.4
Non-controlling interests . . . . .		<u>(1.3)</u>	<u>(1.2)</u>	<u>0.5</u>	<u>(2.6)</u>	<u>(0.1)</u>
		<u>(10.4)</u>	<u>(10.1)</u>	<u>(4.5)</u>	<u>(17.1)</u>	<u>1.3</u>
<b>Earnings per share</b>						
Basic and diluted . . . . .	25	(21.2)p	(20.8)p	(11.7)p	(34.1)p	3.2p

## Consolidated statement of comprehensive income

	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
	£m	£m	£m	£m	£m
<b>(Loss)/profit for the year . . . . .</b>	<b>(10.4)</b>	<b>(10.1)</b>	<b>(4.5)</b>	<b>(17.1)</b>	<b>1.3</b>
<b>Other comprehensive income</b>					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Effective portion of changes in fair value of cash flow hedges . . . . .	3.8	(4.2)	(8.1)	2.8	3.4
Net change in fair value of cash flow hedges reclassified to profit or loss . . . . .	1.1	(0.3)	2.4	(1.1)	(0.8)
Income tax on items that are or may be reclassified subsequently to profit or loss	<u>(1.0)</u>	<u>0.9</u>	<u>1.2</u>	<u>(0.3)</u>	<u>(0.6)</u>
<b>Other comprehensive income/(expense) for the period, net of income tax . . . . .</b>	<b><u>3.9</u></b>	<b><u>(3.6)</u></b>	<b><u>(4.5)</u></b>	<b><u>1.4</u></b>	<b><u>2.0</u></b>
<b>Total comprehensive (expense)/income for the period . . . . .</b>	<b><u>(6.5)</u></b>	<b><u>(13.7)</u></b>	<b><u>(9.0)</u></b>	<b><u>(15.7)</u></b>	<b><u>3.3</u></b>
<b>Attributable to:</b>					
Owners of the Company . . . . .	(5.2)	(12.5)	(9.5)	(13.1)	3.4
Non-controlling interests . . . . .	<u>(1.3)</u>	<u>(1.2)</u>	<u>0.5</u>	<u>(2.6)</u>	<u>(0.1)</u>
	<u>(6.5)</u>	<u>(13.7)</u>	<u>(9.0)</u>	<u>(15.7)</u>	<u>3.3</u>

## Consolidated balance sheet

	Note	1 November 2014	26 October 2013 (unaudited)	2 August 2014	27 July 2013	28 July 2012
		£m	£m	£m	£m	£m
<b>Non-current assets</b>						
Property, plant and equipment . . . . .	7	53.4	49.5	50.9	47.7	42.1
Intangible assets . . . . .	8	490.0	490.8	490.2	483.7	481.2
Other financial assets . . . . .	10	–	–	0.1	0.2	–
Deferred tax assets . . . . .	11	11.0	11.7	11.2	9.8	11.2
		<u>554.4</u>	<u>552.0</u>	<u>552.4</u>	<u>541.4</u>	<u>534.5</u>
<b>Current assets</b>						
Inventories . . . . .	12	30.6	26.7	28.8	23.1	20.5
Other financial assets . . . . .	10	1.9	0.1	–	2.5	1.0
Trade and other receivables . . . . .	13	21.5	22.4	26.0	25.5	24.7
Cash and cash equivalents . . . . .		33.0	22.0	53.8	38.4	27.0
		<u>87.0</u>	<u>71.2</u>	<u>108.6</u>	<u>89.5</u>	<u>73.2</u>
<b>Total assets . . . . .</b>		<u>641.4</u>	<u>623.2</u>	<u>661.0</u>	<u>630.9</u>	<u>607.7</u>
<b>Current liabilities</b>						
Trade payables and other liabilities . . . .	14	(331.8)	(310.7)	(337.8)	(305.1)	(340.6)
Provisions . . . . .	18	(6.0)	(6.0)	(5.8)	(6.0)	(6.4)
Other financial liabilities . . . . .	15	–	(1.9)	(3.1)	–	–
Current tax liabilities . . . . .		(5.5)	(5.2)	(7.3)	(6.6)	(6.3)
		<u>(343.3)</u>	<u>(323.8)</u>	<u>(354.0)</u>	<u>(317.7)</u>	<u>(353.3)</u>
<b>Non-current liabilities</b>						
Senior secured notes . . . . .	16	(306.8)	(305.9)	(306.6)	(305.7)	(186.6)
Provisions . . . . .	18	(4.4)	(4.5)	(4.4)	(4.5)	(4.8)
Other liabilities . . . . .	14	(69.1)	(69.0)	(70.8)	(68.0)	(60.7)
		<u>(380.3)</u>	<u>(379.4)</u>	<u>(381.8)</u>	<u>(378.2)</u>	<u>(252.1)</u>
<b>Total liabilities . . . . .</b>		<u>(723.6)</u>	<u>(703.2)</u>	<u>(735.8)</u>	<u>(695.9)</u>	<u>(605.4)</u>
<b>Net (liabilities)/assets . . . . .</b>		<u>(82.2)</u>	<u>(80.0)</u>	<u>(74.8)</u>	<u>(65.0)</u>	<u>2.3</u>
<b>Equity</b>						
Share capital . . . . .	19	42.6	42.6	42.6	42.6	42.6
Cash flow hedging reserve . . . . .	19	1.9	(1.8)	(3.0)	2.7	1.0
Retained earnings . . . . .		(124.5)	(118.0)	(113.5)	(108.7)	(41.9)
<b>Equity attributable to owners of the</b>						
<b>Company . . . . .</b>		<u>(80.0)</u>	<u>(77.2)</u>	<u>(73.9)</u>	<u>(63.4)</u>	<u>1.7</u>
Non-controlling interests . . . . .		(2.2)	(2.8)	(0.9)	(1.6)	0.6
<b>Total equity . . . . .</b>		<u>(82.2)</u>	<u>(80.0)</u>	<u>(74.8)</u>	<u>(65.0)</u>	<u>2.3</u>

# **Consolidated statement of changes in equity**

	Share capital £m	Cash flow hedging reserve £m	Retained earnings £m	Non- controlling interest £m	Total equity £m
<b>Balance at 31 July 2011</b> . . . . .	<b>42.6</b>	<b>(1.6)</b>	<b>(42.7)</b>	<b>–</b>	<b>(1.7)</b>
Profit/(loss) for the period . . . . .	–	–	1.4	(0.1)	1.3
Other comprehensive income . . . . .	–	2.6	(0.6)	–	2.0
Total comprehensive income for the period . . . . .	–	2.6	0.8	(0.1)	3.3
Issue of shares in subsidiary . . . . .	–	–	–	0.7	0.7
<b>Balance at 28 July 2012</b> . . . . .	<b>42.6</b>	<b>1.0</b>	<b>(41.9)</b>	<b>0.6</b>	<b>2.3</b>
Loss for the period . . . . .	–	–	(14.6)	(2.5)	(17.1)
Other comprehensive income/(expense) . . . . .	–	1.7	(0.3)	–	1.4
Total comprehensive income/(expense) for the period . . . . .	–	1.7	(14.9)	(2.5)	(15.7)
Issue of shares in subsidiary . . . . .	–	–	–	0.3	0.3
Dividends . . . . .	–	–	(51.9)	–	(51.9)
<b>Balance at 27 July 2013</b> . . . . .	<b>42.6</b>	<b>2.7</b>	<b>(108.7)</b>	<b>(1.6)</b>	<b>(65.0)</b>
Loss for the period . . . . .	–	–	(5.0)	0.5	(4.5)
Other comprehensive income/(expense) . . . . .	–	(5.7)	1.2	–	(4.5)
Total comprehensive income/(expense) for the period . . . . .	–	(5.7)	(3.8)	0.5	(9.0)
Issue of shares in subsidiary . . . . .	–	–	–	0.2	0.2
Dividends . . . . .	–	–	(1.3)	–	(1.3)
Capital contribution . . . . .	–	–	0.3	–	0.3
<b>Balance at 2 August 2014</b> . . . . .	<b>42.6</b>	<b>(3.0)</b>	<b>(113.5)</b>	<b>(0.9)</b>	<b>(74.8)</b>
Loss for the period . . . . .	–	–	(9.1)	(1.3)	(10.4)
Other comprehensive income/(expense) . . . . .	–	4.9	(1.0)	–	3.9
Total comprehensive income/(expense) for the period . . . . .	–	4.9	(10.1)	(1.3)	(6.5)
Dividends . . . . .	–	–	(0.9)	–	(0.9)
<b>Balance at 1 November 2014</b> . . . . .	<b>42.6</b>	<b>1.9</b>	<b>(124.5)</b>	<b>(2.2)</b>	<b>(82.2)</b>
<b>Balance at 27 July 2013</b> . . . . .	<b>42.6</b>	<b>2.7</b>	<b>(108.7)</b>	<b>(1.6)</b>	<b>(65.0)</b>
Loss for the period . . . . .	–	–	(8.9)	(1.2)	(10.1)
Other comprehensive income/(expense) . . . . .	–	(4.5)	0.9	–	(3.6)
Total comprehensive income/(expense) for the period . . . . .	–	(4.5)	(8.0)	(1.2)	(13.7)
Dividends . . . . .	–	–	(1.3)	–	(1.3)
<b>Balance at 26 October 2013 (unaudited)</b> . . . . .	<b>42.6</b>	<b>(1.8)</b>	<b>(118.0)</b>	<b>(2.8)</b>	<b>(80.0)</b>

## Consolidated cash flow statement

	Note	13 weeks to 1 November 2014	13 weeks to 26 October 2013 (unaudited)	53 weeks to 2 August 2014	52 weeks to 27 July 2013	52 weeks to 28 July 2012
		£m	£m	£m	£m	£m
Operating profit . . . . .		4.7	2.5	60.9	72.0	71.5
<i>Adjustments for:</i>						
Depreciation, amortisation and impairment . . . . .		3.9	3.5	14.7	12.6	9.7
Gain on sale of property, plant and equipment . . . . .		(0.1)	(0.1)	(0.7)	(0.6)	(0.4)
Share based payment expense . . . . .		–	–	0.3	–	–
Increase in trade and other receivables .		4.5	3.8	0.2	(0.4)	(6.1)
Increase in inventories . . . . .		(1.8)	(2.9)	(5.0)	(2.5)	(5.1)
Increase in trade and other payables . . .		5.1	14.8	13.2	3.3	14.8
Decrease in provisions . . . . .		0.1	(0.1)	(0.4)	(0.9)	(2.4)
		<u>16.4</u>	<u>21.5</u>	<u>83.2</u>	<u>83.5</u>	<u>82.0</u>
Tax paid . . . . .		(1.7)	(1.4)	(8.0)	(5.7)	(11.3)
<b>Net cash from operating activities . . . . .</b>		<b>14.7</b>	<b>20.1</b>	<b>75.2</b>	<b>77.8</b>	<b>70.7</b>
<b>Cash flows from investing activities</b>						
Proceeds from sale of property, plant and equipment . . . . .		0.1	0.1	0.8	0.7	6.6
Interest received . . . . .		–	–	0.2	0.2	0.3
Acquisition of subsidiaries . . . . .		–	(1.4)	(1.4)	(0.6)	–
Acquisition of property, plant and equipment . . . . .		(5.3)	(4.1)	(12.9)	(14.9)	(18.4)
Acquisition of other intangible assets . .		(0.4)	(1.2)	(2.5)	(3.2)	(1.8)
<b>Net cash from investing activities . . . . .</b>		<b>(5.6)</b>	<b>(6.6)</b>	<b>(15.8)</b>	<b>(17.8)</b>	<b>(13.3)</b>
<b>Cash flows from financing activities</b>						
Proceeds from new loan . . . . .		–	–	–	310.0	–
Interest paid . . . . .		(28.7)	(28.5)	(42.1)	(117.2)	(35.6)
Repayment of borrowings . . . . .		–	–	–	(189.3)	(33.7)
Payment of finance lease liabilities . . . .		(0.3)	(0.1)	(0.6)	(0.2)	–
Dividends paid . . . . .		(0.9)	(1.3)	(1.3)	(51.9)	–
<b>Net cash from financing activities . . . . .</b>		<b>(29.9)</b>	<b>(29.9)</b>	<b>(44.0)</b>	<b>(48.6)</b>	<b>(69.3)</b>
Net (decrease)/increase in cash and cash equivalents . . . . .		(20.8)	(16.4)	15.4	11.4	(11.9)
Cash and cash equivalents at beginning of period . . . . .		<u>53.8</u>	<u>38.4</u>	<u>38.4</u>	<u>27.0</u>	<u>38.9</u>
<b>Cash and cash equivalents at end of period . . . . .</b>	24	<b><u>33.0</u></b>	<b><u>22.0</u></b>	<b><u>53.8</u></b>	<b><u>38.4</u></b>	<b><u>27.0</u></b>

## Notes to the Historic Financial Information

### Accounting policies

DFS Furniture Limited (the “Company”) is a company incorporated and domiciled in the UK.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the “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 1.16.

#### *1.1 Basis of preparation*

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRS”). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment liabilities which are measured at their fair value. The financial statements are for the 13 weeks to 1 November 2014, 13 weeks to 26 October 2013 (unaudited), 53 weeks to 2 August 2014, 52 weeks to 27 July 2013 and 52 weeks to 28 July 2012.

The Group remains highly cash generative and currently has sufficient medium and long-term facilities in place (the “**Existing Facilities**”), including £310.0 million of senior secured loan notes maturing in 2018 and a £30.0 million revolving credit facility in place until February 2018 which is as yet unutilised.

The Group has net liabilities of £82.2 million at 1 November 2014, after taking into account amounts due to its parent company of £183.9 million. The directors, having assessed the responses of the directors of the Company’s parent Advent Diamond (Luxembourg) Sarl to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Advent Diamond (Luxembourg) Sarl group to continue as a going concern or its ability to continue with the Existing Facilities.

In preparation for the Offer, the Group has made arrangements for New Debt Facilities including a £200.0 million Term Facility and a new £30.0 million revolving credit facility. Following Admission and draw down under the Term Facility, the Existing Facilities will be redeemed and/or cancelled.

On the basis of their assessment of the Group’s financial position, forecasts and projections, the enquiries made of the directors of Advent Diamond (Luxembourg) Sarl and taking account of reasonably possible changes in trading performance and the current economic uncertainty the directors have a reasonable expectation that the Group will be able to continue to operate within the level of the facilities available to it. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

#### *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 is achieved where the Company has the ability to direct relevant activities of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### *1.3 Gross sales and revenue*

Gross sales represent the total amounts payable by external customers, without adjustment for the time value of money, 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.

Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods and services to external customers, being gross sales less: value added and other sales taxes, the charges made by providers of credit to customers and the amounts relating to services for which the Group acts as an agent.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised at the point the Group fulfils its commercial obligations to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured.

#### **1.4 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
- Impairment charges
- Accelerated fair value charges arising on equity settled share based payments
- Costs and benefits associated with significant corporate, financial or operating restructuring, including acquisitions or the establishment of operations in new geographical territories.

Material finance income or expenses associated with significant changes in the Group's borrowings are disclosed separately as exceptional items below operating profit.

##### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

##### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### *Finance income and expenses*

Finance expenses comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method and unwinding of the discount on provisions. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

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.

#### **1.5 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.

#### **1.6 Taxation**

Tax on the profit or loss for the year 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 year, 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.

### ***1.7 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 differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

### ***1.8 Business combinations***

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

#### ***Acquisitions prior to 31 July 2011 (date of transition to IFRSs)***

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group and Company elected not to restate business combinations that took place prior to 31 July 2011. In respect of acquisitions prior to transition, goodwill is included at 31 July 2011 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that goodwill was amortised. On transition, amortisation of goodwill ceased as required by IFRS 1.

### ***1.9 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.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum

lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described in 1.4 above.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives 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 . . . . . 4 to 10 years
- motor vehicles . . . . . 4 years
- computer equipment . . . . . 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### ***1.10 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.

#### ***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 . . . . . 20 years

### ***1.11 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.

### ***1.12 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.

### ***1.13 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 18 and the related significant estimates and judgments in note 1.16.

### ***1.14 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.

### ***1.15 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***

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 directly in 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.

### 1.16 Significant areas of estimation and judgment

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, but may differ from actual results. Significant areas of estimation for the Group include the costs of meeting customer guarantees and property related provisions (note 18), the selling prices applied in determining net realisable values of inventories (note 12) and the assumptions underlying the value in use calculation for the impairment of goodwill (note 8).

### 1.17 Adopted IFRS not yet applied

#### Adopted IFRS not yet applied

The following standards and interpretations have been issued and endorsed by the EU (except where noted) but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

	<u>Mandatory for years commencing</u>
IFRS 15 Revenue from Contracts with Customers . . . . .	1 January 2017
<i>Not EU-endorsed</i>	
IFRS 9 Financial Instruments . . . . .	1 January 2018
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: applying the Consolidation Exception . . . . .	1 January 2016
Amendments to IAS 1: Disclosure Initiative . . . . .	1 January 2016
Amendments to IFRS 10 and IAS 28: Sale of Contribution of Assets between an Investor and its Associate or Joint Venture . . . . .	1 January 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements . . . . .	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation . . . . .	1 January 2016
Annual improvements to IFRSs 2012-2014 Cycle . . . . .	1 January 2016
Amendments to IFRS 11: Account for Acquisitions of Interests in Joint Operations . .	1 January 2016

## 2 Segmental analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Board (Chief Operating Decision Maker). Segment performance is assessed based upon earnings before interest and tax excluding depreciation charges and non-underlying items ("underlying EBITDA").

The Group has only one reportable segment, which derives its revenues from the retailing of upholstered furniture and related products. Activities included in other segments comprise the manufacture and distribution of upholstered furniture.

The Group's operations and related assets and its external revenue derive wholly within the UK & Eire and accordingly no separate analysis by geographical area has been presented.

	<u>External sales</u>		<u>Internal sales</u>		<u>Total gross sales</u>	
	<u>13 weeks to 1 Nov 2014</u>	<u>13 weeks to 26 Oct 2013</u>	<u>13 weeks to 1 Nov 2014</u>	<u>13 weeks to 26 Oct 2013</u>	<u>13 weeks to 1 Nov 2014</u>	<u>13 weeks to 26 Oct 2013</u>
	£m	£m	£m	£m	£m	£m
		(unaudited)		(unaudited)		(unaudited)
Retail . . . . .	197.0	175.6	–	–	197.0	175.6
Other segments . . . . .	–	–	21.6	18.8	21.6	18.8
Eliminations . . . . .	–	–	(21.6)	(18.8)	(21.6)	(18.8)
Gross sales . . . . .	<u>197.0</u>	<u>175.6</u>	<u>–</u>	<u>–</u>	<u>197.0</u>	<u>175.6</u>

## 2 Segmental analysis (continued)

	External sales			Internal sales			Total gross sales		
	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retail . . . . .	853.4	804.3	748.7	–	–	–	853.4	804.3	748.7
Other segments . . . . .	–	–	–	89.1	76.1	68.5	89.1	76.1	68.5
Eliminations . . . . .	–	–	–	(89.1)	(76.1)	(68.5)	(89.1)	(76.1)	(68.5)
Gross sales . . . . .	<u>853.4</u>	<u>804.3</u>	<u>748.7</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>853.4</u>	<u>804.3</u>	<u>748.7</u>
				13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012	
				£m	£m	£m	£m	£m	
Total segments gross sales . . . . .				197.0	175.6	853.4	804.3	748.7	
Less: value added and other sales taxes . . . . .				(30.6)	(27.3)	(131.8)	(124.2)	(116.3)	
Less: costs of interest-free credit and aftercare services . . . . .				(13.7)	(13.4)	(64.8)	(65.7)	(64.5)	
Revenue . . . . .				<u>152.7</u>	<u>134.9</u>	<u>656.8</u>	<u>614.4</u>	<u>567.9</u>	
				13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012	
				£m	£m	£m	£m	£m	
Retail underlying EBITDA . . . . .				9.2	6.7	75.2	83.2	76.1	
Other segments underlying EBITDA . . . . .				1.1	(0.2)	4.8	1.4	5.1	
				10.3	6.5	80.0	84.6	81.2	
Depreciation & amortisation . . . . .				(3.9)	(3.5)	(14.7)	(12.6)	(9.7)	
Non-underlying items (note 3) . . . . .				(1.7)	(0.5)	(4.4)	–	–	
Operating profit . . . . .				4.7	2.5	60.9	72.0	71.5	
Finance income . . . . .				–	–	0.2	0.2	0.3	
Finance expenses . . . . .				(15.9)	(14.0)	(57.5)	(59.9)	(58.2)	
Exceptional refinancing costs . . . . .				–	–	–	(22.4)	–	
(Loss)/profit before tax . . . . .				<u>(11.2)</u>	<u>(11.5)</u>	<u>3.6</u>	<u>(10.1)</u>	<u>13.6</u>	

## 3 Operating profit

Operating profit is stated after charging/(crediting):

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Depreciation on tangible assets . . . . .	3.3	3.0	12.3	11.4	9.4
Net gain on disposal of property, plant and equipment . . . . .	(0.1)	(0.1)	(0.7)	(0.6)	(0.4)
Amortisation of intangible assets . . . . .	0.6	0.5	2.4	1.2	0.3
Cost of inventories recognised as an expense . . . . .	61.9	53.6	267.6	247.0	227.3
Write down of inventories to net realisable value . . . . .	0.2	1.1	2.0	2.0	0.9

### 3 Operating profit (continued)

#### Non-underlying items

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Accelerated share based payments charge . . . . .	–	–	0.3	–	–
International and acquired business set-up costs . . .	0.8	0.5	1.5	–	–
Non-recurring and exceptional legal and professional costs . . . . .	0.9	–	2.0	–	–
Acquisition costs . . . . .	–	–	0.4	–	–
Restructuring costs . . . . .	–	–	0.2	–	–
	<u>1.7</u>	<u>0.5</u>	<u>4.4</u>	<u>–</u>	<u>–</u>

### 4 Staff numbers and costs

The average number of persons employed by the Group during the year, analysed by category, was as follows:

	Number of employees				
	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
Production . . . . .	1,015	985	1,011	896	761
Warehouse and transport . . . . .	739	761	729	732	710
Sales and administration . . . . .	1,822	1,778	1,798	1,615	1,524
	<u>3,576</u>	<u>3,524</u>	<u>3,538</u>	<u>3,243</u>	<u>2,995</u>

The aggregate payroll costs of these persons were as follows:

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Wages and salaries . . . . .	26.1	24.2	103.7	92.3	84.2
Social security costs . . . . .	2.7	2.4	10.5	9.4	8.7
Other pension costs . . . . .	0.5	0.5	2.2	1.8	1.7
	<u>29.3</u>	<u>27.1</u>	<u>116.4</u>	<u>103.5</u>	<u>94.6</u>

Payroll costs for the 53 weeks to 2 August 2014 include £0.8m in respect of enhanced staff rewards relating to prior periods.

## 5 Finance income and expense

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
<i>Finance income</i>					
Interest income on bank deposits . . . . .	—	—	0.2	0.2	0.3
Total finance income . . . . .	<u>—</u>	<u>—</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>
<i>Finance expense</i>					
Interest payable on senior secured notes . . . . .	(5.8)	(5.8)	(23.6)	(20.6)	(21.8)
Loss realised on repurchase of senior secured notes . . . . .	—	—	—	(0.6)	2.0
Bank fees . . . . .	(0.1)	(0.1)	(0.5)	(0.5)	(0.5)
Fair value lease adjustment unwind . . . . .	(0.7)	(0.7)	(3.0)	(2.9)	(2.9)
Interest payable on parent company loan . . . . .	(8.2)	(7.3)	(29.8)	(34.9)	(34.8)
Interest payable on 17% cumulative redeemable preference shares . . . . .	(0.1)	—	(0.2)	(0.1)	(0.1)
Interest payable on 8% vendor loan notes . . . . .	(0.1)	—	(0.1)	—	—
Unwind of discount on provisions . . . . .	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)
Finance lease interest . . . . .	(0.1)	—	(0.2)	(0.1)	—
Other interest . . . . .	<u>(0.7)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total finance expense . . . . .	<u>(15.9)</u>	<u>(14.0)</u>	<u>(57.5)</u>	<u>(59.9)</u>	<u>(58.2)</u>

Exceptional refinancing costs of £22.4m were incurred in the 52 weeks to 27 July 2013 with the early repayment of outstanding 9.75% senior secured notes due 2017 and their refinancing with the issue of new £310.0m senior secured notes due 2018 (note 16).

## 6 Taxation

### Recognised in the income statement

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
<i>Current tax</i>					
Current year . . . . .	—	—	8.8	5.8	11.7
Adjustments for prior years . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.1</u>	<u>(0.1)</u>
Current tax expense . . . . .	—	—	8.8	5.9	11.6
<i>Deferred tax</i>					
Origination and reversal of temporary differences . . . . .	(0.8)	(1.4)	(0.7)	(0.5)	(0.3)
Reduction in tax rate . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>1.6</u>	<u>1.0</u>
Deferred tax (credit)/expense . . . . .	<u>(0.8)</u>	<u>(1.4)</u>	<u>(0.7)</u>	<u>1.1</u>	<u>0.8</u>
Total tax (credit)/expense in income statement . . . . .	<u>(0.8)</u>	<u>(1.4)</u>	<u>8.1</u>	<u>7.0</u>	<u>12.3</u>

## 6 Taxation (continued)

### Reconciliation of effective tax rate

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Profit/(loss) before tax for the year . . . . .	(11.2)	(11.5)	3.6	(10.1)	13.6
Tax using the applicable UK corporation tax rate . . .	(2.5)	(2.7)	0.8	(2.4)	3.4
Reduction in tax rate on deferred tax balances . . . .	—	—	—	1.6	1.0
Non-deductible expenses . . . . .	1.7	1.3	6.7	7.7	8.0
Deferred tax not recognised . . . . .	—	—	0.6	—	—
Adjustments in respect of prior years . . . . .	—	—	—	0.1	(0.1)
Total tax (credit)/expense . . . . .	(0.8)	(1.4)	8.1	7.0	12.3

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at each reporting period has been calculated based on the rates substantively enacted at the balance sheet date.

### Income tax recognised in other comprehensive income

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Effective portion of changes in fair value of cash flow hedges . . . . .	0.8	(0.8)	0.5	(0.2)	0.8
Net change in fair value of cash flow hedges reclassified to profit or loss . . . . .	0.2	(0.1)	(1.6)	0.5	(0.2)
	1.0	(0.9)	(1.1)	0.3	0.6

## 7 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
<b>Cost</b>				
Balance at 31 July 2011 . . . . .	1.3	29.9	9.5	40.7
Additions . . . . .	0.9	13.5	4.2	18.6
Disposals . . . . .	—	—	(2.6)	(2.6)
Balance at 28 July 2012 . . . . .	2.2	43.4	11.1	56.7
Additions . . . . .	0.9	11.4	4.6	16.9
Acquisition . . . . .	0.2	—	—	0.2
Disposals . . . . .	—	—	(3.0)	(3.0)
Balance at 27 July 2013 . . . . .	3.3	54.8	12.7	70.8
Additions . . . . .	0.4	8.8	6.1	15.3
Acquisition . . . . .	0.1	0.2	—	0.3
Disposals . . . . .	—	—	(3.8)	(3.8)
Balance at 2 August 2014 . . . . .	3.8	63.8	15.0	82.6
Additions . . . . .	0.2	4.5	1.1	5.8
Disposals . . . . .	—	—	(0.8)	(0.8)
Balance at 1 November 2014 . . . . .	<u>4.0</u>	<u>68.3</u>	<u>15.3</u>	<u>87.6</u>
Balance at 27 July 2013 . . . . .	3.3	54.8	12.7	70.8
Additions ( <i>unaudited</i> ) . . . . .	0.2	2.6	1.7	4.5
Acquisition ( <i>unaudited</i> ) . . . . .	0.1	0.2	—	0.3
Disposals ( <i>unaudited</i> ) . . . . .	—	—	(0.8)	(0.8)
Balance at 26 October 2013 ( <i>unaudited</i> ) . . . . .	<u>3.6</u>	<u>57.6</u>	<u>13.6</u>	<u>74.8</u>
<b>Depreciation and impairment</b>				
Balance at 31 July 2011 . . . . .	0.1	6.0	1.6	7.7
Depreciation charge for the period . . . . .	0.1	5.5	3.8	9.4
Disposals . . . . .	—	(0.1)	(2.4)	(2.5)
Balance at 28 July 2012 . . . . .	0.2	11.4	3.0	14.6
Depreciation charge for the period . . . . .	0.1	7.2	4.1	11.4
Disposals . . . . .	—	—	(2.9)	(2.9)
Balance at 27 July 2013 . . . . .	0.3	18.6	4.2	23.1
Depreciation charge for the period . . . . .	0.2	7.7	4.4	12.3
Disposals . . . . .	—	—	(3.7)	(3.7)
Balance at 2 August 2014 . . . . .	0.5	26.3	4.9	31.7
Depreciation charge for the period . . . . .	0.1	2.0	1.2	3.3
Disposals . . . . .	—	—	(0.8)	(0.8)
Balance at 1 November 2014 . . . . .	<u>0.6</u>	<u>28.3</u>	<u>5.3</u>	<u>34.2</u>
Balance at 27 July 2013 . . . . .	0.3	18.6	4.2	23.1
Depreciation charge for the period ( <i>unaudited</i> ) . . . . .	0.1	1.9	1.0	3.0
Disposals( <i>unaudited</i> ) . . . . .	—	—	(0.8)	(0.8)
Balance at 26 October 2013 ( <i>unaudited</i> ) . . . . .	<u>0.4</u>	<u>20.5</u>	<u>4.4</u>	<u>25.3</u>
<b>Net book value</b>				
At 31 July 2011 . . . . .	1.2	23.9	7.9	33.0
At 28 July 2012 . . . . .	2.0	32.0	8.1	42.1
At 27 July 2013 . . . . .	3.0	36.2	8.5	47.7
At 2 August 2014 . . . . .	3.3	37.5	10.1	50.9
At 26 October 2013 ( <i>unaudited</i> ) . . . . .	3.2	37.1	9.2	49.5
At 1 November 2014 . . . . .	3.4	40.0	10.0	53.4

## 7 Property, plant and equipment (continued)

### Leases and capital commitments

	1 Nov 2014	26 Oct 2013	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	(unaudited) £m	£m	£m	£m
Net book value of motor vehicles held under finance leases . .	3.6	2.1	3.4	1.9	0.2
Depreciation charged in the period on motor vehicles held under finance leases . . . . .	0.3	0.2	0.9	0.3	–
Contracted capital commitments not provided . . . . .	4.9	2.0	1.7	3.2	3.5

## 8 Intangible assets

	Computer software £m	Brand names £m	Goodwill £m	Total £m
<b>Cost</b>				
Balance at 31 July 2011 . . . . .	0.2	–	479.6	479.8
Additions . . . . .	1.8	–	–	1.8
Disposals . . . . .	(0.1)	–	–	(0.1)
Balance at 28 July 2012 . . . . .	1.9	–	479.6	481.5
Additions . . . . .	3.2	–	–	3.2
Acquisition . . . . .	–	0.5	–	0.5
Balance at 27 July 2013 . . . . .	5.1	0.5	479.6	485.2
Additions . . . . .	2.5	–	–	2.5
Acquisition . . . . .	–	2.0	4.4	6.4
Balance at 2 August 2014 . . . . .	7.6	2.5	484.0	494.1
Additions . . . . .	0.4	–	–	0.4
Balance at 1 November 2014 . . . . .	8.0	2.5	484.0	494.5
Balance at 27 July 2013 . . . . .	5.1	0.5	479.6	485.2
Additions (unaudited) . . . . .	1.2	–	–	1.2
Acquisition (unaudited) . . . . .	–	2.0	4.4	6.4
Balance at 26 October 2013 (unaudited) . . . . .	6.3	2.5	484.0	492.8
<b>Amortisation and impairment</b>				
Balance at 31 July 2011 . . . . .	–	–	–	–
Amortisation charge for the period . . . . .	0.3	–	–	0.3
Balance at 28 July 2012 . . . . .	0.3	–	–	0.3
Amortisation charge for the period . . . . .	1.2	–	–	1.2
Balance at 27 July 2013 . . . . .	1.5	–	–	1.5
Amortisation charge for the period . . . . .	2.3	0.1	–	2.4
Balance at 2 August 2014 . . . . .	3.8	0.1	–	3.9
Amortisation charge for the period . . . . .	0.6	–	–	0.6
Balance at 1 November 2014 . . . . .	4.4	0.1	–	4.5
Balance at 27 July 2013 . . . . .	1.5	–	–	1.5
Amortisation charge for the period (unaudited) . . . . .	0.5	–	–	0.5
Balance at 26 October 2013 (unaudited) . . . . .	2.0	–	–	2.0
<b>Net book value</b>				
At 31 July 2011 . . . . .	0.2	–	479.6	479.8
At 28 July 2012 . . . . .	1.6	–	479.6	481.2
At 27 July 2013 . . . . .	3.6	0.5	479.6	483.7
At 2 August 2014 . . . . .	3.8	2.4	484.0	490.2
At 26 October 2013 (unaudited) . . . . .	4.3	2.5	484.0	490.8
At 1 November 2014 . . . . .	3.6	2.4	484.0	490.0

## 8 Intangible assets (continued)

The carrying amount of goodwill is allocated to the following cash generating units:

	Goodwill				
	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
DFS Trading Limited . . . . .	479.6	479.6	479.6	479.6	479.6
The Sofa Workshop Limited . . . . .	4.4	4.4	4.4	–	–
	<u>484.0</u>	<u>484.0</u>	<u>484.0</u>	<u>479.6</u>	<u>479.6</u>

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. Selling prices and related costs are based on past practice and expected future changes in the market. These forecasts were extrapolated for six more years, and discounted at pre-tax discount rates between 8% and 10%. The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. Even with an assumption of no further growth beyond the four year budgeted period, a discount rate in excess of 18% would need to be applied in order for there to be any indication of an impairment. The directors have therefore concluded that no such impairments exist in the periods under review.

### Acquisitions

On 17 October 2013 the Group acquired 100% of the issued share capital and obtained control of The Sofa Workshop Limited, a UK based retailer of upholstered furniture. This acquisition was made to increase the Group's sales in particular customer segments and product groups.

For the year ended 2 August 2014, The Sofa Workshop Limited contributed £10.7m to the Group's reported revenue and a loss of £0.5m the Group's reported profit before tax. If the acquisition had taken place on the first day of the financial year reported revenues would have been £658.2m and reported profit before tax would have been £81.4m. Acquisition related costs of £0.4m have been recognised in the income statement (note 3).

The goodwill of £4.4m arising from the acquisition is attributable to the workforces and operations of the acquired business and the significant synergies expected to arise following the acquisitions.

### Prior year acquisitions

On 29 June 2013 the Group entered into call options for the acquisition of 100% of the issued share capital of Coin Retail Limited, a UK based retailer of furniture and homewares (trading as dwell). Under the requirements of IFRS 10 these options conferred control to the Group, accordingly Coin Retail Limited and its subsidiary have been consolidated in the Group's financial statements from that date. The interest in Coin Retail Limited was purchased with a view to increasing the Group's sales in particular customer segments and product groups. On 1 August 2014 the call options were exercised and the Group formally acquired 100% of the issued ordinary share capital of Coin Retail Limited.

## 8 Intangible assets (continued)

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out below:

	Sofa Workshop Limited	Coin Retail Limited
	£m	£m
Property, plant & equipment . . . . .	0.3	0.2
Identifiable intangible assets . . . . .	2.0	0.5
Inventories . . . . .	0.7	0.1
Cash . . . . .	1.1	0.4
Trade and other receivables . . . . .	0.7	0.2
Trade payables and other liabilities . . . . .	(2.9)	(0.4)
Deferred tax . . . . .	(0.4)	–
Total identifiable assets . . . . .	1.5	1.0
Goodwill . . . . .	4.4	–
Total consideration . . . . .	<u>5.9</u>	<u>1.0</u>
<i>Satisfied by:</i>		
8% vendor loan notes . . . . .	2.0	–
17% preference shares in subsidiary . . . . .	1.0	–
Equity shares in subsidiary . . . . .	0.3	–
Other loan . . . . .	0.1	–
Cash consideration . . . . .	2.5	1.0
Total consideration . . . . .	<u>5.9</u>	<u>1.0</u>
<i>Net cash outflow arising on acquisition</i>		
Cash consideration . . . . .	2.5	1.0
Less: cash and cash equivalent balances acquired . . . . .	(1.1)	(0.4)
	<u>1.4</u>	<u>0.6</u>

For the period under review, the acquired businesses made the following contributions to the results of the Group:

### *The Sofa Workshop Limited*

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Revenue . . . . .	3.0	1.0	10.7	–	–
Operating profit/(losses) from initial period of ownership . . . . .	0.1	0.1	(0.2)	–	–
Non-underlying items (note 3) . . . . .	(0.1)	–	(0.3)	–	–
Operating profit/(losses) for the period . . . . .	<u>–</u>	<u>0.1</u>	<u>(0.5)</u>	<u>–</u>	<u>–</u>

## 8 Intangible assets (continued)

### Coin Retail Limited

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	£m	£m	£m	£m	£m
Revenue . . . . .	3.9	2.9	11.4	–	–
Operating losses from initial period of ownership . .	(0.2)	(0.3)	(1.3)	–	–
Non-underlying items (note 3) . . . . .	(0.3)	(0.5)	(1.3)	–	–
Operating losses for the period . . . . .	<u>(0.5)</u>	<u>(0.8)</u>	<u>(2.6)</u>	<u>–</u>	<u>–</u>

## 9 Investments in subsidiaries

The following companies are incorporated in England & Wales, are wholly owned by the Group (unless otherwise indicated) and have been consolidated:

		Principal activity
Diamond Holdco 2 Limited . . . . .		Intermediate holding company
Diamond Holdco 3 Limited . . . . .		Intermediate holding company
Diamond Holdco 4 Limited . . . . .		Intermediate holding company
DFS Investments Limited . . . . .	(85% owned)	Intermediate holding company
Diamond Holdco 6 Limited . . . . .		Intermediate holding company
Diamond Holdco 7 Limited . . . . .		Intermediate holding company
Diamond Holdco 8 Limited . . . . .		Intermediate holding company
Diamond Holdco Limited . . . . .		Intermediate holding company
DFS Furniture Holdings plc . . . . .		Intermediate holding company
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
Coin Retail Limited (Jersey) . . . . .		Intermediate holding company
Coin Furniture Limited . . . . .		Furniture retailer
The Sofa Workshop Limited . . . . .		Furniture retailer

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
Net assets/(liabilities) of DFS Investments Limited . . . . .	<u>74.3</u>	<u>79.6</u>	<u>61.2</u>	<u>65.7</u>	<u>(29.7)</u>

## 10 Other financial assets

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
<b>Non-current</b>					
Foreign exchange contracts . . . . .	<u>–</u>	<u>–</u>	<u>0.1</u>	<u>0.2</u>	<u>–</u>
<b>Current</b>					
Foreign exchange contracts . . . . .	<u>1.9</u>	<u>0.1</u>	<u>–</u>	<u>2.5</u>	<u>1.0</u>

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 21).

## 11 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
Accelerated capital allowances . . . . .	0.9	0.2	0.7	–	(0.5)
Fair value lease creditor . . . . .	5.0	5.0	5.0	5.0	5.7
Revaluation of derivatives to fair value . . . . .	(0.4)	0.4	0.6	(0.5)	(0.2)
Other temporary differences . . . . .	5.5	6.1	4.9	5.3	6.2
Net tax assets . . . . .	<u>11.0</u>	<u>11.7</u>	<u>11.2</u>	<u>9.8</u>	<u>11.2</u>

The deferred tax movement in the year is as follows:

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
At start of period . . . . .	11.2	9.8	9.8	11.2	12.5
Charged to the income statement:					
Accelerated capital allowances . . . . .	0.2	0.2	0.7	0.5	0.3
Fair value lease creditor . . . . .	–	–	–	(0.9)	(0.3)
Other temporary differences . . . . .	0.6	1.2	–	(0.7)	(0.7)
Acquisition of subsidiaries . . . . .	–	(0.4)	(0.4)	–	–
Recognised in the statement of comprehensive income . . . . .	<u>(1.0)</u>	<u>0.9</u>	<u>1.1</u>	<u>(0.3)</u>	<u>(0.6)</u>
At end of period . . . . .	<u>11.0</u>	<u>11.7</u>	<u>11.2</u>	<u>9.8</u>	<u>11.2</u>

## 12 Inventories

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
Raw materials and consumables . . . . .	6.2	4.1	5.9	3.4	3.2
Finished goods and goods for resale . . . . .	24.4	22.6	22.9	19.7	17.3
	<u>30.6</u>	<u>26.7</u>	<u>28.8</u>	<u>23.1</u>	<u>20.5</u>

## 13 Trade and other receivables

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
Trade receivables . . . . .	5.8	6.6	10.9	9.6	9.4
Amounts owed by non-controlling interests . . . . .	2.3	2.3	2.3	2.3	2.1
Prepayments and accrued income . . . . .	12.8	13.0	12.2	12.8	13.2
Other receivables . . . . .	0.6	0.5	0.6	0.8	–
	<u>21.5</u>	<u>22.4</u>	<u>26.0</u>	<u>25.5</u>	<u>24.7</u>

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.

## 14 Trade payables and other liabilities

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
<b>Current</b>					
Payments received on account . . . . .	32.2	27.1	24.2	18.7	19.4
Trade payables . . . . .	59.4	62.9	62.4	50.5	52.8
Other creditors including other tax and social security . . . . .	25.3	23.5	23.4	24.8	19.7
Accruals and deferred income . . . . .	28.6	24.4	30.9	27.0	21.7
Amounts owed to parent companies . . . . .	183.9	172.0	194.6	183.5	226.5
Amounts due to non-controlling interests . . . . .	1.3	0.3	1.4	0.2	0.4
Finance lease liabilities . . . . .	1.1	0.5	0.9	0.4	0.1
	<u>331.8</u>	<u>310.7</u>	<u>337.8</u>	<u>305.1</u>	<u>340.6</u>
	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
<b>Non-current</b>					
Other creditors . . . . .	21.7	22.3	21.8	22.4	22.0
Accruals and deferred income . . . . .	42.4	42.9	44.0	44.0	38.6
Other loans & borrowings . . . . .	2.1	2.0	2.1	–	–
Finance lease liabilities . . . . .	2.9	1.8	2.9	1.6	0.1
	<u>69.1</u>	<u>69.0</u>	<u>70.8</u>	<u>68.0</u>	<u>60.7</u>

Trade payables do not bear interest and are paid within agreed credit terms. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the reporting date.

The amounts owed to the parent company are repayable on demand and bear interest at LIBOR plus 17%, compounded annually.

## 15 Other financial liabilities

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
<b>Current</b>					
Foreign exchange contracts . . . . .	<u>–</u>	<u>1.9</u>	<u>3.1</u>	<u>–</u>	<u>–</u>

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 21).

## 16 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 21.

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
Senior secured fixed rates notes due August 2018 . . . . .	200.0	200.0	200.0	200.0	–
Senior secured floating rate notes due August 2018 . . . . .	110.0	110.0	110.0	110.0	–
Senior secured fixed rate notes due July 2017 . . . . .	–	–	–	–	189.3
	310.0	310.0	310.0	310.0	189.3
Unamortised issue costs . . . . .	(3.2)	(4.1)	(3.4)	(4.3)	(2.7)
	<u>306.8</u>	<u>305.9</u>	<u>306.6</u>	<u>305.7</u>	<u>186.6</u>

As at 1 November 2014, the Group had in issue £310.0m of senior secured notes listed on the Luxembourg Stock Exchange. These notes have a maturity date of 15 August 2018 on which date all amounts will be repayable. The 2018 fixed rate notes carry an interest rate of 7.625% payable six monthly on 15 March and 15 September. Interest on the floating rate notes accrues at LIBOR plus 6% and is payable quarterly on 15 March, 15 June, 15 September and 15 December.

The notes are denominated in Pounds Sterling and 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).

### Finance lease liabilities

Finance lease liabilities are payable as follows:

	1 November 2014			26 October 2013 (unaudited)		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£m	£m	£m	£m	£m	£m
Less than one year . . . . .	1.3	(0.2)	1.1	0.6	(0.1)	0.5
Between one and five years . . . . .	3.0	(0.1)	2.9	1.9	(0.1)	1.8
More than five years . . . . .	–	–	–	–	–	–
	<u>4.3</u>	<u>(0.3)</u>	<u>4.0</u>	<u>2.5</u>	<u>(0.2)</u>	<u>2.3</u>

	2 August 2014			27 July 2013			28 July 2012		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Less than one year . . . . .	1.1	(0.2)	0.9	0.5	(0.1)	0.4	0.1	–	0.1
Between one and five years . . . . .	3.0	(0.1)	2.9	1.7	(0.1)	1.6	0.1	–	0.1
More than five years . . . . .	–	–	–	–	–	–	–	–	–
	<u>4.1</u>	<u>(0.3)</u>	<u>3.8</u>	<u>2.2</u>	<u>(0.2)</u>	<u>2.0</u>	<u>0.2</u>	<u>–</u>	<u>0.2</u>

## 17 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

## 17 Employee benefits (continued)

costs of these schemes are charged to the income statement as they become payable under the rules of the scheme.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
Total pension cost . . . . .	<u>0.5</u>	<u>0.5</u>	<u>2.2</u>	<u>1.8</u>	<u>1.7</u>

## 18 Provisions

	Guarantee provision £m	Property provisions £m	Total £m
Balance at 28 July 2012 . . . . .	9.3	1.9	11.2
Provisions made during the period . . . . .	4.1	–	4.1
Provisions used during the period . . . . .	(4.7)	(0.2)	(4.9)
Unwind of discount . . . . .	–	0.1	0.1
Balance at 27 July 2013 . . . . .	8.7	1.8	10.5
Provisions made during the period . . . . .	5.4	–	5.4
Provisions used during the period . . . . .	(5.6)	(0.2)	(5.8)
Unwind of discount . . . . .	–	0.1	0.1
Balance at 2 August 2014 . . . . .	8.5	1.7	10.2
Provisions made during the period . . . . .	1.7	–	1.7
Provisions used during the period . . . . .	(1.5)	(0.1)	(1.6)
Unwind of discount . . . . .	–	0.1	0.1
Balance at 1 November 2014 . . . . .	<u>8.7</u>	<u>1.7</u>	<u>10.4</u>
Balance at 27 July 2013 . . . . .	8.7	1.8	10.5
Provisions made during the period (unaudited) . . . . .	1.4	–	1.4
Provisions used during the period (unaudited) . . . . .	(1.4)	(0.1)	(1.5)
Unwind of discount (unaudited) . . . . .	–	0.1	0.1
Balance at 26 October 2013 (unaudited) . . . . .	<u>8.7</u>	<u>1.8</u>	<u>10.5</u>
Current . . . . .	5.8	0.2	6.0
Non-current . . . . .	<u>2.9</u>	<u>1.5</u>	<u>4.4</u>
Balance at 1 November 2014 . . . . .	<u>8.7</u>	<u>1.7</u>	<u>10.4</u>

The guarantee provision reflects the estimated cost of the guarantee provided to retail customers. Property provisions relate to onerous contracts and other obligations in respect of the Group's property leases.

Certain potential changes to employment legislation may retrospectively impact the Group. The Directors consider it is not probable that a material liability will arise for the Group, and accordingly no provision has been made.

## 19 Capital and reserves

### Share capital

Ordinary shares of £1 each

	Number of shares		Ordinary shares	
	1 Nov 2014	26 Oct 2013	1 Nov 2014	26 Oct 2013
	'000	'000	£m	£m
Allotted, called up and fully paid . . . . .	<u>42,615</u>	<u>42,615</u>	<u>42.6</u>	<u>42.6</u>

## 19 Capital and reserves (continued)

	Number of shares			Ordinary shares		
	2 Aug 2014	27 Jul 2013	28 Jul 2012	2 Aug 2014	27 Jul 2013	28 Jul 2012
	'000	'000	'000	£m	£m	£m
Allotted, called up and fully paid . . . . .	42,615	42,615	42,615	42.6	42.6	42.6

### 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.

### Dividends

The following dividends were recognised during the year:

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
Per qualifying ordinary share . . . . .	£0.02	£0.03	£0.03	£1.22	–
Total dividend paid (£m) . . . . .	0.9	1.3	1.3	51.9	–

## 20 Financial instruments: categories and fair value

	1 Nov 2014	26 Oct 2013 (unaudited)	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m
<i>Financial assets</i>					
Derivatives in designated hedging relationships . . . . .	1.9	0.1	0.1	2.7	1.0
Loans and receivables . . . . .	8.7	9.4	13.8	12.7	11.5
Cash . . . . .	33.0	22.0	53.8	38.4	27.0
<i>Financial liabilities</i>					
Derivatives in designated hedging relationships . . . . .	–	(1.9)	(3.1)	–	–
Senior secured notes . . . . .	(306.8)	(305.9)	(306.6)	(305.7)	(186.6)
Amortised cost . . . . .	(328.1)	(315.0)	(345.6)	(315.7)	(351.2)
Finance lease obligations . . . . .	(4.0)	(2.3)	(3.8)	(2.0)	(0.2)

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.

Except as detailed below, 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.

	1 November 2014		26 October 2013 (unaudited)	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
<b>Senior secured notes</b>				
Fixed rates notes due August 2018 . . . . .	200.0	207.5	200.0	214.0
Floating rate notes due August 2018 . . . . .	110.0	110.0	110.0	111.1
	<u>310.0</u>	<u>317.5</u>	<u>310.0</u>	<u>325.1</u>

## 20 Financial instruments: categories and fair value (continued)

	2 August 2014		27 July 2013		28 July 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m	£m	£m
<b>Senior secured notes</b>						
Fixed rates notes due August 2018 . . . . .	200.0	208.5	200.0	210.5	–	–
Floating rate notes due August 2018 . . . . .	110.0	110.6	110.0	112.5	–	–
Fixed rate notes due July 2017 . . . . .	–	–	–	–	189.3	190.9
	<u>310.0</u>	<u>319.1</u>	<u>310.0</u>	<u>323.0</u>	<u>189.3</u>	<u>190.9</u>

The fair values of the senior secured notes are their market values at the balance sheet date. Market values include accrued interest and changes in credit risk and interest rate risk and are therefore different to the reported carrying amounts.

## 21 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:

<b>1 November 2014</b>	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Trade and other payables . . . . .	317.7	–	–	–	317.7
Finance lease liabilities . . . . .	1.3	1.1	1.9	–	4.3
Senior secured notes . . . . .	22.4	22.5	353.1	–	398.0
Other liabilities . . . . .	5.9	3.1	0.6	2.1	11.7
	<u>347.3</u>	<u>26.7</u>	<u>355.6</u>	<u>2.1</u>	<u>731.7</u>
<i>Derivatives: gross settled</i>					
Cash inflows . . . . .	(68.8)	–	–	–	(68.8)
Cash out flows . . . . .	67.0	–	–	–	67.0
Total cash flows . . . . .	<u>345.5</u>	<u>26.7</u>	<u>355.6</u>	<u>2.1</u>	<u>729.9</u>
<b>26 October 2013 (unaudited)</b>	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Trade and other payables . . . . .	304.5	–	–	–	304.5
Finance lease liabilities . . . . .	0.6	0.6	1.3	–	2.5
Senior secured notes . . . . .	22.4	22.5	375.5	–	420.4
Other liabilities . . . . .	5.9	3.1	0.6	2.3	11.9
	<u>333.4</u>	<u>26.2</u>	<u>377.4</u>	<u>2.3</u>	<u>739.3</u>
<i>Derivatives: gross settled</i>					
Cash inflows . . . . .	(71.6)	(14.8)	–	–	(86.4)
Cash out flows . . . . .	74.1	14.9	–	–	89.0
Total cash flows . . . . .	<u>335.9</u>	<u>26.3</u>	<u>377.4</u>	<u>2.3</u>	<u>741.9</u>

## 21 Financial instruments: risk management (continued)

<u>2 August 2014</u>	<u>Less than 1 year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Trade and other payables . . . . .	335.4	–	–	–	335.4
Finance lease liabilities . . . . .	1.1	1.1	1.9	–	4.1
Senior secured notes . . . . .	22.4	22.4	362.4	–	407.2
Other liabilities . . . . .	5.7	3.1	0.6	2.1	11.5
	<u>364.6</u>	<u>26.6</u>	<u>364.9</u>	<u>2.1</u>	<u>758.2</u>
<i>Derivatives: gross settled</i>					
Cash inflows . . . . .	(72.4)	(10.7)	–	–	(83.1)
Cash out flows . . . . .	75.7	10.6	–	–	86.3
Total cash flows . . . . .	<u>367.9</u>	<u>26.5</u>	<u>364.9</u>	<u>2.1</u>	<u>761.4</u>
 <u>27 July 2013</u>	 <u>Less than 1 year</u>	 <u>1 to 2 years</u>	 <u>2 to 5 years</u>	 <u>Over 5 years</u>	 <u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Trade and other payables . . . . .	305.2	–	–	–	305.2
Finance lease liabilities . . . . .	0.5	0.5	1.2	–	2.2
Senior secured notes . . . . .	22.7	22.4	67.2	317.6	429.9
Other liabilities . . . . .	5.9	3.1	0.6	2.3	11.9
	<u>334.3</u>	<u>26.0</u>	<u>69.0</u>	<u>319.9</u>	<u>749.2</u>
<i>Derivatives: gross settled</i>					
Cash inflows . . . . .	(71.5)	(7.1)	–	–	(78.6)
Cash out flows . . . . .	69.8	7.0	–	–	76.8
Total cash flows . . . . .	<u>332.6</u>	<u>25.9</u>	<u>69.0</u>	<u>319.9</u>	<u>747.4</u>
 <u>28 July 2012</u>	 <u>Less than 1 year</u>	 <u>1 to 2 years</u>	 <u>2 to 5 years</u>	 <u>Over 5 years</u>	 <u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Trade and other payables . . . . .	340.0	–	–	–	340.0
Finance lease liabilities . . . . .	0.1	–	0.1	–	0.2
Senior secured notes . . . . .	18.5	18.5	244.6	–	281.6
Other liabilities . . . . .	6.3	3.3	0.6	2.5	12.7
	<u>364.9</u>	<u>21.8</u>	<u>245.3</u>	<u>2.5</u>	<u>634.5</u>
<i>Derivatives: gross settled</i>					
Cash inflows . . . . .	(60.5)	–	–	–	(60.5)
Cash out flows . . . . .	59.5	–	–	–	59.5
Total cash flows . . . . .	<u>363.9</u>	<u>21.8</u>	<u>245.3</u>	<u>2.5</u>	<u>633.5</u>

The Group has a £30.0m revolving credit facility in place until February 2018 which is as yet unutilised.

### *Interest rate risk management*

The Group is exposed to fair value interest rate risk on its fixed rate senior secured notes and cash flow interest rate risk on floating rate senior secured notes. These risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate derivatives where beneficial. As a result of the predominantly fixed rate debt, the Group has very limited sensitivity to movements in interest rates.

### *Foreign exchange risk management*

The Group is exposed to the risks of exchange rate fluctuations on the purchase of products denominated in foreign currencies. Currency requirements are assessed by analysis of historic purchasing patterns by month, adjusted as appropriate to take into account current trading expectations. The Group's treasury policy allows for the use of forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases up to 18 months in advance. These contracts are designated as cash flow hedges.

## 21 Financial instruments: risk management (continued)

The table below summarises the forward foreign exchange contracts outstanding at the period end, all of which relate to derivatives in designated hedging relationships:

	1 November 2014		26 October 2013	
	Notional amount	Fair value	Notional amount	Fair value
	£m	£m	£m	£m
US dollar . . . . .	67.0	1.9	89.0	(1.8)

	2 August 2014		27 July 2013		28 July 2012	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	£m	£m	£m	£m	£m	£m
US dollar . . . . .	86.3	(3.0)	76.8	2.7	59.5	1.0

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	1 Nov 2014	26 Oct 2013	1 Nov 2014	26 Oct 2013
	£m	£m (unaudited)	£m	£m (unaudited)
US dollar . . . . .	8.2	6.3	(0.5)	(2.5)
Euro . . . . .	9.6	4.0	(0.4)	(1.0)

	Assets			Liabilities		
	2 Aug 2014	27 Jul 2013	28 Jul 2012	2 Aug 2014	27 July 2013	28 July 2012
	£m	£m	£m	£m	£m	£m
US dollar . . . . .	–	0.3	0.4	(0.6)	(0.1)	(2.5)
Euro . . . . .	8.3	1.8	1.7	(0.7)	(0.5)	(1.2)

### 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	
	1 Nov 2014	26 Oct 2013	1 Nov 2014	26 Oct 2013
	£m	£m	£m	£m
US dollar . . . . .	(0.8)	(0.4)	(6.9)	(8.7)
Euro . . . . .	(0.9)	(0.3)	–	–

	Income statement			Equity		
	2 Aug 2014	27 Jul 2013	28 Jul 2012	2 Aug 2014	27 Jul 2013	28 Jul 2012
	£m	£m	£m	£m	£m	£m
US dollar . . . . .	0.1	–	0.2	(8.3)	(8.0)	(6.0)
Euro . . . . .	(0.8)	(0.1)	(0.1)	–	–	–

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.

## 21 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.

Investments of cash, borrowings and derivative instruments are transacted only through counterparties meeting the credit rating and investment criteria specified in the Group's treasury policy. The Group's exposure and the credit ratings of its counterparties are regularly reviewed. Concentrations of risk are mitigated through the use of multiple counterparties and by counterparty limits which are reviewed and approved by the Board.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

### *Capital management*

The capital structure of the Group consists of debt, as analysed in note 24, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shows 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.

## 22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	<u>1 Nov 2014</u>	<u>26 Oct 2013</u>	<u>2 Aug 2014</u>	<u>27 Jul 2013</u>	<u>28 Jul 2012</u>
	£m	(unaudited) £m	£m	£m	£m
Less than one year . . . . .	<b>55.6</b>	52.5	54.3	52.8	49.8
Between one and five years . . . . .	<b>213.6</b>	199.4	208.1	200.6	193.5
More than five years . . . . .	<b>416.0</b>	430.1	420.5	440.9	456.6
	<u><b>685.2</b></u>	<u>682.0</u>	<u>682.9</u>	<u>694.3</u>	<u>699.9</u>

The Group has entered into operating leases in respect of stores, warehouses and equipment. These non-cancellable leases have remaining terms of between 3 months and 20 years. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

	<u>1 Nov 2014</u>	<u>26 Oct 2013</u>	<u>2 Aug 2014</u>	<u>27 Jul 2013</u>	<u>28 Jul 2012</u>
	£m	(unaudited) £m	£m	£m	£m
Charged to the income statement in the period in respect of operating leases . . . .	<u><b>13.6</b></u>	<u>13.1</u>	<u>51.6</u>	<u>50.3</u>	<u>46.7</u>
Future rentals receivable under non-cancellable leases at the period end .	<u><b>14.1</b></u>	<u>15.0</u>	<u>14.3</u>	<u>15.2</u>	<u>16.1</u>

## 23 Related parties

### Directors' emoluments

M. Ristaino received no remuneration for his services to the Company.

	<u>1 Nov 2014</u>	<u>26 Oct 2013</u>	<u>2 Aug 2014</u>	<u>27 Jul 2013</u>	<u>28 Jul 2012</u>
	<u>£000</u>	<u>(unaudited)</u> <u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Key management emoluments including social security costs . . . . .	473	400	1,922	1,845	2,061
Company contributions to money purchase pension schemes . . . . .	—	—	—	—	61
	<u>473</u>	<u>400</u>	<u>1,922</u>	<u>1,845</u>	<u>2,122</u>

The remuneration of the highest paid key manager was as follows:

	<u>1 Nov 2014</u>	<u>26 Oct 2013</u>	<u>2 Aug 2014</u>	<u>27 Jul 2013</u>	<u>28 Jul 2012</u>
	<u>£000</u>	<u>(unaudited)</u> <u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Key management emoluments including social security costs . . . . .	<u>161</u>	<u>171</u>	<u>682</u>	<u>588</u>	<u>677</u>

	<u>1 Nov 2014</u>	<u>26 Oct 2013</u>	<u>2 Aug 2014</u>	<u>27 Jul 2013</u>	<u>28 Jul 2012</u>
		<u>(unaudited)</u>			
Number of key managers accruing retirement benefits under pension schemes . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
Charitable donations made in respect of waived pension contribution entitlement .	<u>£12,500</u>	<u>£12,500</u>	<u>£50,000</u>	<u>£50,000</u>	<u>£50,000</u>

Amounts owed to parent companies are disclosed in note 14 and interest payable on these loans is disclosed in note 5.

## 24 Net debt

	<u>2 Aug 2014</u>	<u>Cash flow</u>	<u>Other non-cash</u>	<u>1 Nov 2014</u>
	<u>£m</u>	<u>£m</u>	<u>changes</u> <u>£m</u>	<u>£m</u>
Cash in hand, at bank . . . . .	53.8	(20.8)	—	33.0
Cash and cash equivalents . . . . .	53.8	(20.8)	—	33.0
Senior secured notes . . . . .	(306.6)	—	(0.2)	(306.8)
Finance lease liabilities . . . . .	(3.8)	0.3	(0.5)	(4.0)
Total net debt . . . . .	<u>(256.6)</u>	<u>(20.5)</u>	<u>(0.7)</u>	<u>(277.8)</u>

	<u>27 July 2013</u>	<u>Cash flow</u>	<u>Other non-cash</u>	<u>26 Oct 2013</u>
	<u>£m</u>	<u>(unaudited)</u> <u>£m</u>	<u>(unaudited)</u> <u>£m</u>	<u>(unaudited)</u> <u>£m</u>
Cash in hand, at bank . . . . .	38.4	(16.4)	—	22.0
Cash and cash equivalents . . . . .	38.4	(16.4)	—	22.0
Senior secured notes . . . . .	(305.7)	—	(0.2)	(305.9)
Finance lease liabilities . . . . .	(2.0)	0.1	(0.4)	(2.3)
Total net debt . . . . .	<u>(269.3)</u>	<u>(16.3)</u>	<u>(0.6)</u>	<u>(286.2)</u>

## 24 Net debt (continued)

	27 July 2013	Cash flow	Other non-cash changes	2 Aug 2014
	£m	£m	£m	£m
Cash in hand, at bank . . . . .	38.4	15.4	—	53.8
Cash and cash equivalents . . . . .	38.4	15.4	—	53.8
Senior secured notes . . . . .	(305.7)	—	(0.9)	(306.6)
Finance lease liabilities . . . . .	(2.0)	0.6	(2.4)	(3.8)
Total net debt . . . . .	<u>(269.3)</u>	<u>16.0</u>	<u>(3.3)</u>	<u>(256.6)</u>

	28 July 2012	Cash flow	Other non-cash changes	27 Jul 2013
	£m	£m	£m	£m
Cash in hand, at bank . . . . .	27.0	11.4	—	38.4
Cash and cash equivalents . . . . .	27.0	11.4	—	38.4
Senior secured notes . . . . .	(186.6)	(120.7)	1.6	(305.7)
Finance lease liabilities . . . . .	(0.2)	0.2	(2.0)	(2.0)
Total net debt . . . . .	<u>(159.8)</u>	<u>(109.1)</u>	<u>(0.4)</u>	<u>(269.3)</u>

Net debt as analysed above excludes amounts owed to parent companies (note 14)

## 25 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. There have been no issues of shares during the historical financial period and there are no dilutive shares.

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	'000	'000	'000	'000	'000
Weighted average number of shares in issue . . . . .	<u>42,615</u>	<u>42,615</u>	<u>42,615</u>	<u>42,615</u>	<u>42,615</u>
	£m	£m	£m	£m	£m
(Loss)/profit for the period . . . . .	<u>(9.1)</u>	<u>(8.9)</u>	<u>(5.0)</u>	<u>(14.5)</u>	<u>1.4</u>

Earnings per share is calculated as follows:

	13 weeks to 1 Nov 2014	13 weeks to 26 Oct 2013 (unaudited)	53 weeks to 2 Aug 2014	52 weeks to 27 Jul 2013	52 weeks to 28 Jul 2012
	pence	pence	pence	pence	pence
Basic and diluted earnings per ordinary share . . . . .	<u>(21.2)</u>	<u>(20.8)</u>	<u>(11.7)</u>	<u>(34.1)</u>	<u>3.2</u>

## 26 Ultimate parent company and controlling party

The Company is a direct subsidiary undertaking of Advent Diamond (Luxembourg) S.á r.l. which is registered in Luxembourg. The ultimate holding company and controlling party is Advent Diamond (Cayman) Limited which is registered in the Cayman Islands

## PART XII

### UNAUDITED PRO FORMA FINANCIAL INFORMATION

#### Section A: Accountant's report on the unaudited pro forma financial information of the Group

The Directors  
DFS Furniture plc  
1 Rockingham Way  
Redhouse Interchange  
Adwick-le-Street  
Doncaster  
DN6 7NA

23 February 2015

Dear Sirs

#### **DFS Furniture plc (the "Company")**

We report on the pro forma financial information ('the **Pro forma financial information**') set out in Part XII of the prospectus relating to the Company dated 23 February 2015 (the "**Prospectus**"), which has been prepared on the basis described in note 1, for illustrative purposes only, to provide information about how the issue of new ordinary shares of the Company might have affected the financial information presented on the basis of the accounting policies to be adopted by the Company in preparing the financial statements for the 13 weeks ended 1 November 2014. This report is required by paragraph 7 of Annex II of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

It is the responsibility of the directors of the Company to prepare the Pro forma financial information in accordance with Annex II of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

#### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the UK. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the US of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

## Section B: Unaudited pro forma financial information of the Group

The unaudited pro forma statement of financial position set out below has been presented to illustrate the effect of the use of the net proceeds of the Offer and the Reorganisation on the Group's statement of financial position as if they had taken place on 1 November 2014. This unaudited pro forma financial information is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the actual financial position or results of the Group, nor is it indicative of results that may or may not be achieved in the future. The unaudited pro forma financial information is compiled on the basis set out below in accordance with the accounting policies of the Group as set out in Part XI (*Historical Financial Information*) and in accordance with Annex II to the PD Regulation.

	Historical net assets at 1 November 2014	Adjustments				Pro forma
		Reorganisation	Net proceeds of the offer	New Senior Facilities	Repayment of Existing Facilities	
	Note 1 £m	Note 2 £m	Note 3 £m	Note 4 £m	Note 5 £m	£m
<b>Non-current assets</b>						
Property, plant and equipment . . . . .	53.4	–	–	–	–	53.4
Intangible assets . . . . .	490.0	–	–	–	–	490.0
Other financial assets . . . . .	–	–	–	–	–	–
Deferred tax assets . . . . .	11.0	–	–	–	–	11.0
	<u>554.4</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>554.4</u>
<b>Current assets</b>						
Inventories . . . . .	30.6	–	–	–	–	30.6
Other financial assets . . . . .	1.9	–	–	–	–	1.9
Trade and other receivables . . . . .	21.5	(2.3)	–	–	–	19.2
Cash and cash equivalents . . . . .	33.0	2.3	78.0	200.0	(313.0)	0.3
	<u>87.0</u>	<u>–</u>	<u>78.0</u>	<u>200.0</u>	<u>(313.0)</u>	<u>52.0</u>
<b>Total assets</b> . . . . .	<u>641.4</u>	<u>–</u>	<u>78.0</u>	<u>200.0</u>	<u>(313.0)</u>	<u>606.4</u>
<b>Current liabilities</b>						
Trade payables and other liabilities . . . . .	(331.8)	183.9	–	–	3.0	(144.9)
Provisions . . . . .	(6.0)	–	–	–	–	(6.0)
Other financial liabilities . . . . .	–	–	–	–	–	–
Current tax liabilities . . . . .	(5.5)	–	–	–	–	(5.5)
	<u>(343.3)</u>	<u>183.9</u>	<u>–</u>	<u>–</u>	<u>3.0</u>	<u>(156.4)</u>
<b>Non-current liabilities</b>						
Senior secured notes . . . . .	(306.8)	–	–	–	306.8	–
Bank loans . . . . .	–	–	–	(200.0)	–	(200.0)
Provisions . . . . .	(4.4)	–	–	–	–	(4.4)
Other liabilities . . . . .	(69.1)	–	–	–	–	(69.1)
	<u>(380.3)</u>	<u>–</u>	<u>–</u>	<u>(200.0)</u>	<u>306.8</u>	<u>(273.5)</u>
<b>Total liabilities</b> . . . . .	<u>(723.6)</u>	<u>183.9</u>	<u>–</u>	<u>(200.0)</u>	<u>309.8</u>	<u>(429.9)</u>
<b>Net (liabilities)/assets</b> . . . . .	<u>(82.2)</u>	<u>183.9</u>	<u>78.0</u>	<u>–</u>	<u>(3.2)</u>	<u>176.5</u>

### Notes

- The financial information as at 1 November 2014 has been extracted, without material adjustment, from the audited consolidated historical financial information of the Company as set out in Part XI (*Historical Financial Information*).
- Pursuant to steps comprising the Reorganisation of the Group prior to Admission, as described in paragraph 5 of Part XIV (*Additional Information*), the principal and accrued but unpaid interest on loans from parent companies amounting to £183.9 million will be capitalised by the issue of shares in the Company. A debtor of £2.3 million relating to unpaid share capital due to the Group will also be settled.

3. The adjustment reflects the receipt by the Company of net proceeds from the Offer of £78.0 million and total gross proceeds from the Offer of £98.0 million (in each case, through the issue of New Ordinary Shares). The fees and expenses relating to the Offer are expected to be approximately £20.0 million. The gross proceeds of the Offer, the net proceeds of the Offer and the fees and expense of the Offer are based on the assumption that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range.
4. Following Admission, the Company will draw down £200.0 million under the New Senior Facilities Agreement.
5. The Company intends to use £78.0 million of the net proceeds it receives from the Offer plus £2.3 million relating to the previously unpaid share capital, together with £200.0 million drawn down under the New Senior Facilities Agreement and approximately £32.7 million of the Company's cash, to redeem the Notes in full together with £3.0 million of accrued but unpaid interest on the Notes as at 1 November 2014.

This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act.

No adjustment has been made to reflect the trading results of the Group since 1 November 2014 or any other change in financial position in that period.

## PART XIII

### TAXATION

#### Section A: UK taxation

*The following statements are intended only as a general guide to certain UK tax considerations relevant to prospective investors in the Ordinary Shares. They do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of Ordinary Shares. They are based on current UK tax law and what is understood to be the current published practice (which may not be binding) of HMRC as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. The following statements relate only to Shareholders who are resident (and, in the case of individuals, resident and domiciled) for UK tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold their Ordinary Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owners of both the Ordinary Shares and any dividends paid on them. The tax position of certain categories of Shareholders who are subject to special rules, such as persons who acquire (or are deemed to acquire) their Ordinary Shares in connection with their (or another person's) office or employment, traders, brokers, dealers in securities, insurance companies, banks, financial institutions, investment companies, tax-exempt organisations, persons connected with the Company or the Group, persons holding Ordinary Shares as part of hedging or conversion transactions, Shareholders who are not domiciled or not resident in the UK, collective investment schemes, trusts and those who hold 5% or more of the Ordinary Shares, is not considered. Nor do the following statements consider the tax position of any person holding investments in any HMRC-approved arrangements or schemes, including any enterprise investment scheme or venture capital scheme, able to claim any inheritance tax relief or holding Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or, in the case of a corporate Shareholder, a permanent establishment or otherwise).*

***Prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly recommended to consult their own professional advisers.***

#### **1 Taxation of dividends**

##### **1.1 UK resident individuals**

An individual Shareholder who is resident for UK tax purposes in the UK and who receives a cash dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the cash dividend. The tax credit will be equivalent to 10% of the aggregate of the dividend received and the tax credit (the “**gross dividend**”). Such an individual Shareholder will be subject to income tax on the gross dividend.

An individual UK resident Shareholder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of 10% so that the tax credit will satisfy the income tax liability of such a Shareholder in full. Where the tax credit exceeds the Shareholder's tax liability, the Shareholder cannot claim repayment of the tax credit from HMRC.

An individual UK resident Shareholder who is subject to income tax at the higher rate (but not the additional rate) will be liable to income tax on the gross dividend at the rate of 32.5% to the extent that such sum, when treated as the top slice of that Shareholder's income, exceeds the threshold for higher rate income tax. After setting the 10% tax credit against part of the Shareholder's liability, a higher rate tax payer will therefore be liable to account for tax equal to 22.5% of the gross dividend (or 25% of the net cash dividend) to the extent that the Shareholder's income (including the gross dividend) exceeds the threshold for the higher rate.

An individual UK resident Shareholder liable to income tax at the additional rate will be subject to income tax on the gross dividend at the rate of 37.5% of the gross dividend, but will be able to set the UK tax credit off against part of this liability. The effect of this set-off of the UK tax credit is that such a Shareholder will be liable to account for additional tax equal to 27.5% of the gross dividend (or approximately 30.6% of the net cash dividend) to the extent that the Shareholder's income (including the gross dividend) exceeds the threshold for the additional rate.

Individual UK resident Shareholders whose tax liability in respect of the gross dividends is less than the tax credit, and other UK resident tax payers who are not liable to UK tax on dividends, including UK pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to any dividends paid by the Company.

## 1.2 *Companies*

Shareholders within the charge to UK corporation tax which are “small companies” for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 will not be subject to UK corporation tax on any dividend received from the Company provided certain conditions are met (including an anti-avoidance condition). Such companies are not entitled to tax credits on any dividends paid by the Company.

Other Shareholders within the charge to UK corporation tax will not be subject to UK corporation tax on dividends received from the Company so long as the dividends fall within an exempt class and certain conditions are met. For example, dividends paid on shares that are “ordinary shares” and are not “redeemable” (as those terms are used in Chapter 3 of Part 9A of the Corporation Tax Act 2009), and dividends paid to a person holding less than a 10% interest in the Company, should generally fall within an exempt class. However, the exemptions are not comprehensive and are subject to anti-avoidance rules. Such companies are not entitled to tax credits on any dividends paid by the Company.

If the conditions for exemption are not met or cease to be satisfied, or such a Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received from the Company at the rate of corporation tax applicable to that Shareholder (currently 21% for companies paying the full rate of corporation tax with effect from 1 April 2014).

## 1.3 *Non-UK resident Shareholders*

Shareholders who are resident outside the UK for UK tax purposes will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends received from the Company, although this will depend on the existence and terms of any double taxation convention between the UK and the country in which such Shareholder is resident.

Shareholders resident outside the UK may be subject to taxation on dividend income under their local law. Shareholders who are not solely resident in the UK for UK tax purposes or are not solely subject to UK tax on the dividend income should consult their own tax advisers concerning their tax liabilities (in the UK and any other country) on dividends received from the Company, whether they are entitled to claim any repayment of, or relief for, any part of the tax credit and, if so, the procedure for doing so.

## 1.4 *Withholding taxes*

The Company is not required to withhold UK tax at source from dividend payments it makes to Shareholders.

# 2 **Taxation of disposals**

## 2.1 *General*

A disposal or deemed disposal of Ordinary Shares by a Shareholder who is (at any time in the relevant UK tax year) resident in the UK for UK tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains depending upon the Shareholder’s circumstances and subject to any available exemption or relief.

## 2.2 *UK resident individual Shareholders*

For an individual Shareholder within the charge to UK capital gains tax, a disposal (or deemed disposal) of Ordinary Shares may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. The capital gains are chargeable at the applicable rate, which is generally 18% or 28% (depending on the Shareholder’s personal circumstances including other capital gains or income for the relevant period) subject to certain reliefs and exemptions. An individual Shareholder is entitled to realise an exempt amount of gains (currently £11,000) in each tax year without being liable to tax.

## 2.3 *UK resident corporate Shareholders*

For a corporate Shareholder within the charge to UK corporation tax, a disposal (or deemed disposal) of Ordinary Shares may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax. An indexation allowance on the cost of acquiring the Ordinary Shares may be available to reduce the amount of the chargeable gain which would otherwise arise on the disposal. Corporation tax is charged on chargeable gains at the rate applicable to the relevant company.

## **2.4 Non-UK resident Shareholders**

A Shareholder (individual or corporate) who is not resident in the UK for UK tax purposes is generally not subject to UK capital gains tax. They may, however, be subject to taxation under their local law.

However, if such a Shareholder carries on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a non-UK resident corporate Shareholder, a permanent establishment) to which the Ordinary Shares are attributable, the Shareholder will be subject to the same rules that apply to UK resident Shareholders.

An individual Shareholder who acquires Ordinary Shares whilst UK resident and who subsequently ceases to be resident for UK tax purposes in the UK for a period of less than five complete years of assessment and who disposes of the Ordinary Shares during that period of non-residence may be liable, on his return to the UK, to capital gains tax in respect of any gain arising from the disposal (subject to any available exemption or relief).

## **3 Inheritance tax**

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by an individual Shareholder, or the death of an individual Shareholder, may therefore give rise to liability to UK inheritance tax regardless of whether the relevant Shareholder is resident or domiciled in the UK. Whether any such liability arises will depend upon the Shareholder's circumstances and subject to any available exemption or relief. A transfer of Ordinary Shares at less than market value may be treated for inheritance tax purposes as a gift of the Ordinary Shares. Special rules apply to close companies and to trustees of certain settlements who hold Ordinary Shares, which rules may bring them within the charge to inheritance tax. The inheritance tax rules are complex and Shareholders should consult an appropriate professional adviser in any case where those rules may be relevant, particularly in (but not limited to) cases where Shareholders intend to make a gift of Ordinary Shares, to transfer Ordinary Shares at less than market value or to hold Ordinary Shares through a company or trust arrangement.

## **4 Stamp duty and stamp duty reserve tax**

### **4.1 General**

The following statements are intended as a general guide to the current UK stamp duty and SDRT position for holders of Ordinary Shares. Certain categories of person, including intermediaries, brokers, dealers and persons connected with depositary receipt systems and clearance services may not be liable to stamp duty or stamp duty reserve tax ("SDRT") or may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986. The comments in this paragraph relating to stamp duty and SDRT apply whether or not a Shareholder is resident in the UK.

### **4.2 The Offer**

No UK stamp duty or SDRT will arise on the issue of Ordinary Shares by the Company.

The sale of Existing Ordinary Shares by the Selling Shareholders pursuant to the Offer and by the Advent Shareholder pursuant to the Over-allotment Option will generally give rise to a liability to stamp duty and/or SDRT for the purchaser at a rate of 0.5% of the Offer Price (in the case of stamp duty, rounded up to the nearest multiple of £5). The Selling Shareholders will bear the cost of any such liability to stamp duty and/or SDRT. In practice, only one of either stamp duty or SDRT would be paid (see paragraph 4.3 below which applies equally to sales pursuant to the Offer as to subsequent transfers).

If, in connection with the Offer or the Over-allotment Option, Ordinary Shares are transferred into a clearance service or a depositary receipt system, a liability to stamp duty or SDRT may be payable at the rate of 1.5% of the Offer Price, as discussed further in paragraph 4.5 below. As discussed above, the Selling Shareholders will bear the cost of any liability to stamp duty and/or SDRT at a rate of 0.5% of the Offer Price and will not bear any additional liability to stamp duty and/or SDRT (at the 1.5% rate) arising from the transfer of any Ordinary Shares into a clearance service or a depositary receipt system.

### **4.3 Subsequent transfers**

Stamp duty at the rate of 0.5% of the amount or value of the consideration given (rounded up to the nearest multiple of £5) is generally payable on an instrument transferring Ordinary Shares. An exemption

from stamp duty applies to an instrument transferring Ordinary Shares where the amount or value of the consideration (whether in the form of cash or otherwise) is £1,000 or less and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

A charge to SDRT will also generally arise on an unconditional agreement to transfer Ordinary Shares (at the rate of 0.5% of the amount or value of the consideration payable). However, if within six years of the date of the agreement (or, if the agreement is conditional, the date on which it becomes unconditional) an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any SDRT already paid will generally be refunded provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The purchaser or transferee of the Ordinary Shares will generally be responsible for paying such stamp duty or SDRT.

#### **4.4 *Ordinary Shares held through CREST***

Paperless transfers of Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Under the CREST system, generally no stamp duty or SDRT will arise on a deposit of Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise usually at a rate of 0.5% of the amount or value of the consideration for the Ordinary Shares.

#### **4.5 *Depository receipt systems and clearance services***

Under current UK legislation, where Ordinary Shares are transferred: (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services; or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5% of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares (rounded up to the nearest multiple of £5 in the case of stamp duty).

There is an exception from the 1.5% charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an appropriate election which has been approved by HMRC. In these circumstances, the normal rates of stamp duty and SDRT (rather than the higher rate regime referred to above) will generally apply to any transfer of Ordinary Shares into the clearance service and to any transactions in Ordinary Shares held within the clearance service.

Any liability for stamp duty or SDRT in respect of the transfer into a clearance service or depository receipt system, or in respect of a transfer of Ordinary Shares held within such a service or system, will strictly be payable by the operator of the clearance service or depository receipt system or its nominee, as the case may be, but in practice will generally be reimbursed by participants in the clearance service or depository receipt system.

Specific professional advice should be sought before paying the 1.5% stamp duty or SDRT charge in any circumstances.

## Section B: Certain US federal income tax consequences

Subject to the limitations described below, the following is a discussion of certain US federal income tax consequences of the purchase, ownership and disposition of Ordinary Shares to a US Holder. Non-US Holders are urged to consult their own tax advisers regarding the US federal income tax consequences of the purchase, ownership and disposition of Ordinary Shares to them. For purposes of this discussion, a “**US Holder**” means a beneficial owner of Ordinary Shares that is:

- (a) an individual who is a citizen or resident alien of the US for US federal income tax purposes;
- (b) a corporation (or other entity taxed as a corporation for US federal income tax purposes) created or organised in or under the laws of the US or any of its political subdivisions;
- (c) an estate, whose income is includible in gross income for US federal income tax purposes regardless of its source; or
- (d) a trust if: (i) a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust; or (ii) it has a valid election in effect to be treated as a US person.

A “**non-US Holder**” is any individual, corporation, trust or estate that is a beneficial owner of Ordinary Shares and is not a US Holder.

This discussion is based on current provisions of the US Internal Revenue Code of 1986, as amended (the “**Code**”), applicable US Treasury regulations promulgated thereunder and administrative and judicial decisions, all as in effect on the date hereof and all of which are subject to change, possibly on a retroactive basis, and any change could affect the continuing accuracy of this discussion.

This discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to each person’s decision to purchase Ordinary Shares. This discussion does not address all aspects of US federal income taxation that may be relevant to any particular US Holder based on such holder’s particular circumstances. In particular, this discussion considers only US Holders that will own Ordinary Shares as capital assets within the meaning of section 1221 of the Code and does not address the potential application of US federal alternative minimum tax or Medicare tax on certain net investment income or the US federal income tax consequences to US Holders that are subject to special treatment, including:

- (a) broker dealers or insurance companies;
- (b) US Holders who have elected mark-to-market accounting;
- (c) tax-exempt organisations or pension funds;
- (d) regulated investment companies, real estate investment trusts, insurance companies, financial institutions or “financial services entities”;
- (e) US Holders who hold Ordinary Shares as part of a “straddle”, “hedge”, “constructive sale” or “conversion transaction” or other integrated investment;
- (f) US Holders who own or owned, directly, indirectly or by attribution, at least 10% of the voting power of the Ordinary Shares;
- (g) US Holders whose functional currency is not the US dollar;
- (h) US Holders who received Ordinary Shares as compensation;
- (i) persons who are residents of or ordinarily resident in the UK or whose Ordinary Shares are attributable to a trade or business carried on within the UK; and
- (j) certain expatriates or former long-term residents of the US.

This discussion does not consider the tax treatment of holders that are partnerships (including entities treated as partnerships for US federal income tax purposes) or other pass-through entities or persons who hold Ordinary Shares through a partnership or other pass-through entity. In addition, this discussion does not address any aspect of state, local or non-US tax laws, or the possible application of US federal gift or estate tax.

The Directors believe, and the following discussion assumes, that the Company is not and will not become a passive foreign investment company for US federal income tax purposes (a “**PFIC**”).

**BECAUSE OF THE COMPLEXITY OF THE TAX LAWS AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR HOLDER OF ORDINARY SHARES MAY BE AFFECTED BY MATTERS NOT DISCUSSED HEREIN, EACH HOLDER OF ORDINARY SHARES IS URGED TO CONSULT WITH ITS TAX ADVISER WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE ACQUISITION AND THE OWNERSHIP AND DISPOSITION OF ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-US TAX LAWS, AS WELL AS US FEDERAL TAX LAWS AND APPLICABLE TAX TREATIES.**

## **1 Taxation of dividends**

Because the Company does not determine its earnings and profits for US federal income tax purposes, a US Holder will be required to include in gross income as ordinary income the US dollar amount of any distribution paid on Ordinary Shares, including the amount of non-US taxes, if any, withheld from the amount paid, on the date the distribution is actually or constructively received.

Cash distributions paid in a non-US currency will be included in the income of US Holders at a US dollar amount equal to the spot rate of exchange in effect on the date the dividends are includible in the income of the US Holders, regardless of whether the payment is in fact converted to US dollars, and US Holders will have a tax basis in such non-US currency for US federal income tax purposes equal to such US dollar value. If a US Holder converts a distribution paid in non-US currency into US dollars on the day the dividend is includible in the income of the US Holder, the US Holder generally should not be required to recognise gain or loss arising from exchange rate fluctuations. If a US Holder subsequently converts the non-US currency, any subsequent gain or loss in respect of such non-US currency arising from exchange rate fluctuations will be US source ordinary exchange income or loss.

Dividends paid to non-corporate US Holders may qualify for a reduced rate of taxation if the Company is a “qualified foreign corporation”. A qualified foreign corporation includes a non-US corporation that is eligible for the benefits of a comprehensive income tax treaty with the US that the US Treasury determines to be satisfactory for these purposes and that includes an exchange of information provision. The US Treasury has determined that the “Convention between the Government of the United States of America and the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital Gains” meets these requirements, and the Directors believe that the Company is eligible for the benefits of this treaty. A US Holder would not be entitled to the reduced rate unless the holder satisfies certain eligibility requirements. In particular, a US Holder will not be entitled to a reduced rate:

- (a) if the US Holder has not held Ordinary Shares for at least 61 days of the 121-day period beginning on the date which is 60 days before the ex-dividend date; or
- (b) to the extent the US Holder is under an obligation to make related payments on substantially similar or related property.

Any days during which a US Holder has diminished its risk of loss on Ordinary Shares are not counted towards meeting the 61-day holding period. US Holders should consult their own tax advisers on their eligibility for reduced rates of taxation with respect to any dividends paid by the Company.

Distributions paid on Ordinary Shares generally will be foreign source passive income for US foreign tax credit purposes and will not qualify for the dividends received deduction generally available to corporations.

## **2 Taxation of disposals**

A US Holder generally will recognise gain or loss on the taxable sale or exchange of Ordinary Shares in an amount equal to the difference between the US dollar amount realised on such sale or exchange (determined in the case of Ordinary Shares sold or exchanged for currencies other than the US Dollar by reference to the spot exchange rate in effect on the date of the sale or exchange or, if the Ordinary Shares are traded on an established securities market and the US Holder is a cash basis taxpayer or an electing accrual basis taxpayer, the spot exchange rate in effect on the settlement date) and the US Holder’s adjusted tax basis in such Ordinary Shares determined in US dollars. The initial tax basis of Ordinary Shares to a US Holder will generally be the US Holder’s US Dollar cost for Ordinary Shares (determined by reference to the spot exchange rate in effect on the date of the purchase or, if the Ordinary Shares are traded on an established securities market and the US Holder is a cash basis taxpayer or an electing accrual basis taxpayer, the spot exchange rate in effect on the settlement date).

Gain from the sale, exchange or other disposition of Ordinary Shares held for more than one year generally will be treated as long-term capital gain and is eligible for a reduced rate of taxation for non-corporate holders. Gain or loss recognised by a US Holder on a sale or exchange of Ordinary Shares generally will be treated as US source income or loss for US foreign tax credit purposes. The deductibility of a capital loss recognised on the sale or exchange of Ordinary Shares is subject to limitations. A US Holder that receives currencies other than US dollars upon disposition of Ordinary Shares and converts such currencies into US dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of such currencies against the US dollar between the time when such proceeds were included in the holder's income and the time of conversion to US dollars. Such foreign exchange gain or loss generally will be US source ordinary income or loss.

Any UK stamp duty payable upon the sale, exchange or other disposition of Ordinary Shares is not a creditable tax for US federal income tax purposes. For a discussion of the applicability of UK stamp duty to a holder of Ordinary Shares, see paragraph 4 of Section A of this Part XIII (*Taxation*).

### **3 Passive foreign investment company considerations**

Special US federal income tax rules apply to US persons owning stock of a PFIC. A non-US corporation will be considered a PFIC for any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look through" rules, either: (a) at least 75% of its gross income is "passive" income (the "**income test**"); or (b) at least 50% of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income, including cash attributable to the net proceeds of the Offer (the "**asset test**"). For purposes of determining whether a non-US corporation will be considered a PFIC, such non-US corporation will be treated as holding its proportionate share of the assets and receiving directly its proportionate share of the income of any other corporation in which it owns, directly or indirectly, at least 25% (by value) of the stock. If the Company is classified as a PFIC for any year during which a US Holder owns Ordinary Shares, the Company generally will continue to be treated as a PFIC with respect to such US Holder in all succeeding years, regardless of whether the Company continues to meet the income test or asset test discussed above.

If the Company is classified as a PFIC, the adverse tax consequences described below will apply separately to a US Holder's Ordinary Shares and indirect interest in any members of the Group which are PFICs. If the Company were a PFIC for any taxable year during which a US Holder owned Ordinary Shares, such US Holder would be subject to increased tax liability (generally including an interest charge) upon the sale or other disposition of the Ordinary Shares or upon the receipt of certain distributions. Certain elections might be available to a US Holder if the Company were a PFIC. The Company has not determined if it will provide US Holders with information to make one of these elections if it determines that the Company is or will become a PFIC.

The Directors believe that the Company was not a PFIC for Financial Year 2014, and they do not expect it to become a PFIC in the future. Because PFIC status is fundamentally factual in nature, generally cannot be determined until the close of the taxable year in question and is determined annually, no assurance can be given that the Company will not become a PFIC for the current taxable year or future years. Any distribution taxable as a dividend will not be eligible for reduced rates of taxation (see paragraph 1 above) if the Company is a PFIC in either the year the dividend is paid or in the prior year.

If the Company is a PFIC, generally, each US Holder of Ordinary Shares must make an annual return on US Internal Revenue Service ("**IRS**") Form 8621, with respect to each PFIC in which the US Holder holds a direct or indirect interest. If a US Holder does not file a required IRS Form 8621, the statute of limitations on the assessment and collection of all US federal income taxes of such US Holder for the related tax year may not close before the date which is three years after the date on which such report is filed. US Holders should consult their own tax advisers regarding the potential application of the PFIC rules.

### **4 US information reporting and backup withholding**

A US Holder is generally subject to information reporting requirements with respect to dividends paid on Ordinary Shares and proceeds paid from the sale, exchange, redemption or other disposition of Ordinary Shares within the US or by a US related person. A US Holder is generally subject to backup withholding at a rate of 28% such payments unless the US Holder is a corporation, provides an IRS Form W-9 or otherwise establishes a basis for exemption.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a US Holder's US federal income tax liability, and a US Holder may obtain a refund from the IRS of any excess amount withheld under the backup withholding rules, provided that certain information is timely furnished to the IRS. Holders are urged to consult their own tax advisers regarding the application of backup withholding and the availability of and procedures for obtaining an exemption from backup withholding in their particular circumstances.

## **5 Reporting obligations of owners of foreign financial assets**

Section 6038D of the Code generally requires US individuals (and possibly certain entities that have US individual owners) to file IRS Form 8938 if they hold certain "specified foreign financial assets", the aggregate value of which exceeds USD 50,000 on the last day of the taxable year (or the aggregate value of which exceeds USD 75,000 at any time during the taxable year). The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, Ordinary Shares. If a US Holder does not file a required IRS Form 8938, such holder may be subject to substantial penalties and the statute of limitations on the assessment and collection of all US federal income taxes of such US Holder for the related tax year may not close before the date which is three years after the date on which such report is filed. US Holders should discuss these reporting obligations with their tax advisers.

**PART XIV**  
**ADDITIONAL INFORMATION**

**1 Responsibility statement**

The Directors, whose names appear on page 31, and the Company accept responsibility for the information contained in the Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

**2 Incorporation and activity of the Company**

The Company was incorporated and registered in England and Wales on 27 April 2010 and is domiciled in the UK. Its registered office and head office is 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA (telephone number 01302 330365). It changed its name to DFS Furniture Limited on 3 February 2015 and was re-registered as a public limited company on 18 February 2015.

The principal legislation under which the Company operates and under which the Ordinary Shares were created is the Companies Act and the regulations made thereunder. The Company operates in conformity with its constitution.

**3 Statutory auditor**

The auditor of the Company for the period from incorporation to 27 May 2014 was KPMG Audit plc. After this entity wound down its operations, all audits (including that of the Group) undertaken by it were subsequently transferred to KPMG LLP, whose registered address is at Arlington Business Park, Theale, Reading, RG7 4SD. KPMG LLP was the auditor of the Group for the whole period covered by the financial information set out in Part XI (*Historical Financial Information*). KPMG is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

**4 Share capital of the Company**

The share capital of the Company on incorporation was £1 consisting of one ordinary share of £1.00, which was allotted to Advent Pathway (Luxembourg) S.à r.l. (an affiliate of the Advent Shareholder) as initial subscriber to the Company's memorandum of association. The entire share capital of the Company was subsequently transferred to the Advent Shareholder and, on 9 June 2010, 42,615,217 ordinary shares of £1 each were issued to the Advent Shareholder. On 17 February 2015 and 22 February 2015, in aggregate, a further 192,708,004 ordinary shares of £1 each were issued to the Advent Shareholder. On 22 February 2015, 235,323,222 ordinary shares of £1 each in the issued share capital of the Company were sub-divided into 470,646,444 ordinary shares of £0.50 each and subsequently those 470,646,444 ordinary shares of £0.50 each were consolidated into 156,882,148 shares of £1.50 each. As at 22 February 2015 (being the latest practicable date prior to the date of this Prospectus), the Company had an issued share capital of £235,323,222 divided into 156,882,148 ordinary shares of £1.50 each, all of which were held by the Advent Shareholder.

Assuming the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range: (i) in connection with the Reorganisation, the Company is expected to issue 18,547,742 Ordinary Shares; and (ii) immediately following Admission, the Company's issued share capital will comprise 210,745,205 Ordinary Shares (all of which will be fully paid up or credited as fully paid up).

The Ordinary Shares are, or will be when issued, in registered form and capable of being held in uncertificated form. No temporary documents of title have been or will be issued in respect of the Ordinary Shares. The Ordinary Shares rank equally in all respects, including for all dividends and other distributions declared, made or paid on the Ordinary Shares. The Shareholders will have the right to receive notice of and to attend and vote at all general meetings of the Company.

As at 22 February 2015, being the latest practicable date prior to the date of this Prospectus, the Company held no treasury shares. No Ordinary Shares have been issued other than fully paid. No Ordinary Shares are held by any of the Company's subsidiaries.

The ISIN of the Ordinary Shares is GB00BTC0LB89.

Further information on the rights attaching to the Ordinary Shares is set out in paragraphs 6 and 7 below, and further information on dealing arrangements and CREST is set out in Part VI (*Details of the Offer*).

## 5 Reorganisation

### *Prior to Admission*

A reorganisation of the Group (the “**Reorganisation**”) will be implemented immediately prior to Admission. It will consist of the following steps:

- a) the capitalisation of certain intra-group loans through a series of intra-group share issues (including the capitalisation of a loan from the Advent Shareholder to Diamond Holdco 2 Limited and a loan from the Advent Shareholder to DFS Investments Limited);
- b) the Group’s management team (some of whom hold shares through the EBT) will roll-up their existing shares in DFS Investments Limited up to the Company via a series of put and call agreements:
  - the preference shares, A ordinary shares and B ordinary shares held by the Group’s management team in DFS Investments Limited will be transferred to Diamond Holdco 4 Limited pursuant to a put and call agreement in exchange for an issue of loan notes by Diamond Holdco 4 Limited of equivalent value to the shares (such number being determined based on the Offer Price and the economic rights of such shares as set out in the articles of association of DFS Investments Limited);
  - the loan notes issued by Diamond Holdco 4 Limited referenced above will be transferred by the Group’s management team to Diamond Holdco 3 Limited pursuant to a put and call agreement in exchange for an issue of loan notes by Diamond Holdco 3 Limited;
  - the loan notes issued by Diamond Holdco 3 Limited referenced above will be transferred by the Group’s management team to Diamond Holdco 2 Limited pursuant to a put and call agreement in exchange for an issue of loan notes by Diamond Holdco 2 Limited; and
  - the loan notes issued by Diamond Holdco 2 Limited referenced above will be transferred by the Group’s management team to the Company pursuant to a put and call agreement in exchange for an issue of ordinary shares in the Company.

### *Post-Admission*

Following completion of the Reorganisation and Admission, it is proposed that DFS Furniture Holding plc will be transferred by Diamond Holdco Limited to the Company via a series of distributions in specie. As part of these steps a capital reduction in Diamond Holdco Limited, Diamond Holdco 7 Limited and Diamond Holdco 2 Limited will be required and will be implemented by an out of court capital reduction process. In addition, certain intra group receivables will be waived to rationalise the Group’s intercompany loan arrangements and steps will be taken to liquidate a number of superfluous holding companies (together, the “**Post-Admission Reorganisation**”).

## 6 Information about the Ordinary Shares

### *6.1 Description of the type and class of securities being offered*

The Ordinary Shares being offered have a nominal value of £1.50 each. Upon Admission, the Company will have one class of issued shares (Ordinary Shares), rights of which will be set out in the Articles, a summary of which is set out in paragraph 7 below.

The Ordinary Shares are, or will when issued be, credited as fully paid and free from all liens, equities, charges, encumbrances and other interests.

### *6.2 Legislation under which the Ordinary Shares have been and will be created*

The Ordinary Shares have been and will be created under the Companies Act.

### 6.3 Listing

Application has been made to the FCA for all of the Ordinary Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for those Ordinary Shares to be admitted to trading on the main market for listed securities of the London Stock Exchange. No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or trading on any other stock exchange.

Conditional dealings in the Ordinary Shares are expected to commence at 8.00 a.m. on 6 March 2015. It is expected that Admission will become effective, and that unconditional dealings will commence, at 8.00 a.m. on 11 March 2015. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a “when issued” basis and of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

### 6.4 Form and currency of the Ordinary Shares

The Ordinary Shares are in registered form and will, with effect from Admission, be capable of being held in certificated and uncertificated form. The Registrar of the Company is Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Title to the certificated Ordinary Shares (if any) will be evidenced by entry in the register of members of the Company and title to uncertificated Ordinary Shares will be evidenced by entry in the operator register maintained by the Registrar (which will form part of the register of members of the Company).

The Ordinary Shares are denominated in pounds sterling.

### 6.5 Rights attached to the Ordinary Shares

Each Ordinary Share ranks equally in all respects with each other Ordinary Share and has the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as each other Ordinary Share, as set out in the Company’s articles of association (the “**Articles**”).

On 17 February the Company passed a shareholder resolution to disapply, within certain limits as set out below in paragraph 6.7 of this Part XIV (*Additional information*), section 561 of the Companies Act, which would otherwise oblige equity securities issued by the Company for cash, and Ordinary Shares held by the Company as treasury shares sold by the Company for cash, to be offered first to Shareholders in proportion to their holdings of Ordinary Shares.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company.

The Ordinary Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Ordinary Shares on or off-market, subject to the Companies Act and the requirements of the Listing Rules. The Company may purchase Ordinary Shares only out of distributable reserves or the proceeds of a new issue of shares made to fund the repurchase.

Further details of the rights attached to the Ordinary Shares in relation to dividends, attendance and voting at general meetings, entitlements on a winding-up of the Company and transferability of shares are set out in paragraph 7 below.

### 6.6 Description of restrictions on free transferability of the Ordinary Shares

Save as set out below, the Ordinary Shares are freely transferable and there are no restrictions on transfer in the UK.

Paragraph 7 below sets out certain circumstances in which Ordinary Shares may not be transferable and in which the Board may refuse to register a transfer of Ordinary Shares.

The Company may, under the Companies Act, send out statutory notices to those persons whom it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

## 6.7 *Authorities relating to the Ordinary Shares*

By a resolution of the Company on 17 February 2015 it was resolved that:

- (a) that the Board generally and unconditionally be given power, in substitution for all subsisting authorities, and, in the case of the authority described in sub-paragraph (iii) below, subject to and conditional upon Admission, to allot Ordinary Shares and to grant rights to subscribe for or convert any security into Ordinary Shares:

- (i) up to an aggregate nominal amount of £250,000,000 in connection with the Reorganisation;
- (ii) up to an aggregate nominal amount of £100,000,000 in connection with the Offer; and
- (iii) up to an aggregate nominal amount of £130,000,000 in any other case,

such authorities to apply until the end of the annual general meeting of the Company to be held in 2015 but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended; and

- (b) subject to and conditional on the passing of the resolution in (a) above, the Board be given power, in substitution for all subsisting powers, to allot equity securities (as defined in section 560(1) of the Companies Act) for cash under the authority granted in the Articles and/or to sell Ordinary Shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such power to be limited:

- (i) to the allotment of equity securities up to an aggregate nominal amount of £250,000,000 in connection with the Reorganisation;
- (ii) to the allotment of equity securities up to an aggregate nominal amount of £100,000,000 in connection with the Offer; and

- (iii) in the case of any allotment of equity securities or any sale of treasury shares for cash, to the allotment of equity securities or sale of treasury shares:

(A) up to an aggregate nominal amount of £80,000,000 (other than pursuant to sub-paragraph (iii)(B) below); and

(B) for cash in connection with an offer of, or invitation to apply for, equity securities:

- (1) to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings; and
- (2) to holders of equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary as permitted by the rights of those securities,

and so that the Board may impose any limits or restrictions and make and arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matters,

such power to apply until the end of the annual general meeting of the Company to be held in 2015, but, in each case, during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended; and

- (c) subject to and conditional upon Admission, the Company be authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (as defined in section 693(4) of the Companies Act) of Ordinary Shares, such power to be limited:

- (i) to a maximum number of 40,000,000 Ordinary Shares or, if less, 10% of the Company's issued Ordinary Share capital immediately following Admission; and

- (ii) by the condition that the minimum price which may be paid for an Ordinary Share is its nominal value and the maximum price which may be paid for an Ordinary Shares is the highest of:
  - (A) an amount equal to 5% above the average market value of an Ordinary Share for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and
  - (B) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out,in each case, exclusive of expenses,

such power to apply until the end of the annual general meeting of the Company to be held in 2015 but in each case so that the Company may enter into a contract to purchase Ordinary Shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase Ordinary Shares pursuant to any such contract as if the power had not ended.

## **7 Summary of the Articles**

The Articles adopted on 17 February 2015, conditional upon Admission becoming effective, contain (among others) provisions to the following effect:

### *7.1 Unrestricted objects*

The objects of the Company are unrestricted.

### *7.2 Limited liability*

The liability of the Company's members is limited to any unpaid amount on the shares in the Company held by them.

### *7.3 Change of name*

The Company can change its name by resolution of the Directors. This is in addition to the Company's statutory ability to change its name by special resolution under the Companies Act.

### *7.4 Share rights*

Subject to the Companies Act, any resolution passed by the Company under the Companies Act and existing Shareholders' rights, the Company may issue shares with any rights or restrictions attached to them. These rights or restrictions can either be decided by an ordinary resolution passed by the Shareholders or by the Directors as long as there is no conflict with any resolution passed by the Shareholders. These rights and restrictions will apply as if they were set out in the Articles. Redeemable shares may be issued, subject to existing Shareholders' rights. The Directors can decide on the terms and conditions and the manner of redemption of any redeemable shares. These terms and conditions will apply as if they were set out in the Articles. Subject to the Articles, the Companies Act, any resolutions passed by the Shareholders and existing Shareholders' rights, the Directors can decide how to deal with any shares in the Company.

### *7.5 Voting rights*

Shareholders are entitled to vote at a general meeting or at a separate meeting of the holders of a class of shares (in this paragraph 7, a "**class meeting**"), whether on a show of hands or a poll, as follows:

- (a) on a show of hands every Shareholder present in person or by proxy at a general meeting of the Company and every duly authorised corporate representative shall have one vote. If a proxy has been duly appointed by more than one Shareholder entitled to vote on the resolution and the proxy has been instructed by one or more of those Shareholders to vote for the resolution and by one or more other of those Shareholders to vote against it then the proxy shall have one vote for and one vote against the resolution. If a proxy has been duly appointed by more than one Shareholder entitled to vote on the resolution and has been granted both discretionary authority to vote on behalf of one or more of those Shareholders and firm voting instructions on behalf of one or more other Shareholders, the proxy shall not be restricted by the firm voting instructions in casting a second vote in any manner he so chooses under the discretionary authority conferred upon him; and

- (b) on a poll every Shareholder present in person or by proxy shall have one vote for every share held by him and every person appointed as proxy of a Shareholder shall have one vote for every share in respect of which he is appointed as a proxy provided always that where a Shareholder appoints more than one proxy, this does not authorise the exercise by such proxies taken together of more extensive voting rights than could be exercised by the Shareholder in person and every duly authorised corporate representative may exercise all the powers on behalf of the company which authorised him to act as its representative and shall have one vote for every share in respect of which he is appointed the corporate representative.

This is subject to any rights or restrictions which are given to any shares or on which shares are held.

If the Company has issued unlisted shares then only listed shares carry voting rights on certain matters set out in the Listing Rules.

If more than one joint Shareholder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed before the other voters on the register for the Ordinary Share.

#### *7.6 Dividends and other distributions*

The Company may by ordinary resolution from time to time declare and pay dividends not exceeding the amount recommended by the Board. Subject to the Companies Act, the Board may declare and pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable for any loss that Shareholders may suffer because a lawful dividend has been paid on other shares that rank equally with or behind their shares.

Unless the rights attached to any shares or the terms of any shares say otherwise, all dividends will be divided and paid in proportions based on the amounts paid up on the shares during any period for which the dividend is paid, and dividends may be declared or paid in any currency.

The Board may, if authorised by an ordinary resolution, offer Shareholders the right to choose to receive extra shares which are credited as fully paid instead of some or all of their cash dividend.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment will be forfeited and go back to the Company unless the Board decides otherwise.

#### *7.7 Variation of rights*

Subject to the provisions of the Companies Act, all or any of the rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound up) be varied either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a class meeting of the relevant class of shares.

#### *7.8 Transfers of shares*

The shares are in registered form. Any shares in the Company may be held in uncertificated form and, unless the Articles say otherwise, a shareholder may transfer some or all of his uncertificated shares through CREST. Provisions of the Articles do not apply to any uncertificated shares to the extent that those provisions are inconsistent with the holding of shares in uncertificated form, with the transfer of shares through CREST, with the CREST Regulations or with the Company doing anything through CREST.

Other than in the circumstances set out below, a Shareholder may transfer all or any of his certificated shares. The transfer must be either in the usual standard form or in any other form which the Board may approve. The share transfer form must be signed or made effective in some other way by or on behalf of the person making the transfer. In the case of a partly-paid share, it must also be signed or made effective in some other way by, or on behalf of, the person to whom the share is being transferred.

The person transferring the shares will continue to be treated as a Shareholder until the name of the person to whom it is transferred is put on the register for that share.

The Board can refuse to register the transfer of any shares which are not fully paid. The Board may also refuse to register the transfer of any shares in the following circumstances:

*Certificated shares*

- (a) a share transfer form cannot be used to transfer more than one class of shares. Each class needs a separate form;
- (b) transfers may not be in favour of more than four joint holders; and
- (c) the share transfer form must be properly stamped or certified or otherwise shown to the Board to be exempt from stamp duty and must be accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require.

*Uncertificated shares*

- (a) registration of a transfer of uncertificated shares can be refused in the circumstances set out in the CREST Regulations; and
- (b) transfers may not be in favour of more than four joint holders.

*7.9 Restrictions on shares*

Where the holder of any shares in the Company, or any other person appearing to be interested in those shares, fails to comply within 14 days following service of any notice under section 793 of the Companies Act in respect of those shares (in this paragraph 7.9, a “**statutory notice**”), the Company may give the holder of those shares a further notice (in this paragraph 7.9, a “**restriction notice**”) to the effect that from the service of the restriction notice those shares shall be subject to some or all of the relevant restrictions (as defined below), and from service of the restriction notice those shares shall be subject to those relevant restrictions accordingly.

If, after the service of a restriction notice in respect of any shares, the Board is satisfied that all information required by any statutory notice relating to those shares from their holder (or from any other person appearing to be interested in such shares) has been supplied, the Company shall, within seven days, cancel the restriction notice. The Company may at any time at its discretion cancel any restriction notice or exclude any shares from it. A restriction notice shall automatically cease to have effect in respect of any shares transferred where the transfer is pursuant to an arm’s length sale of those shares.

Any new shares in the Company issued in respect of any shares subject to a restriction notice shall also be subject to the restriction notice, and the Board may make any right to an allotment of the new shares subject to restrictions corresponding to those which will apply to those shares by reason of the restriction notice when such shares are issued.

The relevant restrictions referred to above are, in the case of a restriction notice served on a person having an interest in shares in the Company which comprise in total at least 0.25% in number or nominal value of the shares of the Company (calculated exclusive of any treasury shares), or of any class of such shares, that:

- (a) the shares shall not confer on the holder any right to attend or vote either personally or by proxy at any general meeting of the Company or at any separate general meeting of the holders of any class of shares in the Company or to exercise any other right conferred by membership in relation to attending general meetings and voting;
- (b) the Board may withhold payment of all or any part of any dividends (including shares issued in lieu of dividends) payable in respect of the shares; and
- (c) the Board may (subject to the requirements of the CREST Regulations) decline to register a transfer of the shares or any of them unless such a transfer is pursuant to an arm’s length sale,

and in any other case means only the restriction specified in sub-paragraph (a) above.

*7.10 General meetings*

Under the Companies Act, the Board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Companies Act, and the Board may convene a general meeting whenever it thinks fit.

Under the Companies Act, an annual general meeting must be called by notice of at least 21 clear days. Upon listing, the Company will be a “traded company” for the purposes of the Companies Act and as a result will be required to give at least 21 clear days’ notice of any other general meeting unless a special resolution reducing the period to not less than 14 clear days has been passed at the immediately preceding annual general meeting or at a general meeting held since that annual general meeting or, pending the Company’s first annual general meeting, at any general meeting. By a special resolution of the Company dated 17 February 2015 it was resolved that a general meeting other than an annual general meeting may be called on not less than 14 clear days’ notice. Under the Companies Act, notice of a general meeting must be given in hard copy form, in electronic form, or by means of a website and must be sent to every member and every Director, and it must state the time and date and the place of the meeting and the general nature of the business to be dealt with at the meeting. As the Company will be a traded company, the Companies Act also requires that the notice also state the website address where information about the meeting can be found in advance of the meeting, the voting record time, the procedures for attending and voting at the meeting, details of any forms for appointing a proxy, procedures for voting in advance (if any are offered), and the right of members to ask questions at the meeting. In addition, a notice calling an annual general meeting must state that the meeting is an annual general meeting.

The Companies Act also requires notice of every general meeting shall be given to all Shareholders other than any who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the Company’s auditors.

Before a general meeting carries out business, there must be a quorum present. Unless the Articles state otherwise in relation to a particular situation, under the Companies Act a quorum for all purposes is two Shareholders present in person or by proxy or by a duly authorised corporate representative and entitled to vote.

#### *7.11 Notices to Shareholders*

Any notice, document (including a share certificate) or other information may be served on or sent or supplied to any Shareholder by the Company personally, by post, by means of a relevant system, by sending or supplying it in electronic form to an address notified by the Shareholder to the Company for that purpose, where appropriate, by making it available on the Website and notifying the Shareholder of its availability, or by any other means authorised in writing by the Shareholder.

#### *7.12 Directors*

##### *(a) Number*

Unless otherwise determined by ordinary resolution of the Company, the number of Directors (disregarding alternate directors) shall not be less than two nor more than 15.

##### *(b) No shareholding qualification*

The Directors are not required to hold any shares in the Company.

##### *(c) Appointment*

Directors may be appointed by ordinary resolution of the Company or by the Board. If required by the Listing Rules, the appointment or re-appointment by shareholders of an independent director (within the meaning of the UK Corporate Governance Code) must also be approved by independent shareholders (within the meaning of the Listing Rules). If a resolution is passed to appoint or re-appoint an independent director but the approval of independent shareholders is not obtained, that person may be appointed or re-appointed as an independent director by shareholders passing a second ordinary resolution at a later general meeting. Any second resolution will not require the approval of independent shareholders, but may only be voted on within time periods specified by the Listing Rules (between 90 and 120 days after the vote on the first resolution).

##### *(d) Retirement*

At every annual general meeting of the Company, every Director shall retire from office. Any Director who retires at an annual general meeting may offer himself for re-appointment by the Shareholders.

(e) *Removal*

In addition to any powers of removal conferred by the Companies Act, the Company may by special resolution remove any Director before the expiration of his period of office.

(f) *Vacation of office*

Any Director automatically ceases to be a Director if, among other things:

- (i) he gives the Company a written notice of resignation or he offers to resign and the Board accepts such offer;
- (ii) all of the other Directors pass a resolution or sign a written notice removing him as a Director;
- (iii) he has missed meetings of the Board for a continuous period of six months without permission from the Board and the Board passes a resolution removing him as a Director;
- (iv) a bankruptcy order is made against him or he makes any arrangement or composition with his creditors generally; or
- (v) he is prohibited from or ceases to be a Director under the Companies Act or the Articles.

If a Director stops being a Director for any reason, he will also automatically cease to be a member of any committee or sub-committee of the Board.

(g) *Alternates*

Any Director can appoint any person (including another Director) to act as an alternate Director. The appointment requires the approval of the Board, unless previously approved by the Board or unless the appointee is another Director.

(h) *Powers*

The Board shall manage the Company's business and can use all the Company's powers except where the Articles say that powers can only be used by the Shareholders voting to do so at a general meeting. The Board is also subject to any regulations laid down by the Shareholders by passing a special resolution at a general meeting.

In particular, the Board may exercise all the Company's powers to borrow money, to guarantee, to indemnify, to mortgage or charge all or any of the Company's undertaking, property and assets (present and future) and uncalled capital, to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

(i) *Proceedings*

The Board can decide when and where to have meetings and how they will be conducted. They can also adjourn their meetings. If no other quorum is fixed by the Board, two Directors are a quorum. A Board meeting at which a quorum is present can exercise all the powers and discretions of the Board.

The Board can appoint any Director as chairman or as deputy chairman and can remove him from that office at any time. Matters to be decided at a Board meeting will be decided by a majority vote. If votes are equal, the chairman of the meeting has a second, casting vote.

All or any of the Directors can take part in a meeting of the Board by way of a conference telephone or any communication equipment which allows everybody to take part in the meeting by being able to hear each of the other people at the meeting and by being able to speak to all of them at the same time. A person taking part in this way will be treated as being present at the meeting and will be entitled to vote and be counted in the quorum.

The Board can delegate any of their powers or discretions (with the power to sub-delegate) to committees of one or more persons as they think fit provided that there must be more Directors on a committee than persons who are not Directors. If a committee consists of more than one person, the Articles which regulate Board meetings and their procedure will also apply to committee meetings unless these are inconsistent with any regulations for the committee which have been laid down under the Articles.

(j) *Remuneration, expenses, pensions and gratuities*

Subject to the requirements of the Companies Act, the Directors shall be paid out of the funds of the Company by way of fees for their services as directors, such sums (if any) and such benefits in kind as the Board may from time to time determine and such remuneration shall be divided between the Directors as the Board shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

Any Director who is appointed to any executive office or who performs services which in the opinion of the Board or any committee authorised by the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may in its discretion decide, subject to the requirements of the Companies Act.

The Company may pay the reasonable travel, hotel and incidental expenses of each Director incurred in attending and returning from general meetings, meetings of the Board or committees of the Board or any other meetings which as a Director he is entitled to attend. The Company will pay all other expenses properly and reasonably incurred by each Director in connection with the Company's business or in the performance of his duties as a Director. The Company can also fund a Director's or former Director's expenditure for the purposes permitted by the Companies Act and can do anything to enable a Director or former Director to avoid incurring such expenditure all as provided in the Companies Act.

The Board or any committee authorised by the Board may decide whether to provide pensions or other benefits to any Director or former Director, or any relation or dependant of, or person connected to, such a person. However, if the Board want to provide a benefit to a Director or former Director who has not been employed by or held an office or executive position in the Company or any of its subsidiary undertakings or former subsidiary undertakings or any predecessor in business of the Company or any such other company, or to relations or dependants of, or persons connected to, these Directors or former Directors, the Company's Shareholders must also pass an ordinary resolution to approve the payment.

(k) *Indemnification*

As far as the Companies Act allows this, the Company can indemnify any Director or former Director of the Company or of any associated company against any liability and can purchase and maintain insurance against any liability for any Director or former Director of the Company or of any associated company.

(l) *Interests*

The Board may, subject to the Articles, authorise any matter which would otherwise involve a Director breaching his duty under the Companies Act to avoid conflicts of interest. Where the Board gives authority in relation to a conflict of interest or where any of the situations described in (i) to (v) below applies in relation to a Director, the Board may: (A) require that the relevant Director is excluded from the receipt of information, the participation in discussion and/or the making of decisions related to the conflict of interest or situation; (B) impose upon the relevant Director such other terms for the purpose of dealing with the conflict of interest or situation as they think fit; and (C) provide that where the relevant Director obtains (otherwise than through his position as a Director of the Company) information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence. The Board may revoke or vary such authority at any time.

If a Director has disclosed the nature and extent of his interest in accordance with the Companies Act and the Articles, a Director can do any one or more of the following:

- (i) have any kind of interest in a contract with or involving the Company or another company in which the Company has an interest;
- (ii) hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director for such period and upon such terms, including as to remuneration, as the Board may decide;
- (iii) alone, or through a firm with which he is associated, do paid professional work for the Company or another company in which the Company has an interest (other than as auditor);

- (iv) be or become a director or other officer of, or employed by or a party to a transaction or arrangement with, or otherwise be interested in any parent undertaking or subsidiary undertaking of the Company or any other company in which the Company has an interest; and
- (v) be or become a director of any other company in which the Company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other company.

A Director does not have to hand over to the Company or the Shareholders any benefit he receives or profit he makes as a result of a conflict of interest authorised by the Board or anything allowed under the above provisions nor is any contract which is allowed or authorised under these provisions liable to be avoided.

*(m) Restrictions on voting*

A Director cannot vote or be counted in the quorum on a resolution relating to appointing that Director to a position with the Company or a company in which the Company has an interest or the terms or termination of the appointment save to the extent permitted specifically in the Articles.

Subject to certain exceptions set out in the Articles, a Director cannot vote on, or be counted in a quorum in relation to, any resolution of the Board on any contract in which he has an interest and, if he does vote, his vote will not be counted.

Subject to the Companies Act, the Shareholders may by ordinary resolution suspend or relax to any extent the provisions relating to Directors' interests or restrictions on voting or ratify any contract which has not been properly authorised in accordance with such provisions.

If any question arises at any meeting of the Board as to whether the interest of a Director gives rise to a conflict, or could reasonably be regarded as likely to give rise to a conflict, with the interests of the Company or as to the entitlement of any Director to vote or be counted in the quorum and the question is not resolved by him voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be decided by a resolution of the Board (for which purpose the Director in question shall not be counted in the quorum and provided that the resolution was agreed to without the Director in question voting or would have been agreed if their votes had not been counted) and the resolution shall be conclusive except in a case where the nature or extent of the interest of the Director (so far it as is known to him) has not been fairly disclosed to the Board.

## **8 Mandatory bids and compulsory acquisition rules relating to the Ordinary Shares**

Other than as provided by the City Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules relating to the Company.

*(a) Mandatory bids*

On Admission, the City Code will apply to the Company. Rule 9 of the City Code provides that if any person or group of persons acting in concert with each other ("**Concert Parties**") acquire an interest in shares which: (i) when taken together with shares in which Concert Parties are already interested would increase their aggregate interests to an amount carrying 30% or more of the voting rights in the Company; or (ii) where Concert Parties are interested in shares which in aggregate carry more than 30% of the voting rights in the Company but do not hold shares carrying more than 50% of such voting rights, would increase their percentage of shares carrying voting rights in which they are interested, the Concert Parties, would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares in the Company by the acquirer or its Concert Parties during the previous 12 months.

For the purposes of Rule 9 of the City Code, the Company understands that the Takeover Panel will presume the Chairman, the Advent Shareholder, the Advent Funds and any other funds managed or advised by Advent (and its affiliates) to be Concert Parties.

*(b) Squeeze-out*

Under the Companies Act, if an offeror were to make a "takeover offer" (as defined in section 974 of the Companies Act) to acquire all of the shares in the Company not already owned by it and were to acquire 90% of the shares to which such takeover offer related, it could then compulsorily acquire the remaining

10%. The offeror would do so by sending a notice to outstanding members telling them that it will compulsorily acquire their shares and then, six weeks later, it would deliver a transfer of the outstanding shares in its favour to the Company which would execute the transfers on behalf of the relevant members, and pay the consideration to the Company which would hold the consideration on trust for outstanding members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the takeover offer value is unfair.

(c) *Sell-out*

The Companies Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the shares in the Company and, at any time before the end of the period within which the takeover offer could be accepted, the offeror held or had agreed to acquire not less than 90% of the shares, any holder of shares to which the takeover offer related who had not accepted the takeover offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any member notice of his/her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his/her rights, the offeror is entitled and bound to acquire those shares on the terms of the takeover offer or on such other terms as may be agreed.

## 8.1 Rule 9 disclosures

(a) *Authority of the Company to redeem or purchase its own shares*

When a company redeems or purchases its own voting shares, under Rule 37 of the City Code any resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition for the purpose of Rule 9 of the City Code. Rule 37 of the City Code provides that, subject to prior consultation, the Takeover Panel will normally waive any resulting obligation to make a general offer if there is a vote of independent shareholders and a procedure along the lines of that set out in Appendix 1 to the City Code is followed. Appendix 1 to the City Code sets out the procedure which should be followed in obtaining that consent of independent shareholders. Under Note 1 on Rule 37 of the City Code, a person who comes to exceed the limits in Rule 9.1 in consequence of a company's purchase of its own shares will not normally incur an obligation to make a mandatory offer unless that person is a director, or the relationship of the person with any one or more of the directors is such that the person is, or is presumed to be, Concert Parties with any of the directors. However, there is no presumption that all the directors (or any two or more directors) are Concert Parties solely by reason of a proposed purchase by a company of its own shares, or the decision to seek shareholders' authority for any such purchase.

Under Note 2 on Rule 37 of the City Code, the exception in Note 1 on Rule 37 described above will not apply, and an obligation to make a mandatory offer may therefore be imposed, if Concert Parties have acquired an interest in shares at a time when they had reason to believe that such a purchase of their own shares by the company would take place. Note 2 will not normally be relevant unless the Concert Parties know that a purchase for which requisite shareholder authority exists is being, or is likely to be, implemented (whether in whole or in part).

The Takeover Panel must be consulted in advance in any case where Rule 9 of the City Code might be relevant. This will include any case where Concert Parties are interested in shares carrying 30% or more but do not hold shares carrying more than 50% of the voting rights of a company, or may become interested in 30% or more on full implementation of the proposed purchase by the company of its own shares. In addition, the Takeover Panel should always be consulted if the aggregate interests in shares of the directors and any Concert Parties, or presumed Concert Parties, with any of the directors amount to 30% or more, or may be increased to 30% or more on full implementation of the proposed purchase by the company of its own shares.

Subject to certain limits, the Company has authority to purchase Ordinary Shares under the terms of the shareholder resolution summarised in paragraph 6.7 of this Part XIV (*Additional Information*) (the "**Buyback Authority**"). The maximum aggregate number of Ordinary Shares authorised to be purchased under the Buyback Authority is 40,000,000, or, if less, 10% of the Company's issued share capital immediately following Admission. The Buyback Authority is due to expire at the conclusion of the annual

general meeting of the Company to be held in 2015, but so that the Company may, before the expiry of the Buyback Authority, enter into a contract to purchase Ordinary Shares which will or may be executed wholly or partly after the expiry of such Buyback Authority.

If, prior to such expiry: (a) the Company were to exercise the Buyback Authority in full (at 10% of the Company's issued share capital immediately following Admission); (b) the aggregate percentage beneficial shareholding of the Concert Parties immediately following Admission is approximately 51.9% of the issued share capital of the Company (on the basis of the shareholdings set out in paragraph 10.2 of this Part XIV (*Additional Information*)) and assuming that the Offer Price is at the mid-point of the Offer Price Range, the Offer Size is at the mid-point of the Offer Size Range and no exercise of the Over-allotment Option (and 45.3% if the Over-allotment Option is exercised in full, assuming that the Concert Parties do not sell any of their Ordinary Shares following expiry of their lock-up arrangements)); and (c) none of the Ordinary Shares which the Concert Parties hold are purchased by the Company under the Buyback Authority and no Ordinary Shares had been newly issued by the Company between the date of Admission and the date that the Buyback Authority is fully exercised, then the shareholding of the Concert Parties in the Company would increase to approximately 57.7% (assuming that the Offer Price is at the mid-point of the Offer Price Range, the Offer Size is at the mid-point of the Offer Size Range and no exercise of the Over-allotment Option (and approximately 50.4% if the Over-allotment Option is exercised in full and assuming that the Concert Parties do not sell any of their Ordinary Shares following expiry of their lock-up arrangements)). This increase would be less to the extent that (i) any of the Ordinary Shares of the Concert Parties are purchased by the Company; and (ii) as noted below, the Stabilising Manager had exercised the Over-allotment Option by acquiring further Ordinary Shares from the Concert Parties.

In respect of the period from Admission up to the conclusion of the annual general meeting of the Company to be held in 2015, the Takeover Panel has confirmed that notwithstanding Rule 37.1 of the City Code, this potential increase in the shareholding of the Concert Parties in the Company due to the above Buyback Authority will not require the Concert Parties to make a mandatory offer pursuant to Rule 9 of the City Code, and a whitewash resolution of the independent shareholders will not be necessary. This confirmation has been given on the basis that: (a) the Buyback Authority was passed on 17 February 2015, prior to the Company's re-registration as a public limited company and (b) the consequences of such a buyback have been fully disclosed in this document. However, following the close of the annual general meeting of the Company to be held in 2015, to the extent that authority for share buybacks may be sought in future, approval for a whitewash resolution will be sought from the Takeover Panel and from the independent shareholders of the Company at that time.

*(b) Stabilisation arrangements in connection with the Offer*

Under the stabilisation arrangements described in Part VI (*Details of the Offer*) of this Prospectus, the Stabilising Manager may borrow Ordinary Shares (representing in aggregate up to 15% of the total number of Offer Shares) from the Advent Shareholder under the terms of the Stock Lending Agreement for the purposes of satisfying over-allotments of Ordinary Shares. The Stabilising Manager will, within 30 calendar days of the date of the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange, re-deliver to the Advent Shareholder equivalent securities in respect of any borrowing it makes under the terms of the Stock Lending Agreement by transferring the same number of Ordinary Shares to the Advent Shareholder as the Stabilising Manager has borrowed from the Advent Shareholder. The Stabilising Manager may also utilise the Over-allotment Option to acquire Ordinary Shares representing in aggregate up to 15% of the total number of Offer Shares (prior to the utilisation of the Over-allotment Option) from the Advent Shareholder whereupon the Advent Shareholder will be obliged to transfer such Ordinary Shares to the Stabilising Manager.

As a result of the combined effect of lending Ordinary Shares pursuant to the Stock Lending Agreement and granting the Over-allotment Option, the Advent Shareholder's shareholding in the Company can only remain the same or decrease from what its shareholding would be if it were not party to any stabilisation arrangements. In particular, the Advent Shareholder's shareholding in the Company will return to its original level when the loan is repaid and then decrease if the Stabilising Manager acquires Ordinary Shares from it pursuant to utilisation of the Overallotment Option. The minimum and maximum percentages of the Advent Shareholder's shareholding in the Company following the operation of the stock lending and over-allotment arrangements are 42.9% and 49.5% respectively, assuming the Offer Price is at the mid-point of the Offer Price Range, the Offer Size is at the mid-point of the Offer Size Range and the numbers of Existing Ordinary Shares to be sold by each of the Selling Shareholders pursuant to the Offer are as set out in paragraph 10.2 of Part XIV (*Additional Information*).

The Takeover Panel has confirmed, on an *ex parte* basis, to the Company that no mandatory offer for the Company need be made as a result of any reduction and subsequent increase in the Concert Parties' shareholding in the Company as a result of the arrangements and transactions described above. In particular, the Takeover Panel has confirmed that, pursuant to Note 4 to the definition of "interests in securities" in, and Notes 17 and 18 to Rule 9.1 of, the City Code, the Concert Parties will not be treated as having disposed of an interest in any Ordinary Shares when they lends Ordinary Shares to the Stabilising Manager under the Stock Lending Agreement and will not therefore be treated as having increased their interest in Ordinary Shares upon the repayment of such loan.

An announcement will be made by the Company or by the Stabilising Manager on its behalf following utilisation of the Over-allotment Option, not later than one week after the end of the stabilisation period, and a further announcement will be made to record the movements that have taken place in the Concert Parties' shareholding in the Company consequent upon the arrangements referred to above.

## 9 Subsidiary undertakings

Following completion of the Reorganisation, the Company will remain the holding company of the Group, which will comprise the Company and its subsidiary undertakings named below, all of which, unless stated otherwise: (i) are incorporated in England and Wales; and (ii) are directly or indirectly 100% owned by the Company.

	Principal activity
Diamond Holdco 2 Limited*	Intermediate holding company
Diamond Holdco 3 Limited*	Intermediate holding company
Diamond Holdco 4 Limited*	Intermediate holding company
DFS Investments Limited*	Intermediate holding company
Diamond Holdco 6 Limited*	Intermediate holding company
Diamond Holdco 7 Limited	Intermediate holding company
Diamond Holdco 8 Limited*	Intermediate holding company
Diamond Holdco Limited*	Intermediate holding company
DFS Furniture Holdings plc	Intermediate holding company
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
Coin Retail Limited <sup>(1)</sup>	Intermediate holding company
Coin Furniture Limited <sup>(2)</sup>	Furniture retailer
The Sofa Workshop Limited	Furniture retailer

(1) Incorporated in Jersey

(2) Coin Retail Limited holds 100% of the voting shares but Aamir Ahmad, one of dwell's managers, holds 100% of the non-voting redeemable shares which have a capped economic return.

As at the date of this Prospectus, it is the Group's intention that, following completion of the Post-Admission Reorganisation and as part of the Group's entity rationalisation, the non-operating and/or dormant companies marked with an asterisk will be dissolved.

## 10 Interests of major Shareholders and Selling Shareholders

### 10.1 Major Shareholders

In so far as was known to the Company as at 22 February 2015 (the last practicable date prior to the publication of this Prospectus), certain of the Selling Shareholders were, and/or on Admission will be, directly or indirectly interested in 3% or more of the voting rights of the Company (being the threshold for notification of voting rights that will apply to the Company and Shareholders as of Admission pursuant to Chapter 5 of the Disclosure and Transparency Rules). Their expected interests both immediately prior to and immediately following Admission are disclosed in the table set out in paragraph 10.2 of this Part XIV (*Additional Information*) below.

## 10.2 Selling Shareholders

In addition to the New Ordinary Shares that will be issued by the Company pursuant to the Offer, Existing Ordinary Shares will be sold by the Selling Shareholders pursuant to the Offer. The Selling Shareholders are listed in the table below, together with the numbers of Ordinary Shares currently assumed to be sold by each of them respectively. The actual number of shares to be sold by each of them may vary depending on the Offer Size and will be set out in the Pricing Statement.

The interests in Ordinary Shares of the Selling Shareholders immediately prior to Admission and (on the basis of the numbers of Existing Ordinary Shares currently assumed to be sold by each of them) immediately following Admission are set out in the table below.

Selling Shareholder	Interests immediately prior to Admission <sup>(1)</sup>		Ordinary Shares expected to be sold pursuant to the Offer (assuming no exercise of the Over-allotment Option) <sup>(1)</sup>		Interests immediately following Admission (assuming no exercise of the Over-allotment Option) <sup>(1)</sup>		Interests immediately following Admission (assuming exercise in full of the Over-allotment Option) <sup>(1)</sup>	
	No.	% of total issued share capital	No.	% of holding	No.	% of total issued share capital	No.	% of total issued share capital
Advent Shareholder . . . . .	156,882,148	89.43%	52,480,509	33.45%	104,401,639	49.54%	90,492,456	42.94%
Richard Baker . . . . .	6,322,371	3.60%	1,264,474	20.00%	5,057,897	2.40%	5,057,897	2.40%
Ian Filby . . . . .	1,971,626	1.12%	591,487	30.00%	1,380,139	0.65%	1,380,139	0.65%
Bill Barnes <sup>(2)</sup> . . . . .	985,813	0.56%	295,743	30.00%	690,070	0.33%	690,070	0.33%
Jon Massey . . . . .	1,182,976	0.67%	354,892	30.00%	828,084	0.39%	828,084	0.39%
EBT <sup>(3)</sup> . . . . .	7,689,331	4.38%	2,306,783	30.00%	5,382,548	2.55%	5,382,548	2.55%
Ian MacGuffog . . . . .	395,625	0.23%	118,687	30.00%	276,938	0.13%	276,938	0.13%

(1) Assuming that the Offer Size is at the mid-point of the Offer Size Range and the Offer Price is at the mid-point of the Offer Price Range.

(2) Immediately prior to Admission, Bill Barnes is expected to also hold 63,092 Ordinary Shares through the EBT. It is assumed that 18,927 of these Ordinary Shares will be sold pursuant to the Offer, leaving Bill Barnes with 44,165 Ordinary Shares held through the EBT immediately following Admission. These numbers of Ordinary Shares are reflected in the EBT row of this table.

(3) Holding Ordinary Shares as nominee for certain Shareholders.

## 10.3 Other disclosures

As at 22 February 2015 (the last practicable date prior to the publication of this Prospectus) and immediately after Admission:

- save for the Advent Shareholder who (based on the assumption that the Selling Shareholders will sell their respective Existing Ordinary Shares pursuant to the Offer in the amounts set out in paragraph 10.2 of this Part XIV (*Additional Information*)) is expected to hold 49.5% of the Ordinary Shares following Admission)<sup>1</sup> and its associates (including the Advent Funds and the Advent Companies), the Company is not aware of any persons who, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company; and
- the Ordinary Shares will be the only class of share capital of the Company. All Shareholders (including the major Shareholders and Selling Shareholders) will have equal voting rights.

<sup>1</sup> Assuming that the Offer Size is at the mid-point of the Offer Size Range, the Offer Price is at the mid-point of the Offer Size Range and no exercise of the Over-Allotment Option.

## 11 Directors and Senior Managers

### 11.1 Other directorships and partnerships

The details of those companies and partnerships outside the Group of which the Directors and Senior Managers are currently directors or partners, or have been directors or partners at any time during the previous five years prior to the date of this Prospectus, are as follows:

Name	Position	Company/Partnership	Position still held (Y/N)
<b>Richard Baker</b> . .	Director	RA Baker Advisory Services Limited	Y
	Director	VA Manco Limited	N
	Chairman	Whitbread plc	Y
	Chairman	Virgin Active Limited	N
	Chairman of Global Advisory Council	Aimia Inc.	Y
	Non-Executive Director	Lawn Tennis Association	Y
	Member of Judge Business Advisory Board	Cambridge University	Y
<b>Ian Filby</b> . . . . .	Non-Executive Chairman	Shoezone plc	Y
	Director	IFF Life and Business Solutions Limited	Y
	Director	British Retail Consortium	Y
<b>Jon Massey</b> . . . .	Director	Delphi Properties Holdings Limited	N
	Director	Full Circle Future Limited	N
	Director	Delphi Properties Limited	N
<b>Bill Barnes</b> . . . .	Director	Delphi Properties Holdings Limited	N
	Director	Full Circle Future Limited	N
	Director	Delphi Properties Limited	N
<b>Luke Mayhew</b> . .	Non-Executive Director	InterContinental Hotel Group plc	Y
	Director	Children in Need Limited	Y
	Director	Brambles Ltd	N
	Chairman	British Retail Consortium	N
	Non-Executive Director	WH Smith plc	N
	Chairman	Pets at Home Group Ltd	N
	Director	lem.uk.net Ltd	N
	Director	Pets at Home Interco Limited	N
<b>Gwyn Burr</b> . . . .	Customer and Colleague Director	J. Sainsbury plc	N
	Non-Executive Director	Sainsbury Bank plc	Y
	Director	Sainsbury's Supermarkets Ltd	N
	Non-Executive Director	Financial Ombudsman Service	Y
	Independent Non-Executive Director	Metro AG	Y
	Independent Non-Executive Director	Hammerson plc	Y
	Independent Non-Executive Director	Just Eat Group plc	Y
	Independent Non-Executive Director	Wembley National Stadium Limited	Y
	Director	Incorporated Society of British Advertisers Limited	N

Name	Position	Company/Partnership	Position still held (Y/N)
Julie Southern	Non-Executive Director	Rentokil Initial Plc	Y
	Non-Executive Director	NXP Semiconductors N.V.	Y
	Director	Hilbre (UK) Ltd	Y
	Director	Greenart Limited	N
	Director	Openride Limited	N
	Director (Chief Financial Officer; Chief Commercial Officer)	Virgin Atlantic Airways Limited	N
	Trustee	Virgin Atlantic Pension Fund	N
	Director	N&J Properties Limited	Y
	Director	Virgair Limited	N
	Director	Virgin Airways Limited	N
	Director	Virgin Atlantic Consol Limited	N
	Director	S.L. Insurance Limited	N
	Director	Reynard Aviation Limited	N
	Director	Virgin Incoming Services, Inc.	N
	Director	Virgin Atlantic Engineering Limited	N
	Director	Campden Securities Limited	N
	Director	Check-In Holidays Limited	N
	Director	Fordbar Services Limited	N
	Director	Junopart Limited	N
	Director	Public Eye Promotions Limited	N
	Director	Speed 5024 Limited	N
	Director	Threesixty Aerospace Limited	N
	Director	VA Cargo Limited	N
	Director	Virgin Atlantic Two Limited	N
	Director	Virgin Aviation Services Limited	N
	Director	Virgin Freeway Limited	N
	Director	Virgin Holidays Limited	N
	Director	Virgin Travel Group Limited	N
	Director	Virglease (2) Limited	N
	Director	Virglease (3) Limited	N
	Director	Virglease Limited	N
	Director	Voyager Nominees Limited	N
	Director	Worldwide Travel of East Anglia Limited	N
	Director	Virgin Atlantic Foundation	N
	Director	Val Trademark Five Limited	N
	Director	Val Trademark Four Limited	N
	Director	Val Trademark Three Limited	N
	Director	Val Trademark Two Limited	N
	Director	Bug Leasing Limited	N
	Director	Fit Leasing Limited	N
	Director	Virgin Holidays Cruises Limited	N
	Director	Bales Worldwide Limited	N

The Directors and Senior Managers have no actual or potential conflicts of interest between any duties to the Company and their private interests and/or other duties, apart from:

- a) Andy Dawson (the “**Advent Director**”) who represents the Advent Shareholder (and is employed by one of its affiliates); and
- b) Richard Baker, who is an Operating Partner at Advent, an affiliate of the Advent Shareholder (and has been deemed its Concert Party). An Operating Partner does not have any equity or partnership interest in any of the Advent entities which manage or advise its funds, but may invest in the funds themselves. Acting as independent advisers, the Operating Partners, who are typically former chief operating or chief executive officers of major companies, work alongside Advent’s sector teams to make a significant contribution to the acquisition and development of portfolio companies through their industry knowledge, operational know-how, management experience, and contact networks. As in the case of DFS, Operating Partners are often appointed by Advent as chairmen or supervisory board members, and may also act as advisers to management teams. In these capacities they help to drive growth and support operational change, which contribute to the value creation plans of the companies in which Advent invests. Operating Partners receive a fee from Advent for the time spent in relation to each portfolio company in which they are involved and may also be entitled to an equity interest in such companies.

The Advent Shareholder and its affiliates (including the Advent Funds and the Advent Companies) may make acquisitions of or investments in other businesses in the same sectors as the Group. These businesses may be, or may become, competitors of the Group. In addition, funds or other entities managed or advised by Advent (or the same entities or individuals which manage or advise the Advent Funds) may be in competition with the Group on potential acquisitions of, or investments in, certain businesses. In each case, the Advent Director or Richard Baker may become a director of such businesses or otherwise become involved in their operations.

In addition, subject to or following the expiry of the lock-up undertakings, the Advent Shareholder could sell a substantial number of Ordinary Shares in the public market following the Offer. Such sales, or the perception that such sales could occur, may materially adversely affect the market price of the Ordinary Shares. This may make it more difficult for Shareholders to sell the Ordinary Shares at a time and price that they deem appropriate, and could also impede the Company’s ability to issue equity securities in the future. Although applicable law, the terms of the Advent Director’s appointment and the Relationship Agreement contain provisions seeking to restrict the Advent Director from voting on matters where there are conflicts of interest and from using information obtained in the course of his appointment, these and other measures may not be sufficient to safeguard the interests of other Shareholders. The Advent Director does not, and will on Admission not, have any holding of Ordinary Shares.

## 11.2 *Confirmations*

As at the date of this Prospectus, no Director or Senior Manager has during the last five years:

- (a) been convicted in relation to fraudulent offences;
- (b) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body of or senior manager of any company, other than Bill Barnes and John Massey who have been directors of:
  - (i) Delphi Properties Limited, which was in administration between 18 December 2013 and 28 November 2014 and is currently being dissolved;
  - (ii) Delphi Properties Holdings Limited, which was dissolved on 28 October 2014 following a voluntary strike off; and
  - (iii) Full Circle Future Limited, which was dissolved on 13 September 2014 following a members’ voluntary liquidation;
- (c) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities including, where relevant, designated professional bodies; or
- (d) been disqualified by a court from acting as a member of the administrative, management or supervisory body of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships between any of the Directors or Senior Managers.

### 11.3 Interests of Directors in the Ordinary Shares

The direct and indirect interests of the Directors and Senior Managers in the Ordinary Shares as they are assumed to exist immediately following Admission are set out in the table below. This table has been prepared on the following assumptions:

- that the Offer Price is at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range (and the Over-allotment Option is not exercised);
- that the number of Existing Ordinary Shares sold by each Selling Shareholder is as currently assumed and as set out in the table in paragraph 10.2 of this Part XIV (*Additional Information*) above; and
- that the Independent Non-executive Directors are allocated Ordinary Shares in the amounts for which they intend to apply.

A revised table, reflecting the actual Offer Size, the actual number of Ordinary Shares sold by each Selling Shareholder and the Ordinary Shares actually allocated to each Independent Non-Executive Director will be included in the Pricing Statement.

Director/Senior Manager <sup>(1)</sup>	Interests immediately following Admission	
	No.	% of total issued share capital
Richard Baker . . . . .	5,057,897	2.40%
Ian Filby . . . . .	1,380,139	0.65%
Bill Barnes . . . . .	734,235	0.35%
Gwyn Burr . . . . .	nil	0.00%
Luke Mayhew . . . . .	3,603	0.00%
Julie Southern . . . . .	3,603	0.00%
Andy Dawson . . . . .	nil	0.00%
Jon Massey . . . . .	828,084	0.39%
Keith Baker . . . . .	207,021	0.10%
Nicola Bancroft . . . . .	276,028	0.13%
Helen Normoyle . . . . .	414,042	0.20%
David Payling . . . . .	345,035	0.16%
Gary Pitchford . . . . .	345,035	0.16%
Tim Stacey . . . . .	414,042	0.20%
Andrew Stephenson . . . . .	207,021	0.10%
Andrew Trofimowicz . . . . .	345,035	0.16%
<b>Total</b> . . . . .	<b>10,560,820</b>	<b>5.01%</b>

- (1) The legal title to the Ordinary Shares held by each of the Senior Managers (other than Jon Massey and the Executive Directors) is expected to be held by the EBT as nominee while the beneficial title is expected to be held by the relevant Shareholder. Based on the current assumption of the number of Existing Ordinary Shares to be sold by him pursuant to the Offer (as set out in paragraph 10.2 of this Part XIV (*Additional Information*)), Bill Barnes will hold 44,165 of his Ordinary Shares through the EBT.

Each of the Independent Non-executive Directors has notified the Company that he/she intends to subscribe for Ordinary Shares at the Offer Price in the amounts set out in the table above. None of them owns any Ordinary Shares at the date of this Prospectus. To maintain their independence, the holding by the Independent Non-Executive Directors of Ordinary Shares is not subject to any restrictions other than those attaching to Ordinary Shares generally or as required by law.

The Directors hold no Ordinary Shares as at 22 February 2015 (being the latest practicable date prior to the date of this Prospectus). On the assumptions set out above and on the basis of the numbers of Existing Ordinary Shares currently assumed to be sold by each of them (as set out in paragraph 10.2 of this Part XIV (*Additional Information*)): (i) following the Reorganisation and immediately prior to Admission, the Directors will hold approximately 5.3% of the issued share capital of the Company; and (ii) immediately following Admission, the Directors will hold 3.4% of the issued share capital of the Company.

### 11.4 Transactions with Directors

None of the Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by any member of the Group during the

current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

None of the Directors has or has had a beneficial interest in any contract to which any member of the Group was a party during the current or immediately preceding financial year.

There are no outstanding loans or guarantees granted or provided by any member of the Group for the benefit of any of the Directors.

#### *11.5 Executive Directors' service agreements*

The Executive Directors have entered into service contracts with DFS Furniture Company on the following dates: Bill Barnes (Finance Director) on 6 July 2010 and Ian Filby (Chief Executive Officer) on 13 July 2010. The principal terms of these contracts are set out below:

##### *(a) General terms*

The annual salaries of the Executive Directors are to be reviewed, but not necessarily increased, annually. The Executive Directors will receive the following benefits under the terms of their service agreements:

- a contribution to a personal pension scheme;
- an annual bonus of up to 100% of basic salary upon the achievement of targets;
- reimbursement for the costs of home telephone line and business and personal calls;
- a fully-expensed company car (including fuel card);
- (subject to cover being available at reasonable market rates), directors and officers liability insurance; and
- entitlement to life assurance at the rate of four times annual salary and to participate in a private medical cover scheme (which includes cover for spouses and dependants).

##### *(b) Termination provisions*

The Executive Directors' service agreements can be terminated by not less than six months' prior written notice given by the Executive or by not less than 12 months' prior written notice given by the employer.

The Executive Directors may be placed on garden leave and their employment may be terminated by their employer making a payment in lieu of notice equal to the Executive Director's basic salary for the notice period and a pro rata bonus for the notional notice period. On termination of employment, the Executive Directors are also entitled to receive a pro-rata bonus for the year of termination.

The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances including where such Executive Director has committed any serious breach or repeated breach of any of the material terms of his service agreement, is guilty of any serious misconduct or wilful neglect in the discharge of his duties, is guilty of any fraud, dishonesty or other conduct which may bring him or the Group into disrepute, is declared bankrupt, is convicted of any criminal offence (excluding certain road traffic offences) which has a material impact on his duties, or is prohibited by law from acting as a director.

The service agreements of the Executive Directors also contain post-termination restrictions. These include 12-month restrictions on being employed by or concerned in the business of a competitor of the Group, interfering with the continuance of supplies to the Group by any of the Group's suppliers and a 12-month restriction on soliciting and/or employing certain categories of the Group's employees.

#### *11.6 Non-Executive Directors' appointment letters*

##### *(a) General terms*

The Non-Executive Directors have entered into letters of appointment which will become effective on Admission. Each of the Non-Executive Directors has been appointed for an initial term of three years, terminable by either the Non-Executive Director or the Company at any time on one month's prior written notice. The appointment of each Non-Executive Director is subject to annual re-election by the Shareholders at the Company's annual general meeting and to any requirements of the Listing Rules, and is contingent on continued satisfactory performance. If the Shareholders do not reappoint a Non-Executive

Director, or if the Non-Executive Director is retired from office in accordance with the Articles, then the Non-Executive Director's appointment shall terminate immediately without compensation.

A Non-Executive Director's appointment may be terminated with immediate effect if such director has materially breached a term of their appointment letter, committed a serious or repeated breach of his duties to the Company, been found guilty of fraud, dishonesty or certain criminal offences, acted in a way likely to bring the Company into disrepute or which is materially adverse to the Company, been declared bankrupt, been disqualified from acting as a director or failed to comply with the Bribery Act 2010.

Each Non-Executive Director has agreed to a commit such time to the Company as is necessary for the proper performance of his duties, and has been made aware that this is likely to include a specified number of days per year, and will normally include attendance at eight Board meetings per year and various other committee meetings. In addition, to promote their understanding of the Company, the Non-Executive Directors must make themselves available for not less than 10 days of induction training during their first year on the Board (save that Andy Dawson's appointment letter does not set a minimum number of such days). Each Non-Executive Director is also entitled to reimbursement of reasonable expenses. The Non-Executive Directors are not entitled to participate in the Company's share, bonus or pension schemes.

Pursuant to the UK Corporate Governance Code's recommendations, the Company has decided to take out directors and officers liability insurance in respect of certain legal action against its Directors. Subject to the provisions of Companies Act, the Company will also indemnify the Directors against certain liabilities that may be incurred as a result of their office.

(b) *Specific terms*

In addition to the general terms set out above, each Non-Executive Directors appointment is subject to the following specific terms:

<u>Name</u>	<u>Position(s)</u>	<u>Annual fee (£)</u>
Richard Baker . . . . .	Non-Executive Chairman	£210,000
Luke Mayhew . . . . .	Senior Independent Non-Executive Director	£50,000 plus £10,000 in respect of role as Senior Independent Non-Executive Director
Gwyn Burr . . . . .	Independent Non-Executive Director, Chairman of the Remuneration Committee	£50,000
Julie Southern . . . . .	Independent Non-Executive Director, Chairman of the Audit Committee	£50,000
Andy Dawson . . . . .	Non-Executive Director	nil

The fees listed above will be reviewed, but not necessarily increased, on an annual basis. On Admission, Luke Mayhew, Gwyn Burr and Julie Southern will also receive a payment (of £50,000, £25,000 and £20,000 respectively) in consideration of their advice and assistance in helping the Company securing Admission. Such payment will made by the Company: (a) allotting and issuing such number of Ordinary Shares as is equal to: (i) the payment, less any applicable deductions for tax and/or National Insurance contributions; divided by (ii) the Offer Price; and (b) as to the amount of the payment not satisfied by such allotment and issuance of Ordinary Shares, the Company paying such amount in cash.

### 11.7 Directors' remuneration

Under the terms of their service agreements, letters of appointment and applicable incentive plans, the remuneration and benefits paid to the Directors who served during Financial Year 2014 were as set out in the table below.

Name	Position	Basic salary or fees (£)	Discretionary bonus (£)	Benefits in kind (£)	Pension contribution (£)	Total (£)
Ian Filby . . . . .	CEO	£358,000	£149,000	£69,000	Nil <sup>(1)</sup>	£576,000
Bill Barnes . . . . .	Finance Director	£276,000	£132,000	£33,000	£40,000 <sup>(2)</sup>	£481,000
Richard Baker . . .	Non-Executive Chairman	£210,000	Nil	£ 1,000	Nil	£211,000

(1) Ian Filby has waived his entitlement to pension contributions from the Group and a charitable donation has been made as an alternative, which is included within "Benefits in kind".

(2) Paid as an allowance through payroll

### 11.8 Senior Managers' remuneration

Under the terms of their service agreements and applicable incentive plans, the aggregate remuneration and benefits to the Senior Managers (excluding the Executive Directors) who served during Financial Year 2014, was £2,615,000.

## 12 Partnership Scheme

### Overview

The Group and the Shareholders approved the Partnership Scheme in 2013. The Partnership Scheme provides that if the DFS business is sold prior to 31 July 2020, an amount equal to approximately 1% of the profits arising in connection with the sale will be allocated to eligible employees. The payments under the Scheme will be funded by Group shareholders from the proceeds of the sale of shares in connection with a sale of the Group and will have no impact on the Group's cash balances.

### Eligibility

All of DFS's employees who are not members of its current management equity plan will be eligible to participate in the Partnership Scheme, provided they were employed by DFS on or before 1 August 2013 and remain employed by the Group at the date on which the bonus awards are paid. The amount to be allocated to each eligible employee will be subject to certain additional conditions relating to length of service.

### Grant of award

The award is a non-contractual discretionary benefit and is subject to the Board's approval and an eligible employee having a satisfactory disciplinary and attendance record. The Partnership Scheme will terminate on the earlier of: (i) the sale of the DFS business; and (ii) 31 July 2020.

### Settlement

Admission will qualify as a sale of the DFS business for the purposes of the Partnership Scheme. The awards will be funded by Shareholders, but paid to eligible employees through the usual payroll process and will be subject to the normal PAYE and National Insurance deductions in place at the time of payment. The Partnership Scheme will terminate on Admission, but the rights of existing participants at that point will not be affected.

## 13 Share incentive schemes ("Share Incentive Schemes")

Paragraphs 13.1 to 13.4 below summarise the Share Incentive Schemes and the proposed awards thereunder which the Remuneration Committee intends to make awards shortly following Admission. Paragraphs 13.5 below describes the role of the EBT. The information provided in relation to the Share Incentive Schemes and the EBT in this Prospectus is provided as a summary only. In particular, it is not intended to be a substitute for the rules of the Share Incentive Schemes or the terms and conditions attaching to any option or award granted pursuant to these rules (together, the "Share Incentive Scheme

**Documents**”). In the event of any conflict, the terms of the Share Incentive Scheme Documents will prevail.

### 13.1 Long-term incentive plan (“LTIP”)

The Company approved and adopted the LTIP on 22 February 2015. The LTIP is a discretionary executive share plan. Under the LTIP, the Board may, within certain limits and subject to any applicable performance conditions, grant to eligible employees: (i) nil cost options over Ordinary Shares (“**LTIP Options**”); and/or (ii) conditional rights to acquire Ordinary Shares (“**LTIP Conditional Share Awards**” and, together with LTIP Options, “**LTIP Awards**”). The Board has discretion to satisfy any LTIP Award by making a payment of cash in lieu of Ordinary Shares.

It is proposed that LTIP Awards under the LTIP will be made to Executive Directors and Senior Managers shortly after Admission. The performance period for the first of these awards will run from the date of Admission until the financial year ending July 2017. The initial LTIP Awards made to Ian Filby, Bill Barnes and the remaining participants will be 130%, 100% and 50% of base salary respectively. The vesting of these initial LTIP Awards will be subject to two performance conditions. 50% of the LTIP Award will be dependent on the Company’s earnings per share growth and 50% will be dependent on total shareholder return relative to the FTSE 250.

All employees (including executive directors) of the Group are eligible for selection to participate in the LTIP at the discretion of the Board.

LTIP Awards may be granted during the period of 42 days from Admission and thereafter in each 42 day period from: (i) the announcement of the Company’s financial results for any period; or (ii) the occurrence of exceptional circumstances which, at the discretion of the Board, justify the grant of LTIP Awards, subject in each case to any applicable dealing restrictions.

The number of Ordinary Shares over which (or in respect of which) LTIP Awards may be granted on any date shall be limited so that the total number of Ordinary Shares allocated in respect of awards granted in any ten year period under the LTIP and any other employee share plan of the Company is restricted to 10% of the Company’s issued Ordinary Shares, or to 5% if granted under the LTIP and any other discretionary employee share plan of the Company.

The maximum value of Ordinary Shares over which LTIP Awards may be granted to any participant in any financial year of the Company will not normally exceed 150% of his annual base salary, unless exceptional circumstances arise in which the Board exercises its discretion to extend this limit to 300%.

Other than the initial awards (as detailed above), LTIP Awards will generally vest on the third anniversary of the date of grant, or such other longer period as determined by the Board. Vesting of LTIP Awards will be conditional on the achievement of appropriate performance conditions as determined by the Board, and subject to the participant’s continued employment at the time of vesting.

An LTIP Award will generally lapse immediately upon termination of the participant’s office or employment with any member of the Group. However, if such termination is the result of death, ill health, injury, disability, the employing entity ceasing to be a member of the Group (or the transfer of the employer undertaking or part thereof to a person who is not a member of the Group) or for any other reason determined by the Board (save where the participant has been summarily dismissed), unvested LTIP Awards will continue until the normal vesting date, unless the Board determines otherwise. However, the number of Ordinary Shares in respect of which the LTIP Award vests will, unless the Board exercises its discretion, be reduced on a *pro rata* basis to take account of both the period of time between the relevant grant date and the date of termination of office or employment and the extent to which any performance condition has been satisfied.

If a change of control is anticipated (including as the result of a general offer or court-sanctioned compromise or arrangement), vesting of the LTIP Awards will be accelerated. However, the number of Ordinary Shares in respect of which the LTIP Award vests will, unless the Board exercises its discretion, be reduced on a *pro rata* basis to take account of both the period of time between the relevant grant date and the relevant corporate event and the extent to which any performance condition has been satisfied. Notwithstanding the foregoing, and subject to the Board’s discretion, LTIP Awards will lapse immediately in the case of any “squeeze out” pursuant to section 979 of the Companies Act or upon the effective date (as distinguished from sanctioning) of any scheme of arrangement. Where appropriate, and with the consent of any acquiring company, participants may be required or allowed to exchange LTIP Awards for

equivalent awards over shares in the acquiring company. The Board also has discretion to determine the extent to which LTIP Awards will vest upon the occurrence of any voluntary winding-up, demerger, delisting, special dividend or other similar event, taking into account the extent to which any performance condition has been satisfied.

The LTIP includes malus provisions so that the Board may, in certain circumstances including, but not limited to, the participant's underperformance and material brand or reputational damage to any member of the Group, reduce, cancel or impose further conditions on an LTIP Award. In cases involving material misstatement of financial results or the participant's gross misconduct or fraud, the Board may also claw back Ordinary Shares comprised in any subsisting or future LTIP Award, or require the participant to make a cash payment in respect of an LTIP Award already issued, transferred or paid.

### 13.2 Restricted Share Plan ("**RSP**")

The Company also approved and adopted the RSP on 22 February 2015, pursuant to which the Board may grant to eligible employees: (i) nil cost options over Ordinary Shares; and/or (ii) conditional rights to acquire Ordinary Shares (together, "**RSP Awards**"). The terms of the RSP are identical to those of the LTIP, except that RSP Awards will not be subject to any performance conditions and the individual participation limit for any financial year is subject to a lower (50%) limit.

It is proposed that RSP Awards under the RSP will be made to key employees shortly after Admission. The initial awards will be a maximum of 15% of base salary. The Company intends for further awards to be made annually in November, following the announcement of the Group's annual financial results. These awards will normally be subject to a three-year vesting period. Executive Directors will not participate in the RSP.

### 13.3 Save As You Earn ("**SAYE**") Option Scheme ("**SAYE Scheme**")

The Company approved the SAYE Scheme on 22 February 2015, which will be self-certified to comply with the requirements of Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 ("**Schedule 3**" and "**ITEPA**") and registered with HMRC following Admission. The SAYE Scheme is a tax-advantaged option scheme. Under the SAYE Scheme, all employees and full-time directors of any member of the Group who meet the qualifying criteria set out in Schedule 3 will be invited to apply for options over Shares ("**SAYE Options**") in conjunction with entry into a savings contract (for a term of three or five years, as determined by the Board) pursuant to which the employee commits to making minimum monthly contributions to the savings arrangement and, at the end of the relevant savings period, uses those contributions to fund the exercise of the SAYE Options (if the employee so chooses). The Company intends for invitations to extended to all eligible employees to apply for SAYE Options (through the acquisition of options to subscribe for Ordinary Shares in three years' time) following Admission but after the announcements of its next annual financial results.

Participation may also be offered, at the discretion of the Board, to any individual who is not a UK-resident taxpayer but who otherwise satisfies all of the Schedule 3 criteria.

Invitations to participate in the SAYE Scheme may be made during the period of 42 days from the date on which the SAYE Scheme is approved by the Company's shareholders and thereafter in each 42 day period from: (i) the announcement of the Company's financial results for any period; or (ii) the occurrence of exceptional circumstances which, at the discretion of the Board, justify the issuance of invitations, subject in each case to any applicable dealing restrictions.

The number of Ordinary Shares over which SAYE Options may be granted on any date shall be limited so that the total number of Ordinary Shares allocated in respect of awards granted in any ten year period under the SAYE Scheme and any other employee share plan of the Company is restricted to 10% of the Company's issued Ordinary Shares.

SAYE Options will generally be exercisable during a period of six months following the maturity date of the related savings contract (a "bonus date") for an exercise price which will not, subject to any variation of share capital, be less than 80% of the market value of an Ordinary Share on the date on which the relevant optionholder was invited to apply for his SAYE Options.

SAYE Options will generally lapse six months after the relevant bonus date, or (if earlier) upon termination of the optionholder's office or employment. However, should the optionholder's office or employment terminate as the result of death, injury, disability, redundancy, retirement, certain transfers of

the relevant employer entity or in circumstances where the optionholder has held his SAYE Options for more than three years on the relevant termination date, early exercise may be permitted during the period specified in the SAYE Scheme. Early exercise will also be permitted in the event of a voluntary winding-up, general offer, court-sanctioned scheme of arrangement, non-UK reorganisation (as defined in Schedule 3) or where a person becomes bound or entitled to acquire Shares under sections 979 to 985 of the Companies Act 2006, following which SAYE Options will lapse if not exercised within the period specified in the SAYE Scheme. Notwithstanding the foregoing, an optionholder may, by agreement with any acquiring company following a change of control, exchange his SAYE Options for equivalent options over shares in the acquiring company.

#### 13.4 Share Incentive Plan (“SIP”)

The Company approved the SIP on 22 February 2015, which will be self-certified to comply with the requirements of Schedule 2 to ITEPA (“**Schedule 2**”) and registered with HMRC following Admission. The SIP is a tax-advantaged share ownership plan. All Ordinary Shares obtained under the SIP must initially be held in a UK resident employee benefit trust (“**SIP Trust**”). All employees and full-time directors of any member of the Group who meet the qualifying criteria set out in Schedule 2 must be invited to participate in the SIP.

Participation may also be offered, at the discretion of the Board, to any individual who is not a UK-resident taxpayer but who otherwise satisfies all of the Schedule 2 criteria.

Invitations to participate in the SIP may be made during the period of 42 days from the date on which the SIP is approved by the Company’s shareholders and thereafter in each 42 day period from (i) the announcement of the Company’s financial results for any period, or (ii) the occurrence of exceptional circumstances which, at the discretion of the Board, justify the issuance of invitations, subject in each case to any applicable dealing restrictions.

The number of Ordinary Shares which may be allocated to satisfy awards under the SIP on any date of grant shall be limited so that the total number of Ordinary Shares allocated in respect of awards granted in any 10-year period under the SIP and any other employee share plan of the Company is restricted to 10% of the Company’s issued Ordinary Shares.

Under the terms of the SIP, the Board has discretion to award:

- “Free Shares” up to an annual maximum of £3,600 per year, the value or number of which may be set by reference to remuneration, length of service or hours worked and/or by reference to performance targets;
- “Partnership Shares” up to an annual maximum of the lesser of £1,800 or 10% of the participant’s salary, to be funded by deductions from the participant’s salary of the relevant partnership share money;
- “Matching Shares” in respect of any Partnership Shares acquired, which must be of the same class and carry the same rights as the Partnership Shares to which they relate and are subject to a maximum ratio of two Matching Shares per Partnership Share; and
- “Dividend Shares”, the acquisition of which may be funded through the application of some or all of the cash dividends received in respect of other Ordinary Shares held by the participant. Dividend Shares must be of the same class and carry the same rights as the Ordinary Shares in respect of which the dividend is paid.

Free Shares and Matching Shares may be forfeited if a participant’s employment with the Group terminates within three years of such award(s) other than by reason of death, injury, disability, redundancy, retirement or the transfer of the business or company in which he holds his employment. The Company intends that following Admission but after the announcements of its next annual financial results, it will invite all of the Group’s eligible employees to acquire Partnership Shares, on which the Company will award Matching Shares on a 1:1 basis.

#### 13.5 Employee Benefit Trust

The EBT was established by the Group as a discretionary employee benefit trust. The EBT can be used to benefit employees and former employees of the Group and certain of their dependents. The Group has the power to appoint and remove the trustee. The trustee of the EBT has the power to acquire Ordinary Shares, which may be used for the purposes of the Share Incentive Schemes or other employee share plans

established by the Group from time to time. The EBT will be funded by way of loans and other contributions by the Company (or any member of the Group). The EBT is acting as nominee for certain Shareholders (including certain Selling Shareholders) in respect of Ordinary Shares relating to pre-Admission management equity incentive arrangements.

#### **14 Pensions**

The Group operates a defined contribution group personal pension scheme with Aegon (for employees employed in the UK) and Zurich (for employees employed in the Republic of Ireland) to which the Group makes contributions.

Contributions are based on the scheme's eligibility terms and individual employees' contractual terms (where applicable). Group contributions are subject to a minimum of 2% of basic salary/notional basic salary while employees' contributions are subject to a minimum of 1% of basic salary/notional basic salary. There are currently approximately 3,200 active members of these pension schemes.

The Group does not currently operate any pension schemes for its employees in the Netherlands or for dwell and Sofa Workshop staff.

The Directors believe the Group has taken necessary measures to be in compliance with regulations requiring it to automatically enrol their employees into a pension plan and pay a certain minimum level of contributions to the pension plan on behalf of all employees enrolled.

#### **15 Significant change**

There has been no significant change in the Group's financial or trading position since 1 November 2014, being the date to which the consolidated historical financial information in Part XI (*Historical financial information*) was prepared.

#### **16 Litigation and disputes**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Company's and/or Group's financial position or profitability.

#### **17 Material contracts**

Set out below is a summary of: (i) each material contract (other than a contract in the ordinary course of business) to which the Company is a party which has been entered into within the two years immediately preceding the date of this Prospectus; and (ii) any other contract (other than a contract in the ordinary course of business) entered into by any member of the Group which contains a provision under which any member of the Group has any obligation or entitlement which is material to the Company and/or the Group as at the date of this Prospectus.

##### *17.1 Underwriting Agreement*

###### *(a) Underwriting and allocation of the Offer Shares*

The Company, the Directors, the Advent Shareholder, the EBT, the Directors and the Underwriters have entered into the Underwriting Agreement dated the date of this Prospectus pursuant to which, on the terms and subject to the conditions contained therein (which are customary in agreements of this nature):

- (a) the Company has agreed, subject to certain conditions, to allot and issue, at the Offer Price, the New Ordinary Shares to be issued in connection with the Offer;
- (b) the Selling Shareholders (with the EBT acting as nominee for certain of them in respect of their holdings of Ordinary Shares) have agreed, subject to certain conditions, to sell the Existing Ordinary Shares in the Offer at the Offer Price; and
- (c) the Underwriters have severally agreed, subject to certain conditions, to procure subscribers or, failing which, themselves to subscribe for the New Ordinary Shares (in such proportions as will be set out in the Underwriting Agreement) and to procure purchasers for or, failing which, to purchase themselves Existing Ordinary Shares pursuant to the Offer.

Allocations of the Offer Shares among prospective investors will be determined by the Joint Bookrunners in consultation with the Company and the Advent Shareholder. All Offer Shares to be issued or sold under the Offer, and all Over-allotment Shares that may be sold under the Over-allotment Option, will be issued or sold at the Offer Price.

*(b) Conditions*

The Offer is conditional upon, among other things, Admission occurring not later than 8.00 a.m. on 11 March 2015 (or such later date and time, not being later than 8.00 a.m. on 31 March 2015, as the Joint Global Co-ordinators may agree with the Advent Shareholder and the Company) and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms. The underwriting commitment of each Underwriter will cease to be conditional at the point of Admission. If the conditions to the Underwriting Agreement have not been satisfied, or if each Underwriter otherwise ceases to underwrite its portion of the Offer in accordance with the terms of the Underwriting Agreement, Admission will not occur.

*(c) Termination*

The Underwriting Agreement can be terminated at any time prior to Admission in certain customary circumstances set out in the Underwriting Agreement. If these termination rights are exercised by each Underwriter, the Offer will lapse and any monies received in respect of the Offer will be returned to applicants without interest.

*(d) Commissions, expenses and taxes*

The Underwriting Agreement provides for the Underwriters to be paid a commission by the Company in respect of the New Ordinary Shares underwritten, the Selling Shareholders in respect of the Existing Ordinary Shares sold by them pursuant to the Offer and the Advent Shareholder in respect of any Over-allotment Shares sold by it following exercise of the Over-allotment Option. The aggregate commission will be equal to 1.75% of the Offer Price, multiplied by the aggregate number of such shares. The Company and the Selling Shareholders may also, at their absolute discretion, pay an additional commission equal to up to 1.25% of the Offer Price multiplied by the aggregate number of such shares (including following exercise of the Over-allotment Option), the amount of which will be paid within 90 days of Admission. Any commissions received by the Underwriters may be retained and any Ordinary Shares acquired by them as Underwriters may be retained or dealt in, by them, for their own benefit.

The Company has agreed to pay or cause to be paid (together with any applicable irrecoverable amounts in respect of VAT) certain costs, charges, fees and expenses of or arising in connection with or incidental to, the Offer. The Selling Shareholders have agreed to pay or cause to be paid (subject to certain limitations) any stamp duty and/or SDRT accruing on sales of their Existing Ordinary Shares pursuant to the Offer. The Advent Shareholder has agreed to pay or cause to be paid (subject to certain limitations) any stamp duty and/or SDRT accruing on sales of the Over-allotment Shares pursuant to the Offer or on transfers of Existing Ordinary Shares under the Stock Lending Agreement.

*(e) Representations, warranties, undertakings and indemnities*

The Company, the Directors, the Advent Shareholder and the EBT (acting as nominee for certain Selling Shareholders in respect of their Ordinary Shares) have each given customary representations, warranties and undertakings to the Underwriters, and the Company and the Advent Shareholder have given certain indemnities to the Underwriters. The liability of the Company is unlimited as to amount and time. The liabilities of the Directors and the Advent Shareholder (and other Selling Shareholders) are limited as to amount and time.

*(f) Over-allotment Option*

The Advent Shareholder has granted the Over-allotment Option to the Stabilising Manager, pursuant to which the Stabilising Manager may require the Advent Shareholder to transfer at the Offer Price additional Ordinary Shares representing up to 15% of the total number of Ordinary Shares comprised in the Offer, to allow it to cover short positions arising from over-allotments and/or stabilising transactions. The Over-allotment Option may be exercised in whole or in part, upon notice by the Stabilising Manager, at any time during the period from the date of the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange and ending 30 days thereafter. The Over-allotment Shares made

available pursuant to the Over-allotment Option will be sold on the same terms and conditions as, and will rank equally with, the other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission and will form a single class for all purposes with the other Ordinary Shares.

*(g) Lock-up arrangements*

Each of the Advent Shareholder, the other Selling Shareholders, the Directors and the Senior Managers has agreed to certain lock-up arrangements in respect of the Ordinary Shares they hold immediately following Admission.

The Advent Shareholder has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators, sell or contract to sell, grant any option over or otherwise dispose of any such Ordinary Shares (or any interest therein), or enter into any transaction with the same economic effect as any of the foregoing.

The Directors, Senior Managers and Selling Shareholders (other than the Advent Shareholder) have agreed that, subject to certain customary exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Joint Global Co-ordinators, sell or contract to sell, grant any option over or otherwise dispose of any such Ordinary Shares (or any interest therein) or enter into any transaction with the same economic effect as any of the foregoing.

The Company has agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators, issue or contract to issue, or grant any option or other subscription right over, any new Ordinary Shares.

*17.2 Relationship Agreement*

On 23 February 2015, the Company, the Advent Shareholder and Richard Baker (the Chairman) entered into the Relationship Agreement, which will take effect from Admission.

The Relationship Agreement regulates the continuing relationship between the Advent Shareholder, the Chairman, the Advent Companies, the Advent Funds (and its and their respective associates) and the Company following Admission. This agreement also imposes obligations on the Advent Shareholder to procure compliance by the Advent Companies and the Advent Funds, who are controlling shareholders of the Company for the purpose of the Listing Rules. In particular, the Advent Shareholder shall, and shall procure that the Advent Companies (including the general partners of the Advent Funds) and its and their respective associates shall, and shall use reasonable endeavours to procure that any Advent Director shall:

- (a) ensure that the Company carries on an independent business as its main activity, and not take any action which precludes or inhibits any member of the Group from carrying on its business independently of the Advent Shareholder and its associates;
- (b) conduct all transactions and arrangements between the Advent Shareholder, the Chairman, the Advent Companies, the Advent Funds and any of its or their associates and the Group at arm's length and on normal commercial terms;
- (c) take no action which would have the effect of preventing the Company from complying with its obligations under the Listing Rules, and not propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules;
- (d) not exercise its voting rights to procure any amendment to the Articles which would be inconsistent with or breach the provisions of the Relationship Agreement, in particular the principle of independence; and
- (e) so far as it is able exercise or procure the exercise of its voting rights in such a way that the provisions of the UK Corporate Governance Code are upheld, save as agreed otherwise by a majority of the Independent Non-Executive Directors.

The Chairman is subject to the same terms and shall procure that his associates comply with such terms.

The Relationship Agreement grants the Advent Shareholder the right:

- (a) to nominate one person as a Director for so long as the Advent Shareholder and its associates collectively hold, in the aggregate, a Minimum Interest;

- (b) subject to compliance by the Company with its legal and regulatory obligations, to receive such financial or other information as is necessary or reasonably required for its accounting or financial control requirements or to comply with its legal or tax obligations; and
- (c) to the Company's assistance in relation to any proposed disposal of its Ordinary Shares (such assistance to be provided at the Advent Shareholder's expense).

If a matter gives rise to a conflict of interest between any member of the Group and the Advent Shareholder or any of its associates, the Advent Director may not vote in relation to that matter. The Advent Director may, and shall if required by a majority of the Independent Non-Executive Directors present at the meeting, remove himself from any board or committee meeting during which any conflict of interest is discussed. The Advent Director may elect not to receive, and shall not receive if so required by a majority of the Independent Non-Executive Directors, any related board papers.

If the Advent Shareholder ceases to be entitled to appoint an Advent Director as a result of the Ordinary Shares held by the Advent Shareholder and by its Associates no longer representing, in the aggregate, a Minimum Interest, then the Shareholder shall procure that the Advent Director resigns forthwith without seeking compensation for loss of office and waiving all claims that the Nominee Director may have against the Company in connection thereto.

The Company has agreed:

- (a) not to undertake any transaction in Ordinary Shares which may reasonably be expected to give rise to any obligation for the Advent Shareholder (and/or its Concert Parties) to make a general offer in accordance with Rule 9 of the City Code unless the Company has first obtained a waiver of Rule 9 in accordance with Appendix 1 to the City Code, or otherwise obtained the necessary waivers or consents from the Takeover Panel, to prevent such obligation from applying; and
- (b) for so long as the Advent Shareholder (and/or its Concert Parties) holds in aggregate an interest in 30% or more of the aggregate voting rights in the Company and subject (where necessary) to the prior consent of the Takeover Panel, to procure that at the first annual general meeting of the Company and thereafter annually, to propose to its independent shareholders a resolution to waive, in accordance with Appendix 1 to the City Code, all obligations of the Advent Shareholder (and/or its concert parties) to make a general offer for Ordinary Shares in accordance with Rule 9 of the City Code that may otherwise arise as a result of the Company purchasing or effecting any other transaction in relation to Ordinary Shares or related securities.

The Relationship Agreement will terminate on the earlier of:

- (a) the Ordinary Shares ceasing to be admitted to the premium listing segment of the Official List and/or to trading on the London Stock Exchange; or
- (b) the Advent Shareholder (together with any of its associates) ceasing to own or control (directly or indirectly) 15% or more of the aggregate voting rights in the Company.

In addition, the Relationship Agreement will terminate in respect of the Chairman only if he disposes of all his Ordinary Shares.

The Directors believe that the terms of the Relationship Agreement, together with the provisions of the Listing Rules relating to "related party transactions" and the provisions of the Companies Act and the Articles relating to conflicts of interest, will enable the Company to carry on an independent business as its main activity, and ensure that all transactions and relationships between the Company and the Advent Shareholder and its associates (including the Advent Companies) are, and will be, at arm's length and on a normal commercial basis. The Company must attest to its compliance with the independence provisions of the Relationship Agreement in each future annual report (or explain any non-compliance) and must notify the FCA of any breach by the Company of the requirements.

### 17.3 Notes

#### *Overview*

On 8 March 2013 DFS Furniture Holdings issued the Notes, all of which remain outstanding as of the date of this Prospectus but are expected to be redeemed following Admission.

### *Interest rate*

The Fixed Rate Notes accrue interest on the outstanding principal amount at a per annum rate of 7.625% and mature on 15 August 2018. Interest on the Fixed Rate Notes is payable semi-annually in arrears on 15 March and 15 September of each year, and the initial interest payment was made on 15 September 2013. Interest on the Fixed Rate Notes accrues from the issue date of such notes.

The Floating Rate Notes accrue interest on the outstanding principal amount at a per annum rate equal to three-month GBP LIBOR plus 6%, reset quarterly and mature on 15 August 2018. Interest on the Floating Rate Notes is payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December of each year, and the initial interest payment was made on 15 June 2013. Interest on the Floating Rate Notes accrues from the issue date of such notes.

### *Prepayments and Redemptions*

The Fixed Rate Notes may be redeemed in whole or in part on or after 1 March 2015, at established redemption prices plus accrued and unpaid interest to the redemption date. Prior to 1 March 2015, the Fixed Rate Notes may be redeemed in whole or in part at a price equal to 100% of the principal amount of the Fixed Rate Notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. At any time prior to 1 March 2015, DFS Furniture Holdings may also redeem up to 35% of the aggregate principal amount of the Fixed Rate Notes originally issued with the net proceeds of certain equity offerings.

The Floating Rate Notes may be redeemed in whole or in part on or after 1 March 2014, at established redemption prices plus accrued and unpaid interest to the redemption date. Prior to 1 March 2014, the Floating Rate Notes may be redeemed in whole or in part at a price equal to 100% of the principal amount of the Floating Rate Notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium.

In the event of certain developments affecting taxation or certain other circumstances, the Notes may also be redeemed in whole, but not in part, at any time, at a redemption price of 100% of the principal amount of the Notes plus accrued and unpaid interest and additional amounts to the date of redemption.

Upon the occurrence of certain events defined as constituting a “Change of Control” (as such term is defined in the indenture governing the Notes), DFS Furniture Holdings is required to offer to repurchase the Notes at 101% of their principal amount, plus accrued and unpaid interest to the date of purchase. A specified change of control event will not be deemed to have occurred if certain consolidated leverage ratios are not exceeded as a result of such event.

### *Security and Guarantees*

The Notes are guaranteed (the “**Guarantees**”) on a senior basis by DFS Furniture Company and DFS Trading Limited (each a “**Guarantor**” and together, the “**Guarantors**”).

The Notes and the Guarantees are secured on a first priority basis over the capital stock and substantially all of the assets (subject to certain exceptions) of DFS Furniture Holdings and the Guarantors (the “**Collateral**”).

### *Ranking*

The Notes:

- are general obligations of DFS Furniture Holdings;
- are secured by first-ranking security interests in the Collateral;
- are effectively subordinated to any existing and future debt of DFS Furniture Holdings that is secured by property or assets that do not secure the Notes, to the extent of the value of the property and assets securing such debt;
- rank *pari passu* in right of payment with all existing and future debt of DFS Furniture Holdings that is not subordinated in right of payment to the Notes, including debt incurred under the Revolving Credit Facility;
- rank senior in right of payment to all existing and future debt of DFS Furniture Holdings that is subordinated in right of payment to the Notes;

- are guaranteed by the Guarantors; and
- are effectively subordinated to all obligations of DFS Furniture Holdings' subsidiaries that are not Guarantors.

The Guarantee to be provided by each Guarantor:

- is a general obligation of that Guarantor;
- is secured by first-ranking security interests in the Collateral;
- is effectively subordinated to any existing and future debt of such Guarantor that is secured by property or assets that do not secure such Guarantee, to the extent of the value of the property and assets securing such debt;
- ranks *pari passu* in right of payment with all existing and future debt of such Guarantor that is not subordinated in right of payment to such Guarantee, including its obligations under the Revolving Credit Facility; and
- ranks senior in right of payment to all existing and future debt of such Guarantor that is subordinated in right of payment to such Guarantee.

#### *Certain covenants and events of default*

The indenture governing the Notes contains a number of covenants that, among other things, restricts, subject to certain exceptions, the ability of DFS Furniture Holdings and its restricted subsidiaries to:

- incur more debt;
- pay dividends, repurchase stock and make distributions and certain other payments and investments;
- create liens;
- enter into transactions with affiliates;
- transfer or sell assets;
- impair security interests;
- provide guarantees of other debt;
- agree to restrictions on dividends by subsidiaries; and
- merge or consolidate.

Each of these covenants is subject to significant exceptions and qualifications.

In addition, the indenture governing the Notes imposes certain requirements as to future subsidiary guarantors. The indenture governing the Notes also contains certain customary events of default. Further, the Notes are subject to the provisions of the Intercreditor Agreement (as defined in paragraph 17.5 of this Part XIV (*Additional Information*) below).

#### *17.4 Existing RCF*

On 22 July 2010, DFS Furniture Holdings (as Parent), DFS Trading Limited and DFS Furniture Company (each as Original Borrowers) entered into the Existing RCF which provides for a £30.0 million multi-currency revolving facility to the Original Borrowers. This is currently undrawn (and has never been drawn) and is due to be cancelled in full following Admission.

#### *17.5 Intercreditor Agreement*

In connection with the Existing RCF and the Notes, on 29 July 2010 (and as amended and restated on 8 March 2013), DFS Furniture Holdings (as Parent, Note Issuer and an Original Debtor), DFS Trading Limited (as an Original Debtor) and DFS Furniture Company (as Original Intra-Group Lender and an Original Debtor) entered into an intercreditor agreement with, amongst others, Lloyds TSBC Bank plc (as Original Hedge Counterparty, RCF Agent and the Security Agent) and Deutsche Bank AG, London Branch (as Senior Note Trustee) (the “**Intercreditor Agreement**”). The Intercreditor Agreement, amongst other things, subordinated the intra-group liabilities and certain shareholder debt to the liabilities arising under the Notes, the Existing RCF and hedging entered into in connection with the foregoing. The

Intercreditor Agreement will cease to be of any further effect once the Notes and Existing RCF are respectively redeemed and cancelled following Admission.

#### 17.6 New Senior Facilities Agreement

See paragraph 8.5 of Part X (*Operating and Financial Review*) for a description of the New Senior Facilities Agreement.

#### 17.7 Reorganisation Agreement and put and call agreements

On 23 February 2015, the Company, certain Advent Companies, certain members of the Group and the legal and beneficial holders of shares in DFS Investments Limited (including, without limitation, the Advent Shareholder, the Executive Directors, the Senior Managers and the EBT) entered into a reorganisation agreement and a series of put and call agreements. Pursuant to these agreements (and the other agreements and documents referred to therein), those parts of the Reorganisation which are to take effect prior to Admission (as described in paragraph 5 (*Reorganisation*) of this Part XIV (*Additional information*)) will be consummated prior to Admission.

#### 17.8 Acquisition of Sofa Workshop

On 17 October 2013, Diamond Holdco 7 Limited purchased Sofa Workshop from its management team for aggregate consideration of £5.9 million satisfied partly in cash (which was rolled over into shares in DFS Investments Limited in the case of Ian MacGuffog, one of the sellers) and, in the case of the two other managers, partly in deferred 8% unsecured loan notes issued by Diamond Holdco 7 Limited in the amount of £2.0 million.

### 18 Related party transactions

Between 1 August 2010 and the date of this Prospectus, no member of the Group entered into any related party transactions other than:

- (a) as disclosed in note 23 to the consolidated historical financial information set out in Part XI (*Historical financial information*); and
- (b) the Relationship Agreement described in paragraph 17.2 of this Part XIV (*Additional Information*) above.

### 19 Working capital statement

The Company is of the opinion that, taking into account the net proceeds of the Offer receivable by the Company and the facilities available to the Group, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of the publication of this Prospectus.

### 20 Property and environment

The Group's business operates the following properties:

<u>Location</u>	<u>Approximate store gross area in square feet (retail, warehouse, office and amenity space)</u>	<u>Title</u>
<b>DFS-branded stores</b>		
Aberdeen . . . . .	23,000	Leasehold
Aintree . . . . .	16,000	Leasehold
Ayr . . . . .	10,000	Leasehold
Banbury . . . . .	20,000	Leasehold
Basildon . . . . .	25,000	Leasehold
Basingstoke . . . . .	15,000	Leasehold
Beckton . . . . .	15,000	Leasehold
Belfast . . . . .	29,000	Leasehold
Birmingham . . . . .	23,000	Leasehold
Birstall . . . . .	20,000	Leasehold
Bolton . . . . .	20,000	Leasehold
Bradford . . . . .	22,000	Leasehold

Location	Approximate store gross area in square feet (retail, warehouse, office and amenity space)	Title
Brent Cross	20,000	Leasehold
Brentford	24,000	Leasehold
Brigg	21,000	Leasehold
Bristol	21,000	Leasehold
Bury St Edmunds	23,000	Leasehold
Cambridge	20,000	Leasehold
Cannock	17,000	Leasehold
Carcroft	34,000	Leasehold
Cardiff	20,000	Leasehold
Carlisle (excludes sub-let unit)	22,000	Leasehold
Carrickmines (Dublin, Republic of Ireland)	10,000	Leasehold
Cheltenham	20,000	Leasehold
Chester	21,000	Leasehold
Colchester	21,000	Leasehold
Colne	20,000	Leasehold
Cork (Republic of Ireland)	18,000	Leasehold
Coventry	20,000	Leasehold
Croydon	32,000	Leasehold
Cruquius (Netherlands)	30,000	Leasehold
Darley Dale	34,000	Leasehold
Darlington	20,000	Leasehold
Derby	20,000	Leasehold
Droitwich	20,000	Leasehold
Dublin (Republic of Ireland)	21,000	Leasehold
Dudley	17,000	Leasehold
Dundee	15,000	Leasehold
Eastbourne	12,000	Leasehold
Edinburgh (excludes sub-let space)	30,000	Leasehold
Enfield	23,000	Leasehold
Exeter	20,000	Leasehold
Farnborough	19,000	Leasehold
Gateshead (excludes sub-let space)	21,000	Leasehold
Glasgow	39,000	Leasehold
Grantham	20,000	Leasehold
Hanley	24,000	Leasehold
Hereford	17,000	Leasehold
High Wycombe	17,000	Leasehold
Hove	20,000	Leasehold
Huddersfield	20,000	Leasehold
Hull	20,000	Leasehold
Inverness	20,000	Leasehold
Ipswich	15,000	Leasehold
Kings Lynn	21,000	Leasehold
Leicester	20,000	Leasehold
Lincoln	20,000	Leasehold
Llandudno	15,000	Leasehold
Llantrisant	15,000	Leasehold
Londonderry	15,000	Leasehold
Longwell Green	14,000	Leasehold
Luton	20,000	Leasehold
Maidstone	20,000	Leasehold
Manchester	20,000	Leasehold
Measham	20,000	Leasehold
Milton Keynes	20,000	Leasehold
New Malden	20,000	Leasehold
Northampton	19,000	Leasehold

<u>Location</u>	<u>Approximate store gross area in square feet (retail, warehouse, office and amenity space)</u>	<u>Title</u>
Norwich . . . . .	20,000	Leasehold
Nottingham . . . . .	20,000	Leasehold
Old Kent Road . . . . .	20,000	Leasehold
Oldham . . . . .	20,000	Leasehold
Oxford . . . . .	17,000	Leasehold
Paisley . . . . .	25,000	Leasehold
Peterborough . . . . .	20,000	Leasehold
Plymouth . . . . .	20,000	Leasehold
Poole . . . . .	21,000	Leasehold
Preston (excludes sub-let space) . . . . .	20,000	Leasehold
Reading . . . . .	20,000	Leasehold
Romford . . . . .	20,000	Leasehold
Rotherham . . . . .	20,000	Leasehold
Sheffield . . . . .	20,000	Leasehold
Shrewsbury . . . . .	20,000	Leasehold
Sidcup . . . . .	23,000	Leasehold
Slough . . . . .	24,000	Leasehold
South Ruislip . . . . .	20,000	Leasehold
Southampton . . . . .	24,000	Leasehold
Speke . . . . .	22,000	Leasehold
Stevenage . . . . .	19,000	Leasehold
Stirling . . . . .	10,000	Leasehold
Stockport . . . . .	23,000	Leasehold
Stockton . . . . .	15,000	Leasehold
Sunderland . . . . .	25,000	Leasehold
Swansea . . . . .	23,000	Leasehold
Swindon . . . . .	21,000	Leasehold
Taunton . . . . .	20,000	Leasehold
Thanet . . . . .	16,000	Leasehold
Torquay (inc. mezzanine area) . . . . .	21,000	Leasehold
Tottenham Court Road . . . . .	17,000	Leasehold
Tunbridge Wells . . . . .	18,000	Leasehold
Warrington . . . . .	22,000	Leasehold
Waterlooville . . . . .	26,000	Leasehold
Watford . . . . .	20,000	Leasehold
Westfield, Stratford (London) <sup>(1)</sup> . . . . .	2,500	Leasehold
Wetherby (two units combined) . . . . .	23,000	Leasehold
York . . . . .	15,000	Leasehold
<b><i>Factories</i></b>		
Berkeley Magna (Nottingham) . . . . .		Leasehold
Northern Upholstery (Carcroft, Doncaster) . . . . .		Leasehold
Lincoln House (Alfreton) . . . . .		Leasehold
Alfreton Frame Factory . . . . .		Leasehold
Heanorgate Woodmill . . . . .		Leasehold
<b><i>Warehousing</i></b>		
Aintree . . . . .		Leasehold
Basingstoke . . . . .		Leasehold
Bradford . . . . .		Leasehold
Carcroft . . . . .		Leasehold
Cork . . . . .		Leasehold
Darley Dale . . . . .		Leasehold
Dublin . . . . .		Leasehold
Dudley . . . . .		Leasehold
Dundee . . . . .		Leasehold
Enfield . . . . .		Leasehold

<u>Location</u>	<u>Approximate store gross area in square feet (retail, warehouse, office and amenity space)</u>	<u>Title</u>
Llandudno . . . . .		Leasehold
Londonderry . . . . .		Leasehold
Northampton . . . . .		Leasehold
Redhouse . . . . .		Leasehold
Stevenage . . . . .		Leasehold
Wetherby . . . . .		Leasehold
Wolverhampton . . . . .		Leasehold
CDC (Maidstone) . . . . .		Leasehold
CDC (Heywood) . . . . .		Leasehold
CDC (Glasgow) . . . . .		Leasehold
CDC (Hook) <sup>(1)</sup> . . . . .		Leasehold
CDC (Gateshead) <sup>(1)</sup> . . . . .		Leasehold
<b><i>Sofa Workshop-branded stores</i></b>		
Bath . . . . .	2,500	Leasehold
Battersea (London) . . . . .	2,000	Leasehold
Bristol . . . . .	3,000	Leasehold
Chiswick (London) . . . . .	3,000	Leasehold
Edinburgh . . . . .	2,000	Leasehold
Exeter . . . . .	3,000	Leasehold
Guildford . . . . .	2,500	Leasehold
Harrogate . . . . .	2,000	Leasehold
Kings Road (London) . . . . .	1,500	Leasehold
Kingston . . . . .	2,000	Leasehold
Tottenham Court Road (London) . . . . .	3,000	Leasehold
Tunbridge Wells . . . . .	2,500	Leasehold
Westfield, Stratford (London) <sup>(1)</sup> . . . . .	2,500	Leasehold
<b><i>dwel- l-branded stores</i></b>		
Tottenham Court Road (London) . . . . .	7,000	Leasehold
Westfield, White City (London) . . . . .	5,500	Leasehold
Westfield, Stratford (London) . . . . .	6,000	Leasehold
Barton Square Trafford Centre (Greater Manchester) . . . . .	10,500	Leasehold
Glasgow . . . . .	9,500	Leasehold
<b><i>Other properties</i></b>		
DFS Head Office (Doncaster) . . . . .		Leasehold
Bridge Mills Design Studio . . . . .		Leasehold
Hull Clearance Store (closed store) . . . . .		Leasehold
Carcroft (development land) . . . . .		Freehold
Darley Dale (development land) . . . . .		Freehold
Sofa Workshop Head Office (Godalming) . . . . .		Leasehold
dwel Head Office (London) . . . . .		Leasehold

(1) Not yet opened.

The Directors are currently not aware of any material environmental issues which may affect the Group's utilisation of its properties, or that the Group has any material environmental liabilities or compliance costs.

## 21 Consents

KPMG has given and has not withdrawn its written consent to the inclusion in this Prospectus of its accountant's report as included in Part XI (*Historical financial information*) and its report concerning the unaudited pro forma financial information included in Part XII (*Unaudited pro forma financial information*) in the form and context in which they appear and has authorised the contents of its reports for the purposes of PR 5.5.3R(2)(f) of the Prospectus Rules.

ForeSee has given and has not withdrawn its consent to the inclusion in this Prospectus of its name in the form and context in which it appears.

## 22 Intermediaries

The Intermediaries appointed as at the date of this Prospectus and any Intermediaries subsequently appointed by the Company are authorised to use this Prospectus in connection with the Intermediaries Offer. The Intermediaries appointed as at the date of this Prospectus are:

<u>Name</u>	<u>Address</u>
AJ Bell Securities Limited	Trafford House Chester Road Manchester M32 0RS
Albert E Sharp LLP	Seven Elm Court Arden Street Stratford Upon Avon Warwickshire CV37 6PA
All IPO Plc	Suite 27, Essex Technology Centre The Gables Fyfield Road, Ongar Essex CM5 0GA
Alliance Trust Savings Limited	PO Box 164 8 West Marketgait Dundee DD1 9YP
Arnold Stansby & Co Limited	Alexandra Buildings Queen Street Manchester M2 5JJ
Barclays Bank PLC	1 Churchill Place London E14 5HP
Beaufort Asset Clearing Services Limited	131 Finsbury Pavement London EC2A 1NT
Cornhill Capital Limited	4th Floor 18 St Swithin's Lane London EC4N 8AD
Equiniti Financial Services Limited	Aspect House Spencer Road Lancing West Sussex BN99 6DA
Hargreave Hale Limited	9-11 Neptune court Hallamway Blackpool Lancashire FY4 5LZ

<u>Name</u>	<u>Address</u>
Hargreaves Lansdown Asset Management Limited	One College Square South Anchor Road Bristol BS1 5HL
iDealing.com Ltd	114 Middlesex St London E1 7HY
Interactive Investor Trading Ltd	Standon House 21 Mansell Street London E1 8AA
Investec Wealth & Investment Limited	2 Gresham Street London EC2V 7QN
Jarvis Investment Management Ltd (trading as Sharedeal Active & X-O.co.uk)	78 Mount Ephraim Tunbridge Wells Kent TN4 8BS
J.M.Finn & Co.	4 Coleman Street London EC2R 5TA
Killik & Co	46 Grosvenor Street London W1K 3HN
Midas Investment Mangement Limited	2nd Floor Arthur House Chorlton Street Manchester M1 3FH
Paul E. Schweder Miller & Co.	46-50 Tabernacle Street London EC2A 4SJ
Redmayne-Bentley LLP	9 Bond Court Leeds LS1 2JZ
Reyker Securities Plc	17 Moorgate London EC2R 6AR
Rowan Dartington & Co Ltd	Colston Tower Colston Street Bristol BS1 4RD
Shore Capital Stockbrokers Ltd	Bond Street House 14 Clifford Street London W1S 4JU
SVS Securities Plc	110 Fenchurch Street London EC3M 5JT

<u>Name</u>	<u>Address</u>
TD Direct Investing (Europe) Limited	Exchange Court Duncombe Street Leeds LS1 4AX
The Share Centre Limited	Oxford House Oxford Road Aylesbury Bucks HP21 8SZ
Walker Crips Stockbrokers Limited	Finsbury Tower 103-105 Bunhill Row London EC1Y 8LZ
WH Ireland Limited	11 St James Square Manchester M2 6WH

Any new information with respect to Intermediaries unknown at the time of approval of this Prospectus, including whether an Intermediary ceases to participate in the Intermediaries Offer or information relating to any new Intermediary appointed by the Company after the date of this Prospectus, will be available online at [www.dfscorporate.co.uk](http://www.dfscorporate.co.uk).

The Employee Offer Intermediary appointed by the Company to facilitate the participation of Eligible Employees in the Intermediaries Offer is Hargreaves Lansdown Asset Management Limited of One College Square South, Anchor Road, Bristol, BS1 5HL.

### **23 Expenses of the Offer and Admission**

The total costs and expenses of, and incidental to, the Offer and Admission (including the listing fees, printer's fees, advisers' fees, professional fees and expenses, the costs of printing and distribution of documents but excluding VAT) to be borne by the Company are estimated to be approximately £20.0 million. Included within the total are commissions which are expected to be up to approximately £2.9 million payable to the Underwriters.

### **24 Documents available for inspection**

Copies of the following documents may be inspected at the registered office of the Company (1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA) and the offices of Weil, Gotshal & Manges, 110 Fetter Lane, London EC4A 1AY during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the duration of the Offer:

- (a) the Articles;
- (b) the report of KPMG set out in Part XI (*Historical financial information*);
- (c) the consent letters referred to in paragraph 21 of this Part XIV (*Additional Information*) above; and
- (d) a copy of this Prospectus.

For the purposes of PR 3.2.4 of the Prospectus Rules, this Prospectus will be published in printed form and available free of charge, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the duration of the Offer at the registered office of the Company (1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA) and the offices of Weil, Gotshal & Manges, 110 Fetter Lane, London EC4A 1AY. In addition, the Prospectus will be published in electronic form and available on the Website, subject to access restrictions.

## PART XV

### DEFINITIONS

The following definitions apply throughout this Prospectus unless the context requires otherwise:

<b>“2010 PD Amending Directive”</b>	Directive 2010/73/EU;
<b>“2017 Notes”</b>	DFS Furniture Holdings’ £240,000,000 9.75% Senior Secured Notes due 2017, which were redeemed in March 2013;
<b>“Acquisition”</b>	the acquisition of the entire share capital of DFS Furniture Company by the Company;
<b>“Admission”</b>	admission of the Ordinary Shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange becoming effective in accordance with LR 3.2.7G of the Listing Rules and paragraph 2.1 of the Admission and Disclosure Standards published by the London Stock Exchange;
<b>“Advent”</b>	Advent International Corporation, a private equity firm, and the funds and limited partnerships controlled and/or managed by it;
<b>“Advent Director”</b>	a Director nominated by the Advent Shareholder pursuant to the Relationship Agreement, being Andy Dawson as at the date of this Prospectus;
<b>“Advent Companies”</b>	AI Global Investments S.à r.l., Advent Diamond (Luxembourg) Holdings S.à r.l., Advent Diamond (Cayman) Ltd., Advent International PLC, Advent and GPE VI GP Limited Partnership;
<b>“Advent Funds”</b>	Advent International GPE VI Limited Partnership, Advent International GPE VI-A Limited Partnership, Advent International GPE VI-B Limited Partnership, Advent International GPE VI-F Limited Partnership, Advent International GPE VI-G Limited Partnership, Advent International GPE VI-C Limited Partnership, Advent International GPE VI-D Limited Partnership, Advent International GPE VI-E Limited Partnership, Advent Partners GPE VI 2008 Limited Partnership, Advent Partners GPE VI 2009 Limited Partnership, Advent Partners GPE VI 2010 Limited Partnership, Advent Partners GPE VI-A Limited Partnership, Advent Partners GPE VI-A 2010 Limited Partnership, which are managed by Advent;
<b>“Advent Shareholder”</b>	Advent Diamond (Luxembourg) S.à r.l., a company which is indirectly controlled by the Advent Funds, which are managed by Advent;
<b>“Agent”</b>	Lloyds Bank plc;
<b>“Articles”</b>	the articles of association of the Company immediately following Admission;
<b>“ASA”</b>	the Advertising Standards Authority;
<b>“Audit Committee”</b>	the audit committee of the Board;
<b>“Berenberg”</b>	Joh. Berenberg, Gossler & Co. KG, London Branch;
<b>“Business Day”</b>	any day which is not a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in the UK;
<b>“CCA”</b>	Consumer Credit Act 1974;
<b>“CDC”</b>	Customer Distribution Centre;
<b>“CEO”</b>	chief executive officer;
<b>“CISA”</b>	Swiss Federal Act on Collective Investment Schemes;
<b>“City Code”</b>	the City Code on Takeovers and Mergers, as amended;

<b>“CMA”</b> . . . . .	Competition and Markets Authority;
<b>“CO”</b> . . . . .	Swiss Code of Obligations;
<b>“Code”</b> . . . . .	the US Internal Revenue Code of 1986, as amended;
<b>“Co-Lead Managers”</b> . . . . .	Berenberg and HSBC;
<b>“Collateral”</b> . . . . .	the capital stock and substantially all the assets (subject to certain exceptions) of DFS Furniture Holdings plc over which the Notes and the Guarantees are secured on a first priority basis;
<b>“Commitment Letter”</b> . . . . .	the commitment letter dated 5 February 2015 pursuant to which the New Lenders have agreed to provide the New Debt Facilities to the Group;
<b>“Companies Act”</b> . . . . .	the Companies Act 2006, as amended;
<b>“Company”</b> . . . . .	DFS Furniture plc, a public limited company incorporated under the laws of England and Wales with registered number 07236769, having its registered office at Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA;
<b>“Concert Parties”</b> . . . . .	any person or group of persons acting in concert with each other and, as presumed for the purposes of Rule 9 of the City Code by the Takeover Panel for the purposes of holdings the Ordinary Shares, the Chairman, the Advent Shareholder, the Advent Companies, the Advent Funds and any other funds managed or advised by Advent (and its affiliates);
<b>“CREST”</b> . . . . .	the electronic transfer and settlement system for the paperless settlement of trades in listed securities operated by Euroclear UK & Ireland Limited;
<b>“CREST Regulations”</b> . . . . .	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended;
<b>“CTM”</b> . . . . .	Community Trade Mark;
<b>“Delphi Leases”</b> . . . . .	leases relating to 27 of the Group’s properties, formerly leased by Delphi Properties Limited (formerly known as DFS Properties Limited) and subsequently sold to third parties outside the Group;
<b>“defaqto”</b> . . . . .	Defaqto Limited;
<b>“DFS”</b> . . . . .	the Group excluding Sofa Workshop and dwell;
<b>“DFS Furniture Company”</b> . . . .	DFS Furniture Company Limited;
<b>“DFS Furniture Holdings”</b> . . . .	DFS Furniture Holdings plc;
<b>“Directors”</b> or <b>“Board”</b> . . . . .	the directors of the Company from time to time;
<b>“Disclosure and Transparency Rules”</b> . . . . .	the disclosure and transparency rules made by the FCA under Part VI of FSMA, as amended;
<b>“DPA”</b> . . . . .	Data Protection Act 1998;
<b>“dwell”</b> . . . . .	Coin Retail Limited and its subsidiary, Coin Furniture Limited;
<b>“EBT”</b> . . . . .	Appleby Trust (Jersey) Limited as trustee of the Diamond Holdco 5 Limited Equity Plan Employee Trust;
<b>“Eligible Employees”</b> . . . . .	employees of the Group resident in the United Kingdom, the Channel Islands or the Isle of Man as at 6 February 2015;
<b>“Employee Offer Intermediary”</b> .	an Intermediary selected by the Company to facilitate Eligible Employees to make an application for Offer Shares through the Intermediaries Offer;
<b>“EUR”, “€”, and “Euro”</b> . . . . .	the single currency of the participating Member States in the Eurozone;

<b>“European Economic Area” or “EEA”</b> .....	the European Union, Iceland, Norway and Liechtenstein;
<b>“European Union” or “EU”</b> ...	an economic and political union of 27 Member States which are located in Europe;
<b>“Eurozone”</b> .....	the Member States of the European Union that have adopted the euro as their common currency and sole legal tender;
<b>“Exchange Act”</b> .....	the US Securities Exchange Act of 1934, as amended;
<b>“Executive Directors”</b> .....	Ian Filby and Bill Barnes, each a Director as at the date of this Prospectus;
<b>“Existing Facilities”</b> .....	the Notes and the Existing RCF;
<b>“Existing Ordinary Shares”</b> ...	the Ordinary Shares in issue immediately prior to Admission but following completion of the Reorganisation;
<b>“Existing RCF”</b> .....	the Company’s £30 million revolving credit facility with, amongst other, Lloyds TSB Bank plc, provided pursuant to a facility agreement dated 22 July 2010, as amended and restated from time to time;
<b>“Experian”</b> .....	Experian Ltd.;
<b>“FCA”</b> .....	the Financial Conduct Authority;
<b>“Financial Period”</b> .....	any of Financial Year 2005, Financial Year 2009, Financial Year 2010, Financial Year 2011, Financial Year 2012, Financial Year 2013, Financial Year 2014, Q1 2014, Q1 2015 or any other financial reporting period of the Company (or the relevant Group member, as applicable);
<b>“Financial Year 2005”</b> .....	the 52 weeks to 30 July 2005;
<b>“Financial Year 2009”</b> .....	the 52 weeks to 25 July 2009;
<b>“Financial Year 2010”</b> .....	the 52 weeks to 31 July 2010;
<b>“Financial Year 2012”</b> .....	the 52 weeks to 28 July 2012;
<b>“Financial Year 2013”</b> .....	the 52 weeks to 27 July 2013;
<b>“Financial Year 2014”</b> .....	the 53 weeks to 2 August 2014;
<b>“First Utilisation Date”</b> .....	date of first utilisation of the New Debt Facilities;
<b>“Fixed Rate Notes”</b> .....	£200 million aggregate principal amount 7.625% Senior Secured Notes due 2018;
<b>“Floating Rate Notes”</b> .....	£110 million aggregate principal amount of Floating Rate Senior Secured Notes due 2018;
<b>“ForeSee”</b> .....	ForeSee Results, Inc.;
<b>“footfall”</b> .....	the number of people entering a shop or shopping area in a given time;
<b>“FSA”</b> .....	the Financial Services Authority (renamed the FCA);
<b>“FSMA”</b> .....	the Financial Services and Markets Act 2000, as amended;
<b>“GBP”, “£” and “pounds sterling”</b> .....	the lawful currency of the UK;
<b>“Group”</b> .....	the Company and its subsidiary undertakings from time to time;
<b>“Guarantees”</b> .....	the guarantees provided on a senior basis by the Guarantors in relation to the Notes;
<b>“Guarantors”</b> .....	DFS Furniture Company and DFS Trading Limited in their capacities as guarantors of the Notes;
<b>“HMRC”</b> .....	HM Revenue and Customs;
<b>“HSBC”</b> .....	HSBC Bank plc;

<b>“ICO”</b> . . . . .	the Information Commissioner’s Office;
<b>“IFC”</b> . . . . .	interest-free credit;
<b>“IFRS”</b> . . . . .	International Financial Reporting Standards as adopted by the European Union;
<b>“Independent Non-Executive Directors”</b> . . . . .	the Non-Executive Directors, excluding the Advent Director and the Chairman;
<b>“Institutional Offer”</b> . . . . .	the offer of the Offer Shares to certain institutional and professional investors in the UK and elsewhere outside the US in reliance on Regulation S and to QIBs in the US in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act;
<b>“Intercreditor Agreement”</b> . . . .	the intercreditor agreement dated 29 July 2010 as amended and restated on 8 March 2013 in connection with the Existing Facilities between DFS Furniture Holdings (as Parent, Note Issuer and an Original Debtor), DFS Trading Limited (as an Original Debtor) and DFS Furniture Company (as Original Intra-Group Lender and an Original Debtor), Lloyds TSB Bank plc (as Original Hedge Counterparty, RCF Agent and the Security Agent) and Deutsche Bank AG, London Branch (as Senior Note Trustee);
<b>“Intermediaries”</b> . . . . .	any intermediaries in the UK, the Channel Islands and the Isle of Man who have been or are (after the date of this Prospectus) appointed by the Company to facilitate the participation of their retail investor clients located in the UK, the Channel Islands and the Isle of Man in the Intermediaries Offer;
<b>“Intermediaries Offer”</b> . . . . .	the offer of the Offer Shares to Intermediaries in the UK, the Channel Islands and the Isle of Man who will facilitate the participation of their retail investor clients located in the UK, the Channel Islands and the Isle of Man;
<b>“Intermediaries Terms and Conditions”</b> . . . . .	the terms and conditions of the Intermediaries Offer;
<b>“IRS”</b> . . . . .	the US Internal Revenue Service;
<b>“ISIN”</b> . . . . .	International Securities Identification Number;
<b>“ITEPA”</b> . . . . .	Income Tax (Earnings and Pensions) Act 2003;
<b>“Jefferies”</b> . . . . .	Jefferies International Limited;
<b>“Joint Bookrunners”</b> . . . . .	Jefferies, UBS and Numis;
<b>“Joint Global Co-ordinators”</b> . .	Jefferies and UBS;
<b>“Joint Sponsors”</b> . . . . .	Jefferies and UBS;
<b>“KPMG”</b> . . . . .	KPMG LLP of Arlington Business Park, Theale Reading, RG7 4SD
<b>“LIBOR”</b> . . . . .	London Interbank Offered Rate;
<b>“Listing Rules”</b> . . . . .	the listing rules made by the UK Listing Authority under Part VI of FSMA, as amended;
<b>“London Stock Exchange”</b> . . . .	London Stock Exchange plc;
<b>“LTIP”</b> . . . . .	the Company’s long-term incentive plan;
<b>“LTIP Awards”</b> . . . . .	LTIP Conditional Share Awards and LTIP Options;
<b>“LTIP Conditional Share Awards”</b> . . . . .	conditional rights to acquire shares under the LTIP;
<b>“LTIP Options”</b> . . . . .	nil cost options over Ordinary Shares under the LTIP;
<b>“Member State”</b> . . . . .	a member state of the European Economic Area;

<b>“Minimum Interest”</b> . . . . .	a holding by the Advent Shareholder and its associates collectively of in the aggregate 15% or more of the Ordinary Shares or voting rights in the Company;
<b>“Model Code”</b> . . . . .	the model code published in Annex I to LR 9 of the Listing Rules;
<b>“New Debt Facilities”</b> . . . . .	the Term Facility and the Revolving Credit Facility;
<b>“New Lenders”</b> . . . . .	Barclays Bank PLC, HSBC Bank plc, Jefferies Finance LLC, Lloyds Bank plc, The Royal Bank of Scotland plc and UBS AG, London Branch;
<b>“New Ordinary Shares”</b> . . . . .	those Ordinary Shares to be issued by the Company pursuant to the Offer as described in Part VI ( <i>Details of the Offer</i> );
<b>“New Senior Facilities Agreement”</b> . . . . .	the agreed form senior facilities agreement appended to the Commitment Letter;
<b>“NISA”</b> . . . . .	New Individual Savings Account;
<b>“Nomination Committee”</b> . . . . .	the nomination committee of the Board;
<b>“Non-Executive Chairman”</b> . . . . .	Richard Baker, the Chairman of the Board as at the date of this Prospectus;
<b>“Non-Executive Directors”</b> . . . . .	the non-executive directors of the Company, being Richard Baker, Luke Mayhew, Gwyn Burr, Julie Southern and Andy Dawson as at the date of this Prospectus;
<b>“non-US Holder”</b> . . . . .	any individual, corporation, trust or estate that is a beneficial owner of Ordinary Shares and is not a US Holder;
<b>“Notes”</b> . . . . .	together, the Fixed Rate Notes and the Floating Rate Notes;
<b>“NPS”</b> . . . . .	Net Promoter Score;
<b>“Numis”</b> . . . . .	Numis Securities Limited;
<b>“Offer”</b> . . . . .	the offer of the Offer Shares being made by way of this Prospectus, as described in Part VI ( <i>Details of the Offer</i> ), which includes the Institutional Offer and the Intermediaries Offer;
<b>“Offer Price”</b> . . . . .	the price at which each Offer Share is to be subscribed for or sold in the Offer;
<b>“Offer Price Range”</b> . . . . .	£2.45 to £3.10;
<b>“Offer Shares”</b> . . . . .	the New Ordinary Shares offered by the Company under the Offer and the Existing Ordinary Shares offered by the Selling Shareholders under the Offer;
<b>“Offer Size”</b> . . . . .	the number of Offer Shares to be sold pursuant to the Offer;
<b>“Offer Size Range”</b> . . . . .	between 79,044,857 Offer Shares and 107,082,375 Offer Shares;
<b>“Official List”</b> . . . . .	the Official List maintained by the FCA;
<b>“OFT”</b> . . . . .	the Office of Fair Trading;
<b>“Ordinary Shares”</b> . . . . .	the ordinary shares of £1.50 each in the capital of the Company;
<b>“Original Borrowers”</b> . . . . .	the Company, DFS Furniture Holdings plc, DFS Furniture Company and DFS Trading Limited;
<b>“Over-allotment Option”</b> . . . . .	the over-allotment option granted by the Advent Shareholder to the Stabilising Manager in the Underwriting Agreement;
<b>“Over-allotment Shares”</b> . . . . .	Ordinary Shares acquired pursuant to the exercise of the Over-allotment Option (if it is exercised);
<b>“Partnership Scheme”</b> . . . . .	the DFS Partnership Scheme;
<b>“PD Regulation”</b> . . . . .	the Prospectus Directive Regulation (2004/809/EC);

<b>“PECR”</b> .....	the Privacy and Electronic Communications (EC Directive) Regulations 2003;
<b>“PFIC”</b> .....	a passive foreign investment company for US federal income tax purposes;
<b>“Post-Admission Reorganisation”</b> .....	the reorganisation of the Group which is proposed to take place after Admission;
<b>“PPI”</b> .....	payment protection insurance;
<b>“PRA”</b> .....	the Prudential Regulation Authority;
<b>“Pricing Statement”</b> .....	the pricing statement containing the Offer Price, the Offer Size and certain other information expected to be published on or about 6 March 2015;
<b>“Prospectus”</b> .....	this document;
<b>“Prospectus Directive”</b> .....	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State), including any relevant implementing measure in each Relevant Member State;
<b>“Prospectus Rules”</b> .....	the prospectus rules made by the UK Listing Authority under Part VI of FSMA, as amended;
<b>“Q1 2014”</b> .....	the 13 weeks to 26 October 2013;
<b>“Q1 2015”</b> .....	the 13 weeks to 1 November 2014;
<b>“QLAs”</b> .....	quality level agreements;
<b>“Qualified Institutional Buyer”</b> or <b>“QIB”</b> .....	a Qualified Institutional Buyer, as defined in Rule 144A;
<b>“Registrar”</b> .....	Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA;
<b>“Regulation S”</b> .....	Regulation S under the Securities Act;
<b>“Relationship Agreement”</b> .....	the relationship agreement, dated 23 February 2015, between the Company and the Advent Shareholder;
<b>“Relevant Member State”</b> .....	each Member State that has implemented the Prospectus Directive;
<b>“Remuneration Committee”</b> .....	the remuneration committee of the Board;
<b>“Reorganisation”</b> .....	the reorganisation of the Group, details of which are set out in paragraph 5 of Part XIV ( <i>Additional Information</i> );
<b>“Revolving Credit Facility”</b> .....	the £30 million revolving facility of which the New Lenders have agreed to provide to the Company under the Commitment Letter;
<b>“RSA”</b> .....	The New Hampshire Revised Statutes, Annotated;
<b>“RSP”</b> .....	the Company’s restricted share plan;
<b>“RSP Awards”</b> .....	nil cost options over Ordinary Shares and / or rights to acquire Ordinary Shares under the RSP;
<b>“Rule 144A”</b> .....	Rule 144A under the Securities Act;
<b>“SAYE Options”</b> .....	options over Ordinary Shares under the SAYE Scheme;
<b>“SAYE Scheme”</b> .....	the Company’s save as you earn option scheme;
<b>“sales density”</b> .....	revenue generated for a given area of sales space, measured as total sales per square foot of available retail space;
<b>“Schedule 2”</b> .....	Schedule 2 to ITEPA;
<b>“Schedule 3”</b> .....	Schedule 3 to ITEPA;
<b>“SDRT”</b> .....	stamp duty reserve tax;

“Securities Act”	the US Securities Act of 1933, as amended;
“Security Agent”	Lloyds Bank plc;
“SEDOL”	Stock Exchange Daily Official List;
“Selling Shareholders”	the Advent Shareholder, Richard Baker, Ian Filby, Bill Barnes, Jon Massey, Ian MacGuffog and certain other Shareholders (who hold the beneficial interest in their Ordinary Shares through the EBT);
“SEO”	search engine optimisation;
“Senior Managers”	those persons identified as senior managers of the Group in Part VIII ( <i>Directors, Senior Managers and corporate governance</i> );
“Shareholder”	a holder of Ordinary Shares;
“Share Incentive Scheme”	the share incentive schemes of the Company described in Part XIV ( <i>Additional Information</i> );
“Share Incentive Scheme Documents”	rules of the Share Incentive Schemes or the terms and conditions attaching to any option or award granted pursuant to such rules;
“SID”	senior independent non-executive director;
“SIP”	the Company’s share incentive plan;
“SIP Trust”	a UK resident employee benefit trust;
“Sofa Workshop”	The Sofa Workshop Limited;
“Stabilising Manager”	UBS;
“Stock Lending Agreement”	the stock lending agreement, to be entered into prior to Admission, between the Stabilising Manager and the Advent Shareholder;
“Takeover Panel”	the UK Panel on Takeovers and Mergers;
“Term Facility”	the £200 million term facility which the New Lenders have agreed to provide to the Company under the Commitment Letter;
“UBS”	UBS Limited;
“UK”	the United Kingdom of Great Britain and Northern Ireland;
“UK Corporate Governance Code”	the UK Corporate Governance Code dated September 2012 issued by the Financial Reporting Council;
“UK GAAP”	Generally Accepted Accounting Practice in the UK;
“UK Listing Authority”	the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
“Underlying Applicants”	the retail investors in the United Kingdom, the Channel Islands and the Isle of Man who wish to subscribe for or acquire Offer Shares under the Intermediaries Offer;
“Underwriters”	Jefferies, UBS, Numis, Berenberg and HSBC;
“Underwriting Agreement”	the underwriting agreement, dated the date of this Prospectus, between the Company, the Directors, the Underwriters and the Selling Shareholders;
“Unique Visitors”	distinct IP addresses requesting pages from the website during a given period, regardless of how often they visit;
“US”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
“US dollar”, “\$” and “USD”	the lawful currency of the US;
“US Holder”	a beneficial owner of Ordinary Shares, for US federal income tax purposes;

<b>“US Treasury”</b> . . . . .	the US Department of the Treasury;
<b>“VAT”</b> . . . . .	value added tax;
<b>“Verdict”</b> . . . . .	Verdict Research Limited; and
<b>“Website”</b> . . . . .	<a href="http://www.dfscorporate.co.uk">www.dfscorporate.co.uk</a> .

