

DEBENHAMS

ANNUAL REPORT
& ACCOUNTS 2016



WHO WE ARE

We are a leading international multi-channel brand with a proud British heritage, trading from 250 department stores across 27 countries, and available online in more than 60 countries.

WHAT WE DO

We give our customers around the world a unique, differentiated and exclusive mix of own brands, international brands and concessions.

HOW WE DO IT

We have a flagship digital store and great shops in prime locations in which we sell outstanding and innovative products. We offer our customers good value at fair prices with excellent customer service. We continue to provide what customers want, when, where and how they want it, staying in tune with a rapidly changing marketplace.



OUR BUSINESS MODEL

OUR RESOURCES AND RELATIONSHIPS

People

We employ around 28,000 colleagues in the UK, Republic of Ireland, Denmark and in our sourcing offices in Hong Kong and Bangladesh, supporting our 182 stores in the UK and Europe and our domestic and international websites.

Expertise and insight

We recruit and train experts in design, buying and merchandising, supported by excellent marketing and creative, logistics, administrative and financial functions. Our brand team provides us with valuable feedback on our customers' spending habits and their view of our offer.

Stores and infrastructure

We have 182 directly operated stores across major retail locations in the UK, Republic of Ireland and Denmark. We have a flagship digital store in the UK and a new international web platform supporting localised service in a number of overseas markets. Our three distribution centres provide warehousing and logistics facilities to support our multi-channel proposition.

Suppliers and partners

We have a well-established network of over 500 suppliers, and concession, logistics and franchise partners, who provide us with high quality own bought and concession products, excellent logistical support and local market expertise in locations where we trade with a partner.

Finance

We have a strong balance sheet, with flexible financing provision through a £320m financing facility available until 2020 and a £200m bond, expiring in 2021. These resources are more than adequate to provide working capital, support our capital spending programme and pay a dividend to shareholders.

Risk management

The management of risk plays a central role in strategic planning and is systematised to ensure that the Group's reputation is protected and the strategic and operational goals of the business can be delivered.

HOW WE CREATE VALUE



Our purpose

We aim to create value for shareholders by giving our customers excellent service and a wide choice of desirable products, supported by strong relationships with

our suppliers and partners, and our own expertise in developing, sourcing and selling products through whichever channels our customers choose to shop.

HOW WE MAXIMISE VALUE

Delivering a compelling customer proposition

Debenhams offers a unique combination of exclusive brands, designer brands and international brands across multiple product categories, offering choice and innovation in fashion, accessories, beauty and homewares. Our own brands, including our exclusive Designer ranges, account for half our sales, we have market-leading positions in the premium beauty sector, occasionwear and accessories, and through our concession partners we offer an edit of the best of the high street.

Increasing availability and choice through multi-channel

We have aligned management of stores and online so that we can offer our customers a seamless shopping experience as they increasingly shop using more than one channel. 15% of Group gross transaction value ("GTV") is generated online, and a third of online orders are collected from our stores. We have continued to invest to give our customers top quality service whichever channels they choose to use.

Focusing on UK retail

We are increasing the choice of brands and services in our UK stores, giving our customers more of the brands they want to buy that we were not already selling and introducing services, such as new cafes and restaurants in the growing casual dining market, that drive traffic to our stores.

Expanding the brand internationally

We have a multi-strand and capital-light approach to international expansion, with own-operated multi-channel businesses in the Republic of Ireland and Denmark; a network of 68 franchise stores with partners across the Middle East, Eastern Europe and South East Asia; an online proposition shipping to more than 60 countries; and a developing brand wholesaling business.

Investing in operational and organisational effectiveness

We are building infrastructure that is sustainable and fit for future growth, to enable Debenhams to exploit the continuing channel shifts in UK retail and drive international growth in a cost effective way. We are part way through a multi-year investment programme in systems and automation that will bring efficiency savings to our business.



The right products

We are editing choice, growing non-clothing categories, and continuing to drive full price sales, underpinned by deeper understanding of our customer and her needs and wants.



Integrating channels

With management structures now aligned both in the UK and internationally, and enabled by our new international web platform, we are starting to introduce a multi-channel offer to some of our overseas markets.



Improving customer service

We are leveraging mobile technology to bring our retail channels closer together and offer better in-store service through faster checkout and more customer-facing time.



Delivering a great retail experience

We are applying the lessons of our space optimisation programme to build on the successful performance of our flagship stores, with tailored offers and technology-enabled service improvements to enhance the in-store experience.



Faster, more responsive supply chain

We are introducing new systems and processes and growing our own sourcing operations in order to deliver even better-quality product and increasing newness faster, while maintaining competitive price points.



Driving sustainable growth

We are effectively using our resources and relationships to create a competitive advantage, maximise value from our assets and enable long-term sustainable growth.

FINANCIAL HIGHLIGHTS

Gross transaction value (52 weeks)

£2.9bn

53 weeks: £2.9bn

Profit before tax* (52 weeks)

£114.1m

53 weeks: £118.2m

Net debt

£279.0m

STRATEGIC HIGHLIGHTS

Full price sell-through

+0.6%

Online sales growth

9.3%

UK click & collect

32%

of online orders

SHAREHOLDER RETURNS

Underlying EPS* (52 weeks)

7.5p

53 weeks: 7.8p

Dividend per share

3.425p

* Pre exceptional items.

TO FIND OUT MORE VISIT:
www.debenhams.com



STRATEGIC REPORT

Chairman's letter	2
Market context	5
Operational review	6
Strategy in action	9
Key performance indicators	18
Risk review	20
Principal risks and uncertainties	22
Financial review	26
Our approach to assessing viability	31
Resources, relationships and sustainability	32

GOVERNANCE

Corporate governance	36
Board of Directors	42
Nomination Committee report	44
Audit Committee report	46
Directors' remuneration report	50
Directors' report	68
Statement of directors' responsibilities	71

FINANCIAL STATEMENTS

Independent auditors' report to the members of Debenhams plc (Group)	72
Consolidated income statement	79
Consolidated statement of comprehensive income	80
Consolidated balance sheet	81
Consolidated statement of changes in equity	82
Consolidated cash flow statement	83
Notes to the financial statements	84
Five year record income statements	125
Five year record balance sheets	126
Independent auditors' report to the members of Debenhams plc (Company)	127
Company balance sheet	129
Company statement of changes in equity	130
Notes to the Company financial statements	131
Store list	139
Glossary and references	140
Additional information	IBC

CHAIRMAN'S LETTER TO SHAREHOLDERS

A new future for Debenhams



Dear Shareholder,

I am delighted to have taken the role of Chairman of Debenhams having joined the board in January this year. I would like to thank my predecessor, Nigel Northridge, who steered the board and management team successfully through a continuing period of great change in the retail sector.

New leadership

Our new Chief Executive Officer, Sergio Bucher, joined Debenhams this month. Following a rigorous recruitment process, with some exceptional quality candidates, we are delighted to have found such a strong candidate, with clear leadership qualities, brand and e-commerce expertise, and international experience, to take the business into the next stage of its development.

We have said goodbye to Michael Sharp, whose five year tenure as Chief Executive has delivered a well-invested store portfolio, and the systems and infrastructure framework

to support the Company's transition towards a global multi-channel future. He leaves the business in good shape to navigate the challenges and opportunities to come and we wish Michael every success in the future. In the intervening period Suzanne Harlow, Group Trading Director and Matt Smith, CFO, with the support of the wider executive team, have done an excellent job in keeping the business on track.

We welcomed a new non-executive director, Lisa Myers, to the board on 6 September 2016. Lisa's long experience of asset management and understanding of retail sector investment, together with her knowledge of international retailers, will be a valuable addition to the board's mix of skills.

After ten years, Dennis Millard will step down from the board at the Annual General Meeting in January 2017. The board has benefited greatly from his exceptional knowledge, commitment and understanding of the Company.

For a discussion on our approach to leadership, culture and governance please refer to the sections of this report commencing on page 32.

The year in review

We had a strong first half of the year, but saw a tougher environment in the UK in the second half, with political and economic uncertainty overlaying some softness in key categories, such as clothing. Despite this, over the past year the business has maintained profitability and market share, has continued to generate cash and slightly increased the dividend.

We are continuing to evolve our business model to ensure the Group remains competitive, effective and successful within changing markets, and that our infrastructure is best-in-class in order to support international multi-channel growth. The pillars of our strategy – delivering a compelling customer proposition; focusing on better returns from our UK retail business; increasing availability and choice through multi-channel; and

expanding the brand internationally – remain central to the creation of shareholder value and are enabled by continuing investment in operational effectiveness.

An explanation of our business strategy and progress in 2016, together with a discussion of how we manage risk and integrate a sustainable approach across our activities, is shown on the following pages.

Strong financial underpinning

In response to more uncertain trading conditions in the UK in the second half of the financial year, the business has focused on managing stock and margins and generating cash. During the year, we reduced our net debt levels by £41m to £279m. At the current year end we have achieved a leverage ratio of Net Debt/EBITDA

of 1.2x. With our previous leverage ratio target of 1.0x in sight, last year we set a new medium term leverage ratio target of 0.5x.

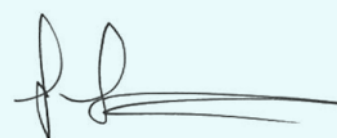
Our capital spending programme, which includes a three-year systems investment of £130m, is expected to be comfortably funded within our existing resources.

In line with our progressive dividend policy, we have increased the dividend by 0.7% to 3.425p. This was as a result of a 2.5% increase in the interim dividend, and a maintained final dividend.

A great team effort

On behalf of the board, I would like to offer all of our people my gratitude for all their hard work and dedication that has helped to deliver these results. With their support and

commitment we look forward to a very exciting new phase for the development of Debenhams and I am confident we have the best team to realise the potential of “new Debenhams” as a leading international multi-channel retailer with a bright future.



SIR IAN CHESHIRE
CHAIRMAN
27 OCTOBER 2016

INTRODUCING OUR NEW CEO

Sergio Bucher
joined Debenhams
on 17 October 2016.

From 2013 until joining our company, Sergio served as Vice President, Amazon Fashion Europe, leading Amazon's growth to become one of the largest fashion retailers in Europe.

Previously he was General Manager, Retail and e-commerce Worldwide, at Puma, and prior to that held retail roles at Nike and Inditex, where he led the start-up of its lingerie retail brand, Oysho.




“I am excited to be joining Debenhams, with its strong UK heritage, a growing international presence and a track record of supporting and developing brands and designers. I look forward to working with its experienced and talented team to take Debenhams forward to an exciting new future.”

INVESTMENT CASE

Delivering long-term sustainable growth


STRATEGY

To be a leading international, multi-channel brand by delivering a compelling customer proposition and increasing availability and choice through our flagship digital platform and well-invested, well-located stores around the world.

 [Read more on pages 9 to 17](#)

BUSINESS MODEL

We aim to create value for shareholders by serving our customers well, with a clear understanding of what they want, supported by our expertise in how to develop, source and sell products through the channel that best meets their needs.

 [Read more on the inside front cover](#)


BRANDS

We offer a unique, differentiated and exclusive mix of owned, international and concession brands. Our exclusive Designers at Debenhams ranges showcase internationally renowned British design talent. We have market-leading positions in premium beauty, occasionwear and accessories in the UK.

 [Read more on page 9](#)


KEY PERFORMANCE INDICATORS (KPIs)

The board assesses the performance of the business on a range of financial, strategic and sustainability key performance indicators, some of which are linked to the management performance share plan.

 [Read more on pages 18 and 19](#)

RISKS AND HOW WE MANAGE THEM

The management of risk plays a central role in strategic planning and is systematised to ensure that the Group's reputation is protected and the strategic and operational goals of the business can be delivered.

 [Read more on pages 20 to 25](#)

DIVIDEND POLICY

Debenhams is a cash generative business. The board has reviewed the capital structure and has adopted a progressive dividend policy which is compatible with the investment requirements of the business.

 [Read more on page 30](#)

MARKET CONTEXT

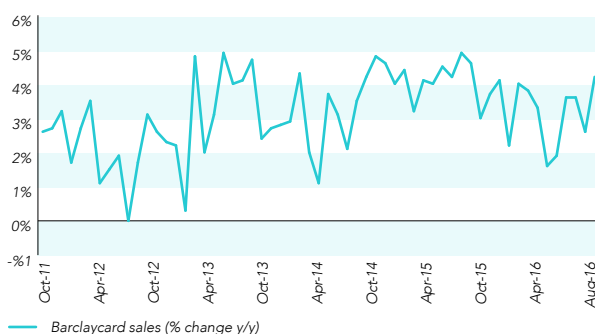
An independent view of the UK consumer background, which relates to the largest part of Debenhams' business, sourced from UK Spend Trends, published by Barclays Bank.

OVERVIEW

According to Barclaycard data, annual consumer spending growth of c.4% in the early part of the calendar year dropped off sharply in the spring but rallied through the summer months. There was a knock-back in the aftermath of the EU referendum vote, but the weather and a recovery in consumer confidence sparked a rebound in August back towards 4% annual growth. This is below levels delivered in 2014 and 2015 but relatively high in the context of five year trends. This has been supported by real wage growth maintained at c.2% in 2015/16 after the sustained negative growth of the period between 2008-14. Unemployment reached the lowest level since September 2005 at 4.9%.

Barclays expects that following the EU referendum debate, unemployment is likely to rise, preventing upward wage growth pressures from building, which together with the effect of depreciating sterling on inflation will force households to be more prudent; therefore private consumption is expected to slow in 2016/17.

Five year consumer spending growth



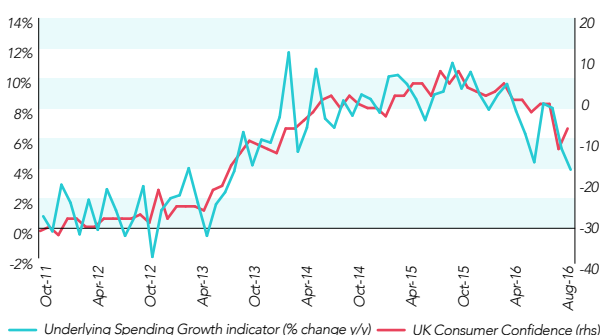
Source: Barclays Research, Barclaycard

Underlying spending growth has decelerated, although still fairly resilient

Our measure of underlying spending growth shows recent deceleration, near to the lowest levels seen since July 2013. This is despite the recent up-tick in the headline UK consumer confidence number, which recovered after its post EU referendum decline to rally five points to -7 in mid-August 2016.

Underlying spending growth targets categories such as department stores, discount stores, gift shops and jewellers, that are less affected by weather, changes in the timing of holidays or geopolitical events (eg Brussels terrorist attacks) to give insight into underlying consumer spending. In the figure below, we plot this measure against the GfK Consumer Confidence index.

Underlying spending growth ticks lower

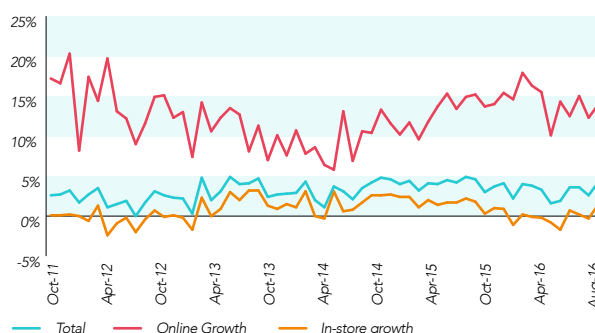


Source: Barclaycard, Barclays Research, DataStream, GfK

Online v. in-store spending growth

Online spending continued the double-digit growth trends of the past 12 months, while in-store spending growth returned to positive territory in recent months after negative trends for much of the past year.

Online spending continues to grow rapidly

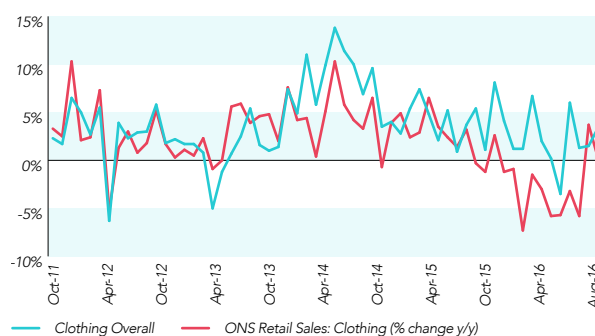


Source: Barclaycard

The division between strong online and weak in-store spending on clothing has continued. In-store sales growth has continued negative for much of the past 12 months, so that more than 100% of the growth in spend has been delivered by online demand.

Barclaycard data shows correlation with the ONS measure of retail sales growth in clothing. The latter has shown a more persistently negative overall trend, but also rallied in late summer.

Clothing spending data track each other



Source: ONS, Barclaycard, Barclays Research

Barclaycard data indicates positive continuing growth in mens' clothing and childrenswear, but womenswear has been flat for much of the period, and footwear has been negative.

Clothing specialists have under-performed discount stores and department stores, although the latter saw slowing performance in the later part of the year.

Barclays UK Spend Trends offers a unique insight into UK consumer spending across 34 retailer categories in 11 industries. Barclaycard processes nearly half of UK credit and debit card transactions. Specifically, the data measures spending on UK-issued Barclaycard consumer credit and debit cards, irrespective of the country in which the spending occurs. Data as at 6 September 2016

OPERATIONAL REVIEW

Suzanne Harlow, Group Trading Director, and Matt Smith, Chief Financial Officer, set out progress in delivering the strategy in FY2016.



Michael Sharp stepped down as Chief Executive of Debenhams earlier this year. Suzanne Harlow, Group Trading Director, and Matt Smith, CFO, led the executive team until our new Chief Executive Officer, Sergio Bucher, joined the business in October.

Strong first half, tougher second half

FY2016 has been a year of two halves. We delivered an excellent performance over peak, growing market share and delivering strong multi-channel growth against a good performance in the prior year.

The UK clothing market softened in the second half and the overall marketplace was more volatile but we kept focused on delivering our strategy, with the emphasis on managing stock and margins and generating cash.

As a result, we ended the year with maintained underlying profits on a 52 week basis, and net debt improved by £41 million at the balance sheet date in line with our plan.

Changes to the team and operational structure

As we move the business towards a global multi-channel model we have made some changes to our management structure. We have aligned online and store channels across both UK and international, with Ross Clemmow taking the role of Retail Director (UK and ROI) and with David Smith joining the Company from Body Shop International as International Director. All marketing channels are now aligned under Richard Cristofoli, Marketing Director, and we have undertaken some restructuring of roles within buying and merchandising designed to support our move towards a more flexible and responsive supply chain.

Delivering the strategy in FY2016

Our strategy to deliver a compelling customer proposition; with growth across multiple channels; focusing on improving returns from our UK stores; and expanding internationally is enabled by our investment in operational and organisational effectiveness. Further discussion of our strategy and the

priorities for FY2016 and beyond can be found in the strategic report.

In line with our strategy to drive non-clothing categories harder, we have made excellent progress this year in beauty, gift and accessories; we have added in exciting new food brands; and launched new furniture and lighting ranges. We opened five new stores in the autumn which are performing to plan and showcase our latest brand presentation.

A planned reduction in outerwear clothing stocks enabled us to trade a difficult autumn 2015 clothing season successfully. Over the summer months, the clothing market declined further, but having tightened our initial buy, we took action to manage seasonal stocks, particularly in womenswear, including selected promotional activity. As a result, we ended the year in a clean seasonal stock position, in line with our plan, achieved further reductions in markdown and have delivered an improvement in full price sales.

Online sales growth continues to be strong, growing by 9.3% – in line with the wider market – and reflects continuing improvements in our service proposition as well as being driven by rapid growth in smartphone usage. Combining our retail and online operations allows us to deliver a seamless shopping experience across the UK business.

Our space optimisation programme, relating primarily to our 40 largest stores and covering approximately one million square feet, has now filled over 70% of the relevant space with a variety of new brands and services, as well as extensions to existing brands, and is on track to be completed within the next two years, as planned.

Under the leadership of David Smith, our International Division is mirroring the UK structure to support a fully integrated multi-channel approach. International accounted for 19% of GTV and 25% of operating profit in FY2016 and has strong growth opportunities. Whilst we have a number of growth strands, we are taking a more focused and coherent approach to international markets, identifying the markets we wish to enter and to expand in and which of our business models – franchise, wholesale, multi-channel or online-only – works best for that market.

Debenhams Ireland successfully exits examinership

In May 2016, Debenhams Retail (Ireland) Ltd (DRIL) entered examinership and following this process the business has been successfully restructured. This will ensure a sustainable future for DRIL after

several years of losses. All 11 stores and the website have remained open and 1,330 colleagues remain with the business, working hard through the examinership process to maintain high standards and help secure its future. Following reinvestment and the introduction of a number of new brand and service offers, the future is looking bright for our operations in Ireland.

Outlook for FY2017

Many economists are predicting a tougher consumer environment in the next 12 months. The outcome of the EU referendum means that retailers face increases in their sourcing costs, but our hedging strategy allows us to manage the effect of this over the year.

The executive team will focus on maximising the trading opportunities in current markets; continue to rebalance our sales mix towards growth categories; deliver further full price sales improvement; grow multi-channel participation profitably; drive a better return from our stores; and expand our brand internationally.

Our strategy has remained unchanged and our priorities for the coming year include building on the growth in categories such as beauty, gift and accessories; further investment in full price marketing; gaining deeper customer understanding that has allowed us to identify and address customer service pain points; leveraging mobile technology to bring channels closer together and improve in-store service; evolving the international

operating model to drive global growth, and continuing the work to restructure our supply chain to make it more responsive and more flexible.

Longer term growth drivers

We have a well-invested store portfolio in major markets, we are on the way to establishing an infrastructure for longer term global multi-channel growth, and we have the financial resources to continue investing to deliver sustainable growth. Our colleagues who work so hard across the business are energised by the prospect of new leadership as we enter the next stage of our development.

In the UK our focus is to understand our customer better in order to maximise the performance of our store portfolio and to exploit the online growth opportunity. As a one-stop shop for a broad choice of international and exclusive brands across fashion, accessories, beauty and homewares, we are in a tremendous position to drive multi-channel growth.

Internationally we have the opportunity to drive growth via a number of different models, all of which are capital-light. We expect to continue to generate good cash flow, giving us a strong platform to drive long-term sustainable growth for our shareholders.

▼
Left to right:
Nikki Zamblera, Human Resources Director
Ross Clemmow, Retail Director UK & ROI
Peter Swann, Operations Director
David Smith, International Director
Suzanne Harlow, Group Trading Director
Richard Cristofoli, Marketing Director
Matt Smith, Chief Financial Officer







STRATEGY IN ACTION

DELIVERING A COMPELLING CUSTOMER PROPOSITION

Developing our brands and driving full price sales.

New and expanding brand choice to grow non-clothing mix

We constantly review our product and brand offer in order to deliver a compelling customer proposition that is at the centre of group strategy. Part of our strategy is to grow our mix of non-clothing sales and we have made excellent progress this year in beauty, gift and accessories; we have added exciting new food brands; and launched new furniture and lighting ranges. The balance of clothing to non-clothing is now 48%/52% in our UK sales mix.

We identified a growth opportunity in casual dining and over the past year have introduced a variety of new dining options with high quality third party partners. As well as introducing a further 15 coffee shops with Costa Coffee and well-known Irish favourite Insomnia, we identified different opportunities for a variety of meal solutions in partnership with Patisserie Valerie and Franco Manca, for example. We also have an exclusive pan-Asian cuisine offer, Chi Kitchen, in our Oxford Street store. Our stores can offer two or three different formats alongside our own in-store restaurants, where the menu options have also been revised.

By this Christmas we will have approximately 50 new food offers, and UK food sales grew 13% across FY2016. Our target is to grow food from 3% to 10% of our sales mix. Other exciting introductions in the autumn season include a new lighting range in 30 stores and the exclusive UK launch of the fastest growing beauty brand in the US, Kat Von D.

Driving full price sales

How we present our brands is critical to ensuring that we increase our full price sales. In the five new stores we opened

last autumn, we have showcased our latest brand presentation and online we have continued to upgrade the look and feel of our landing pages, with larger product images and more inspirational content on key trends. Our "A Match Made in Debenhams" marketing campaign has built well over the year to showcase some of our key brands and tell our full price story more effectively.

We focused on holiday related categories in the summer season, with our successful marketing campaign featuring Matthew Williamson Butterfly swimwear, driving us to number one position in the swimwear market in the UK. As our customers' mindset was on holiday spend, as well as excellent progress across swimwear and beach accessories, we saw strong cross-shopping into luggage, Virgin holidays and travel-money sales.

After embarking on a strategy to refocus our promotional activity over two years ago, our promotional calendar is now broadly where we want it to be and in FY2016 the emphasis has shifted towards maximising the effect of the events we have whilst reducing further the breadth and depth of promotions.

This has been achieved despite trading against the background of a clothing market that declined 1% across the trading year, and where promotional activity rose in the wider market. As a result, there is further opportunity for us to grow full price sales.

As we continue to reduce stock options, particularly in more seasonal clothing categories, we are able to improve visual merchandising and present product in a less cluttered environment, without impacting product availability.

Managing risk

Together with the further market opportunities we see in non-clothing categories, such as gifting, accessories, home and food, and with strong momentum in beauty, where we have maintained our market-leading position, we are confident that our diversified business model will give us some protection even if difficult clothing market conditions persist.

In competitive markets, we know it is vital to keep our customers engaged and to understand their concerns. Our customer insight team provide us with valuable intelligence to keep us alert to changes in customer priorities. We also monitor our marketing activity tightly to measure its effectiveness and look to leverage across channels.

Optimising our resources and relationships to create value

Our strategy is to complement our own and exclusive brands with a variety of international brands and concession offers, curated to meet our core customers' needs and wants. Many of the exclusive designer and supplier relationships and partnerships we have are long-standing.

We sponsor Graduate Fashion Week, which helped launch the careers of designers such as Giles Deacon, Matthew Williamson and Julien Macdonald – all participants in Designers at Debenhams – with a view to identifying new and future design talent.

We have a strong track record of investment in brand development and marketing, and these resources, together with a well-invested store base and infrastructure to support multi-channel demand, ensure our ability to serve our customers well and create value for our stakeholders.



STRATEGY IN ACTION

INCREASING CHOICE THROUGH MULTI-CHANNEL DEVELOPMENT

Bringing channels closer together.

Integrating management of stores and online

Earlier this year, we aligned the management of the UK retail and online operations within a single structure under the leadership of Ross Clemmow as Retail Director. This is designed to deliver a seamless shopping experience across the UK business. Similarly, within International, franchise, wholesale and online channels have been aligned under the leadership of David Smith, who joined Debenhams in May from Body Shop International. This is in tandem with continuing investment in IT and systems to develop a flexible and robust infrastructure supporting the growth of the online channel and increasing demand from our customers – wherever they are in the world – to shop across channels.

Smartphones leading online growth

The investment we have put behind our operations to serve our multi-channel customers better has driven significant

further progress in online, with strong growth in smartphones – which now account for around 50% of our online traffic – driving overall online sales growth of 9.3%. We have invested in better online content to improve brand projection, encourage outfit-building and cross-shopping and we switched some of our marketing spend into paid-for search. These actions have helped to drive both visits and conversion, with smartphone conversion rates up 22%. We believe we are amongst the market leaders in mobile development and as customer expectations increase, we will continue to develop this area.

Leveraging mobile across channels

Increasingly we are using mobile to drive traffic and sales not just digitally, but as a route to drive customers into stores. We continue to make excellent progress with click & collect which now accounts for 32% of orders and peaked at 46% ahead of Christmas last year. There remains considerable further opportunity to grow this delivery channel, which brings customers back into stores, driving additional spend.

We are using mobile technology to connect customers and colleagues to provide a faster response to our customers' needs. We are rolling out new WiFi technology across our store base, which will support new mobile service solutions. We will offer contactless payment at till points in around half our UK stores and mobile payment points for our busiest departments in key stores for the Christmas peak.

Tablet devices for our colleagues, providing visual display guides, in-store activity packs and stock reports, will allow

them to spend less time in the stockroom and more time serving customers. This technology will also allow us to track customer footfall more accurately and identify "hot spots" in our stores which will support our store managers in driving in-store service and sales.

Managing risk

Mindful of the continued growth of mobile as a sales channel, we have established an "agile development" programme designed to deliver continuous improvements, with upgrades every four to five weeks. This minimises the risk of disruption and ensures we are continuing to keep pace with the demands of our customer. We have put business continuity strategies in place to minimise the risk of service failure.

Optimising our resources and relationships to create value

We are part-way through a multi-year investment programme in IT systems. Our multi-channel investment has taken us from behind the pack to top quartile performance in terms of customer service and our work on mobile technology will ensure we remain market-leading.

An important part of our multi-channel proposition is working with our concession partners so that they can match our own customer service levels for online purchases. The majority of these will be able to participate in our next day delivery promise for Christmas this year.



Online EBITDA

+14% 







STRATEGY IN ACTION

FOCUSING ON UK RETAIL

Driving a better return from UK stores.

Building on our destination departments

With one in four of the adult population visiting our 165 UK stores every year, more customers than our two largest department store competitors combined, our stores remain central to our appeal for customers. Whilst building on our core strengths in beauty, gifting and occasionwear, there are opportunities to grow share in categories where we under-index or that are growing faster than our core markets, including in service categories such as beauty treatments, travel money and food.

In FY2016 we introduced a number of new brand and service offers to reinforce our destination status. Over the peak "Black Friday" and Christmas trading periods, this supported positive like-for-like growth in UK stores as well as online.

We have identified casual dining as a particular opportunity, with many of our stores able to take a number of different food offers, from coffee shops to a full dining service. The Eating Out market in the UK is worth £87.1bn*, almost three times the size of the clothing market, and is forecast to grow at around 10% between 2015-2018.

Whilst we have upgraded service and introduced a new menu into our own brand restaurants, we have added choice through partnering with a variety of third party partnerships, whose brands score highly with our target customers. Those customers who choose to eat in one of our cafés or coffee shops visit more frequently and spend more in our stores, and in those stores where we now operate two or more food offers, sales participation is at least 10%, which is our target for overall food participation.

Rolling programme of store modernisations continues

We have continued our modernisation programme, upgrading brand presentation and introducing new brand and service offers, including food brands. In FY2016 we completed work on flagship stores in Birmingham and at Westfield White City, with Lakeside and Chelmsford completed in time for peak trading. Fifty of our stores have been modernised in the past five years and our flagship portfolio is in very good shape.

Our space optimisation programme, relates primarily to our 40 largest stores and covers approximately one million square feet identified as delivering sales densities 25% below the chain average.

Over 70% of the relevant space has now been filled with a variety of new brands and services, as well as extensions to existing brands, and is on track to be completed within two years, as planned. The performance in the space within this programme has delivered our targeted return.

The lessons we have learnt from this programme about how to make our space work harder are now being applied to maximise the performance of our top-performing stores as well.

Managing risk

We carefully assess the returns from new brands and concessions in order to ensure we maximise profit density from our stores. We manage the introduction of new concessions to ensure we are not unduly dependent on any one partner.

Optimising resources and relationships to create value

Over 90% of our stores are in the top UK retail catchments and our expertise in space management ensures that our offer remains relevant and compelling. Our status as an anchor tenant means that our average rent per square foot is low in relation to our peers. The work we are doing in relation to customer targeting will ensure that we continue to evolve our brand and service mix to maintain and reinforce our destination status.



COSTA

FRANCO MANCA
SOVADDOVICH PIZZA

**PÂTISSERIE
VALERIE**
EST. 1926

* Source: MCA UK Eating Out Report



STRATEGY IN ACTION

EXPANDING THE BRAND INTERNATIONALLY

Evolving the international operating model to drive global growth.

Multi-strand and multi-channel international growth

Under the leadership of David Smith, our International Division is mirroring the UK structure to support a fully integrated multi-channel approach. International accounted for 19% of GTV and 25% of operating profit in FY2016 and has strong growth opportunities. Whilst we have a number of growth strands, we are taking a more focused and coherent approach to international markets, identifying the markets we wish to enter and expand in, and which of our business models – franchise, wholesale, multi-channel or online-only – works best for that market.

Our franchise operations have experienced a more challenging year, with core Middle Eastern markets, where around half our franchise stores are located, seeing the effect of lower oil revenues on consumer activity. Nevertheless many markets continue to trade well and we continue to see a strong long-term future in the region, alongside our longstanding partner, Alshaya.

While we are managing our portfolio more actively, including closing some under-performing stores, our pipeline with franchise partners stands at 26 new stores and there remains untapped market opportunity.

As an example of our market-led approach, we have entered Australia with a new partner, Pepkor SEAsia (part of the Steinhoff Group). We have

confirmed a site for a franchise store in Melbourne, which is due to open in 12 months' time, but our initial entry to the market has been via a wholesale agreement for six of our brands, selling in Pepkor's Harris Scarfe chain, alongside a locally-operated online offer. We are continuing to trial wholesale and online models for China with different partners.

Momentum at Magasin du Nord

We have a market leadership position in our sector in Denmark through our own-operated store chain and website, Magasin du Nord. 2016 has been a year of further progress as Magasin consolidates its market position and invests in its proposition to maintain momentum.

The flagship store has just completed a major refurbishment to its beauty hall to consolidate its position as the leading department store in Copenhagen. This season will see a host of new brand introductions to deliver a more contemporary fashion and beauty offer. We see future opportunity for this successful, profitable brand beyond its domestic market.

Managing risk

Geopolitical risks are carefully considered before entering into any new market and we foster close and collaborative relationships with franchise partners. With a careful focus on capital allocation, we have maintained a capital-light model for overseas investment.

Optimising our resources and relationships to create value

Our relationships with key franchise partners are long-standing and critical to the successful future growth of Debenhams' operations in international markets outside the own-operated territories of Ireland and Denmark.

Our own brands and Designer at Debenhams ranges are a strong point of differentiation for our partners and important to building brand loyalty. Our expertise and relationship with international beauty brands in particular is an important attraction for international partners. With a number of our brands now also selling via third parties in overseas markets, they have the capability of building a material brand presence in their own right.

Our infrastructure investment, which has supported the launch of a new international web platform this year, offering local payment and local language capabilities, marks an important step forward in supporting the international multi-channel growth opportunity.

Stores in International markets

85



Magasin







STRATEGY IN ACTION

INVESTING IN OPERATIONAL AND ORGANISATIONAL EFFECTIVENESS

Delivering a more flexible and responsive supply chain.

Operational efficiency supported by infrastructure investment

We are part-way through a multi-year investment programme to establish an infrastructure designed to support international multi-channel growth. We are introducing systems and processes to make our supply chain more flexible and more efficient.

With approximately 35% of our own bought sourcing costs in US dollar or dollar-linked currency, Debenhams adopts a rolling hedging strategy, typically hedging 12-18 months ahead. We are fully hedged for FY2017 at an average rate c.5% lower than FY2016. We are partially hedged for FY2018 and therefore the most recent fall in the value of sterling will not take full effect until spring/summer 2018. Having restructured our buying and merchandising function this should help to mitigate some of the additional currency-related costs.

We are well on the way towards implementing a single warehouse management system integrating stores and online and this will be fully operational for spring 2017. As we transition from the existing multiple system to a single provider, this is expected to deliver benefits in picking costs and reduced stockholding costs over time. Investment in further automation will drive cost and service efficiencies.

Developing a network of sourcing offices

We have had a sourcing office in Hong Kong since 2011, which having relocated in June 2013 now employs 58 people and accounts for approximately 12.5% of our own brand sourcing.

In November 2013 we opened a new office in Bangladesh to support our

strategy to increase direct sourcing and in FY2016 these two offices accounted for almost 18% of own brand intake, shipping some 15.6m units across denim, knitwear, shirts and woven bottoms.

In FY2016, we also opened an office in Shanghai, which among other functions, will increase our capability to include fabric sourcing, to support the other offices. Hong Kong will become the business hub for the region, covering China and South East Asia.

Integrating channels to improve efficiency and accountability

In the year under review, we implemented a new organisational structure, aligning online and stores both in the UK and International businesses to make them more customer-centric. We have reorganised our buying and merchandising teams within clothing, increasing the proportion of category management buying, whilst maintaining brand clarity through an ambassador for each of our in-house brands.

We have also integrated our marketing functions across online, social media and brand advertising. Whilst delivering cost savings, these measures will also allow us

to present a more consistent service and brand presentation across whichever channels our customers choose to shop.

Managing risk

As with any systems programme, there are execution risks and we have strengthened the governance framework around this, while also staging improvements. We maintain multiple sourcing routes to avoid significant impact on product availability.

Optimising our resources and relationships to create value

By FY2020 following further automation investment, we will have transformed our supply chain from a UK department store model into a global multi-channel operation to support future sustainable growth and to drive our transition from a push, to a pull, supply chain.

As we increase sourcing through our own sourcing offices, this will enable us to have more direct, open relationships with our suppliers, improving flexibility, control and transparency as well as delivering improved margins.

▼ [Debenhams' Hong Kong sourcing office](#)



KEY PERFORMANCE INDICATORS (KPIs)

The board uses a range of KPIs to assess performance and measure progress.

The strategic KPIs are linked to the pillars of our strategy and sustainable KPIs ensure that the management of resources and relationships remain core to our business model.

Directors' remuneration

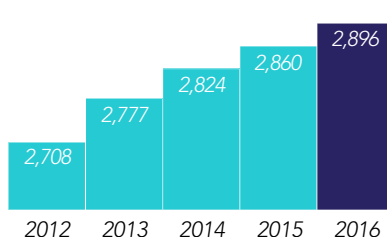
Certain of the strategic and financial KPIs are linked to executive remuneration as indicated below. The annual bonus criterion is underlying profit before tax (PBT). Under the performance share plan (PSP) awards are granted according to performance against the following KPI measures: UK gross transaction value (GTV); Group gross margin movement; and basic earnings per share.

Additionally PSP awards are granted according to performance against targets under the following measures: online EBITDA growth rate and International EBITDA growth rate. More information can be found in the directors' remuneration report starting on page 50.

All income statement numbers for 2016 are given on a 52 week basis.

GROUP FINANCIAL KPIs

Gross transaction value (£m)



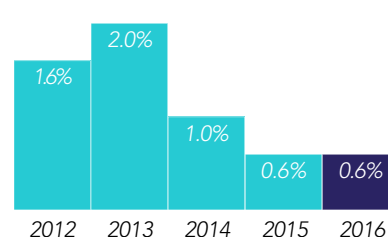
Rationale

GTV is a measure of overall sales in the business, including those from concession brands.

2016 performance

Group GTV increased by 1.3% with 1.2% growth in the UK while International GTV was up 1.3%, with foreign exchange impact broadly neutral across the year.

Like-for-like sales change (%)



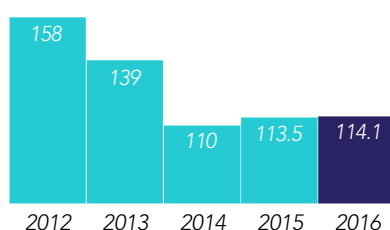
Rationale

Like-for-like (LFL) sales is a measure of the annual performance of stores that have been open for at least one year, plus online sales growth, from our UK and international business.

2016 performance

Group LFL sales increased by 0.6%. When adjusted for adverse foreign exchange translation, constant currency LFL growth was 0.7%, with the currency effect broadly neutral across the year.

Underlying profit before tax* (£m)



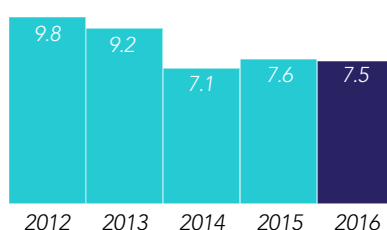
Rationale

Profit before tax (PBT) is our principal measure of profitability, and excludes items that are one-off in nature.

2016 performance

Underlying PBT* rose by 0.5% to £114.1 million for the 52 week period, reflecting positive growth in GTV, maintained gross margins and tight cost management.

Underlying earnings per share* (pence)



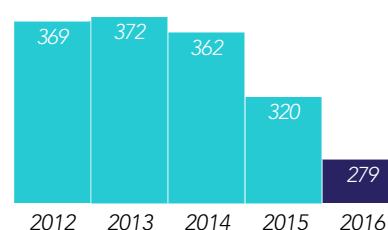
Rationale

Basic earnings per share (EPS) divides earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year.

2016 performance

Underlying EPS* decreased to 7.5p after an 8% increase in tax payable.

Net debt (£m)



Rationale

Net debt measures Group borrowings net of cash held at the balance sheet date, and reflects the movement in cash generated by the business after cash expenses.

2016 performance

After generating £40.8 million of cash, year end net debt has reduced to £279.0 million.

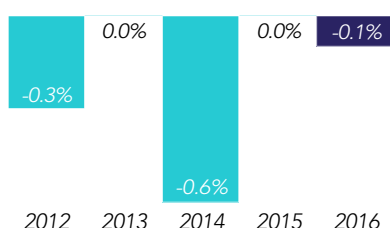
* Before exceptional items and non-recurring finance costs (2016: £12.4 million; 2015: £nil; 2014: £4.5 million). 2013-16 under IAS 19R, 2012 under IAS 19.

* Before exceptional items and non-recurring finance costs (2016: £12.4 million; 2015: £nil; 2014: £4.5 million). 2013-16 under IAS 19R, 2012 under IAS 19.

STRATEGIC KPIs



Delivering a compelling customer proposition – Group gross margin movement (bps)



Rationale

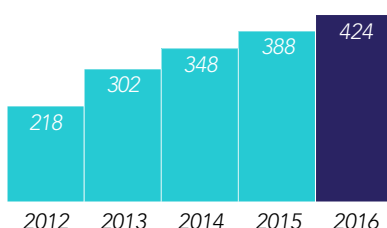
Gross margin is defined as GTV less the cost of goods sold, as a percentage of GTV. Key drivers include intake margin, sales mix and markdown.

2016 performance

Gross margin was down 10 bps across the year, with strong progress in markdown reduction offset by an adverse sales mix.



Increasing availability and choice through multi-channel – Group online GTV (£m)



Rationale

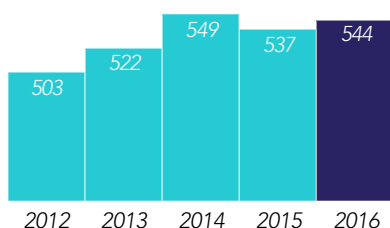
Online GTV is a good indicator of the performance of our multi-channel activities. It includes sales to both UK and international customers.

2016 performance

Online GTV increased by 9.3% to £424 million, representing 14.7% of total GTV, up from 13.6% last year.



Expanding the brand internationally – International GTV (£m)



Rationale

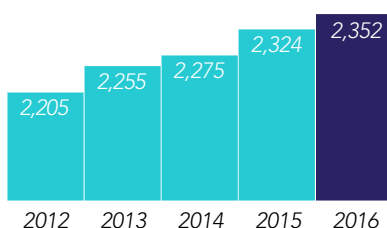
International GTV includes sales from our stores in Denmark and Republic of Ireland, as well as sales to franchise partners and online orders delivered outside the UK.

2016 performance

International GTV rose by 1.3% with positive growth in Ireland and Denmark offset by lower franchise sales.



Focusing on UK retail – UK GTV (£m)



Rationale

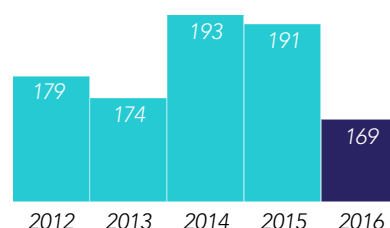
UK GTV reflects the performance of our UK stores, including their critical part in driving multi-channel sales.

2016 performance

UK GTV grew by 1.2% to £2,352 million. Click & collect, whereby online purchases are collected in store, now accounts for 32% of online orders.

SUSTAINABILITY KPIs

Carbon emissions (CO₂e 000 tonnes)



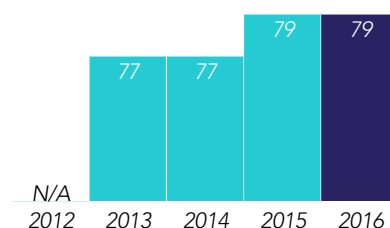
Rationale

CO₂e is used as a measure of environmental impact. It takes into account harmful emissions from the six greenhouse gases identified by the Kyoto Protocol.

2016 performance

Applying the same emissions criteria as in prior years, emissions declined by 12%. Including the wider, non-mandatory scope 3 emissions, our overall carbon footprint rose by 7%.

Employee engagement (%)



Rationale

We conduct an annual engagement survey, inviting all employees in our UK and Irish stores and head office to participate.

2016 performance

Our engagement score was maintained at 79%, with more than 20,000 colleagues participating.

RISK REVIEW

Safeguarding future returns

The board of Debenhams, which has overall responsibility for risk management and internal control, considers it important that there should be a regular and systematic approach to the management of risks in order to provide assurance that strategic and operational goals can be met and the Group's reputation is protected.

The board has conducted a review of the Group's risk management and the effectiveness of internal controls and is satisfied that those in place remain appropriate (please see the section on How Governance Supports Strategy on page 36 for more detail)

To support this system for internal control, the Group has a risk management framework (figure 1) that highlights the central role that the management of risk plays in strategic planning and the successful delivery of strategic objectives and the fact that this process is dependent upon people fulfilling their clearly defined roles and responsibilities.

Roles and responsibilities:

The board

The board is responsible for: approving the risk management policy and related framework; setting and communicating the Group's risk appetite and related policies; setting the tone and culture for managing risk; providing strategic direction and guidance on risk-related decision making; ensuring that risk management processes are adopted across the whole Group; obtaining assurance on the effectiveness of, and compliance with, the risk management framework; reporting on the management of risk to stakeholders; and signing off public disclosures relating to risk and risk management.

The Audit Committee assists the board in fulfilling its responsibilities by satisfying itself that key risks are monitored by senior management and the internal audit plan is focused on high priority areas.

The Audit Committee is supported by two subcommittees, the annual report compliance committee which ensures that external statements accurately reflect

items such as viability, going concern, principal risks and that the report is fair, balanced and understandable; and the risk committee which monitors and reports on all aspects of risk management through a number of specialist subcommittees, such as health and safety, data security, and Brexit.

Heads of function

Heads of function are responsible for: identifying and evaluating the risks that relate to their areas and activities; implementing appropriate controls to manage risks in line with the Group's risk appetite; and taking ownership for risks and controls within their area of responsibility, including the use of segregation of duties to protect against management override of controls.

Risk management team

The risk management team is responsible for: developing, implementing and reviewing the risk management framework and process; promoting effective risk management at all levels of the Group; encouraging an appropriate risk culture within the Group; liaising with other functions that advise on specialist areas; coordinating responses where risks impact more than one area; reporting, escalating and communicating risk management issues to key internal stakeholders; and providing assurance regarding risk management within the Group. The team also manages corporate insurance, business continuity planning, travel risk management and the whistleblowing line, amongst other things.

Internal audit team

In relation to risk management, the internal audit team is responsible for providing independent assessment of: the design, operation and effectiveness of the risk management framework and process; management of key risks, including the effectiveness of the controls; reporting of risk and control status; and reliability of assurances provided by management.

Whistleblowing

Two main routes are available to employees to raise concerns over malpractice. The first encourages employees to talk to their line manager, their manager's manager or, if still concerned, to call the central human resources team directly. The second route is a confidential reporting line where employees can speak to the Group's anti-fraud team. If an employee feels that the matter is so serious that it cannot be discussed in any of these ways, s/he can contact the Company Secretary or the Director of Internal Audit and Risk Management. The Group's policy on whistleblowing and these methods of raising issues are published on the intranet and on posters. The policy is reviewed annually by the Audit Committee and any serious matters identified are raised with the chairman of the Audit Committee.

Risk management activities:

Risk identification

Risks are identified through a number of routes. These include strategic planning exercises, ongoing operational reviews by management, project governance processes, internal audits, control environment reviews, environmental

Figure 1: Debenhams' risk management framework



scanning (eg market research and membership of industry bodies), changes to legislation and enterprise risk management best practices.

In addition to this, an extensive review of the organisation's risk universe has been undertaken to verify that all key risks have been identified and to ensure that management has considered these as part of its control environment review.

This organisation-wide review is facilitated by the risk management team for each operating division on an ongoing cyclical basis. All senior managers participate in the exercise, including the Executive Committee. It considers strategy, objectives and risks to their achievement together with the existing and new controls required to mitigate risk. Management is required to update the register with any new or emerging risks as they are identified.

Risk evaluation

In order to understand the impact specific risks would have on the Group, each risk is evaluated based on the likelihood of occurrence and its severity using a risk ranking matrix (figure 2) for consistency, which considers

the degree of change across one or more key performance indicators.

Risk treatment

The risk score, derived from the risk ranking matrix, is compared to the risk appetite matrix (figure 3), which provides guidance on the expected level of treatment, timeframes and authority levels. The four methods used are:

- Tolerate (take no further action)
- Treat (improve/implement controls)
- Transfer (via insurance/contract)
- Terminate (eliminate/re-engineer)

Risk reporting

The outputs from these processes are collated into the risk register and linked together to define the principal risks faced by the Group. These are taken into consideration when setting the annual internal audit plan.

Individual managers are expected to define and analyse the reports they require to enhance financial and operational performance and to identify emerging risks or control failures. Performance is also reviewed by the board, Executive Committee, Audit Committee, business continuity

management committee and health and safety committee.

Principal risks and uncertainties

The risks detailed on pages 22 to 25 are the principal risks and uncertainties that may impact the Group's ability to achieve its strategic and operational goals. They are ranked based on overall risk to the business.

The Group reviews its principal risks and uncertainties on, at least, an annual basis as part of the risk management process. The reviews over the last 12 months have led to the simplification and consolidation of the risks facing the organisation, for example rather than having multiple risks describing different supplier types, these are now reported as a single risk. Where it is believed that a risk could be sensitive to the UK leaving the European Union, this has been reflected in the impact section for the risk.

It should be noted that any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Figure 2: Risk ranking matrix



Frequency of event occurrence						
Event will probably occur at least once every year	Frequent	4	4	16	36	64
Event will probably occur at least once every three years	Common	3	3	12	27	48
Event will probably occur at least once every five years	Occasional	2	2	8	18	32
Event will probably occur less than once every five years	Unlikely	1	1	4	9	16
			1(1 ²)	4(2 ²)	9(3 ²)	16(4 ²)
			Low	Moderate	Serious	Critical

Severity of impact
(based on specified degrees of change across one or more financial or reputational key performance indicators)



Figure 3: Risk appetite matrix

Risk score	Risk matrix zone	Action	Risk response	Treatment timeframe	Risk acceptance owner
1, 2, 3 or 4	Green (Limited)	Optional	Treat or tolerate	9-12 months	Head of department
8, 9 or 12	Yellow (Moderate)	Optional	Treat or tolerate	6-9 months	Line director
16, 18 or 27	Orange (Significant)	Yes	Treat, transfer or terminate	3-6 months	Executive Committee
32, 36, 48 or 64	Red (Ultimate)	Yes	Treat, transfer or terminate	0-3 months	Board

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Impact	Examples of mitigation	Change*
<p>Economic environment</p> <p>Continuing adverse economic conditions may have a material adverse effect on Debenhams' results</p>	<p>A decline in sales on discretionary purchases leading to a reduction in profit.</p> <p>Whilst the gap between inflation and wage growth has started to narrow, the consumer environment remains volatile and we remain cautious about the outlook.</p> <p>This is an increasing risk due to the level of economic uncertainty and volatility that followed the UK vote to leave the European Union and this is being monitored carefully.</p>	<p>The board conducts strategic business reviews which ensure that management is focused on key priorities and cost control. These reviews also focus on the four pillars of the Group's strategy to build a leading international, multi-channel brand and the operational effectiveness of the processes and systems which link the pillars of the strategy together.</p> <p>Debenhams' exposure to a weakening sterling has been mitigated by the Group's hedging strategy, which will allow it to manage the effect of this during 2017.</p>	
<p>Currency & hedging</p> <p>Currency fluctuations and hedging risks could materially adversely affect Debenhams' earnings and cash flow</p>	<p>Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow.</p> <p>Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition.</p> <p>This is an increasing risk due to the weakening of sterling, and the potential for further future volatility, following the UK decision to exit the European Union and is being monitored carefully.</p>	<p>Debenhams has a treasury policy in place which covers counterparty limits and hedging for interest rates, foreign exchange and energy. There is also an internal treasury function which is mandated by the board.</p> <p>Debenhams closely monitors all aspects of cash management to optimise balance sheet metrics. Effectiveness is measured regularly by management through a series of KPIs.</p> <p>Debenhams continues to develop its supplier base to mitigate the potential of cost price inflation without compromising the quality of its products. In addition, the sourcing division has been strengthened to include additional expertise which assists with sourcing decisions, production consolidation and lead time reduction, amongst other things.</p> <p>Please refer to the notes to the financial statements for more information on this risk.</p>	

* Change in severity and/or likelihood of risk during course of 2015/16. Ranked based on overall risk to the business.



Risk	Impact	Examples of mitigation	Change*
<p>Systems availability & cyber security</p> <p>Failure in the stability, integrity or availability of information systems could adversely affect Debenhams' business operations and results</p>	<p>Risks associated with systems failure, external attack of systems, or data inaccuracy may significantly damage ability to manage information technology systems, such as our website or warehouse management systems, or could cause inappropriate decisions to be made using wrong, missing or ambiguous information.</p> <p>Inability to continue operations smoothly in the event of a major incident may have an adverse effect on inventory and profitability and divert financial and management resources from more beneficial uses.</p> <p>This is an increasing risk given the rising levels of cybercrime globally and the increasing reliance on information assets.</p>	<p>A robust systems infrastructure is required to support the delivery of our strategic objectives which are outlined on pages 9 to 17. As such, information systems developments are key enablers and critical for accelerating the pace of change necessary to compete effectively. To support the efficient and effective delivery of strategic and business critical projects, a business change roadmap has been developed and the governance framework has been enhanced, which includes a data security committee that focuses on areas such as data protection and payment card industry (PCI) compliance. A series of projects are also under way to strengthen business continuity to maintain and protect performance.</p> <p>A business continuity policy, describing roles and responsibilities across the Group, ensures that an effective framework is in place to enable the recovery and continuation of normal business operations as soon as possible in the event of any disruptive incidents. Key business systems are managed and monitored by specialist teams, and a disaster recovery site is in place where associated systems are tested to ensure that the requirements for invocation are fully understood.</p>	
<p>Competition for customers</p> <p>Debenhams' business could suffer if it is unable to predict accurately or fulfil customer preferences or demand through competitive, economic and profitable channels</p>	<p>Sales will be lower, market share will be reduced and the Company may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or may experience inventory shortfalls on popular merchandise.</p> <p>Channel shifts away from stores to online could lead to higher operational costs within the online channel and lower profitability, or even impairment, of store assets.</p> <p>The UK exiting the European Union may also have an impact through potential changes to foreign exchange rate volatility, trade agreements, duty rates and access to foreign markets, especially versus EU competitors.</p>	<p>Delivering a compelling customer proposition is at the heart of Debenhams' strategy, which is outlined on pages 9 to 17. In developing product and brand strategy, the Group takes into consideration market, trend and customer research to help it predict likely demand for its products and services. Debenhams continues to invest in its product and brand strategy to ensure that it remains competitive and to give customers a unique, differentiated and exclusive choice of brands, products and categories. An understanding of customers and their needs is developed by listening to their views, market intelligence and reviewing KPIs which ensures that pricing is competitive and promotional activity is appropriate. Debenhams' customer insight team provides valuable intelligence to keep the board alert to changes in customer priorities</p> <p>A number of specific actions are being taken to address the issues of the channel shift. These include:</p> <ul style="list-style-type: none"> • Building a more competitive and economic multi-channel business to drive sales, increase the recovery of fulfilment costs and reduce the cost per unit of fulfilment. To this end, a range of competitive delivery options has been introduced • Driving a better return on UK store assets through the introduction of additional products, brands and services as well as ensuring that stores are fully configured for multi-channel shopping. 	

* Change in severity and/or likelihood of risk during course of 2015/16. Ranked based on overall risk to the business.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk	Impact	Examples of mitigation	Change*
<p>Business strategy & transformation</p> <p>A failure to deliver Debenhams' key strategic priorities may adversely affect its business</p>	<p>Could significantly delay or prevent the achievement of Debenhams' business plan and could have a material adverse effect on Debenhams' business, financial condition or results of operations.</p> <p>This is an increasing risk due to the volume and complexity of change being implemented, its importance to the business plan, and our reliance on third party specialist resource to support delivery, alongside the fact that this risk could be exacerbated still further by the potential loss of access to the freedom of movement of goods, services, people and capital following the UK decision to exit the European Union.</p>	<p>Debenhams has developed a business change roadmap which includes a number of projects that support the delivery of the key strategic priorities. These include investment in systems capability across areas such as buying and merchandising and supply chain to achieve greater alignment across all sales channels and geographies.</p> <p>Management supply detailed updates on progress within the transformational programme, which are closely reviewed by the board to ensure that management is focused on key priorities and cost control.</p>	
<p>Supply chain and key suppliers</p> <p>Any disruption or other adverse event influencing either the sustainability of the supply chain or Debenhams' relationship with any of its major suppliers, service providers, international partners, designers, or concessionaires</p>	<p>Any of the risks associated with doing business in international markets and/or importing merchandise from these regions could place pressure on margins and profitability or require the Group to divert financial and management resources from more beneficial uses. Typical impacts include: costs associated with the transfer of the operations from one provider to another or the potential of extra operational cost from a new provider; changes in exclusivity arrangements with designers or any decline in their popularity; or the loss of a number of important concession partners.</p> <p>The uncertainty around future trade agreements and duty rates following the UK decision to exit the European Union means this is an area of high management focus.</p>	<p>Debenhams fosters close and collaborative relationships with its suppliers. Both parties work towards the objective of optimising sustainable fulfilment and costs, which is measured regularly by management through KPIs. You can read more about how the Group builds relationships with our suppliers on pages 34 and 35.</p> <p>Debenhams continues to develop its supplier base to mitigate the potential of cost price inflation without compromising the quality of its products. In addition, the sourcing division has been strengthened to include additional expertise which assists with sourcing decisions, production consolidation and lead time reduction, amongst other things.</p> <p>In order to minimise the impact of any major supplier, designer or concessionaire relationship or performance issues, Debenhams' objectives are to: maintain close and collaborative relationships in order to ensure that strategies are aligned; to ensure that appropriate, unambiguous contracts are in place; ensure that all major suppliers, designers or concessionaires are financially robust; and to have contingency plans in place in the event of a failure.</p>	

* Change in severity and/or likelihood of risk during course of 2015/16. Ranked based on overall risk to the business.

Risk	Impact	Examples of mitigation	Change*
<p>Legal & regulatory</p> <p>Any events that negatively impact the reputation of, or value associated with, Debenhams' brand could adversely affect its business</p>	<p>Unfavourable publicity concerning Debenhams may lead to a loss of stakeholder trust and confidence and could have a material adverse effect on Debenhams' ability to attract and retain third party brands, suppliers, designers, concessions and franchisees, and could consequently impact Debenhams' business, financial condition or profitability.</p> <p>The UK decision to exit the European Union is likely to result in changes to selected laws which could increase the likelihood of this risk manifesting, and this is being monitored closely.</p>	<p>Forums exist to focus on specific areas of legislation, and specific business policies and procedures are in place to ensure that roles and responsibilities are understood across the Group. For example, the Sustainability Committee focuses on areas such as ethical sourcing, legislative change and corporate responsibility matters; and the data security committee focuses on areas such as data protection and payment card industry (PCI) compliance.</p> <p>All suppliers are expected to adhere to Debenhams' own supplier code of conduct, which is underpinned by Debenhams' robust policy on compliance that includes a focus on social and ethical standards.</p> <p>Debenhams has specialist accounting, taxation, information systems and legal and secretariat teams in place to monitor changes to legislation and standards and this is further supported by membership of key industry bodies that enhance awareness.</p>	
<p>Key personnel **</p> <p>Debenhams depends upon key management and other personnel and the departure of such management or personnel could adversely affect its business</p>	<p>Could significantly delay or prevent the achievement of Debenhams' business plan and could have a material adverse effect on Debenhams' business, financial condition or results of operations.</p> <p>The UK decision to exit the European Union could impact on the availability of talent in the job market and the eligibility for individuals to work in certain jurisdictions.</p>	<p>In order to attract and retain talent, both succession and personal development plans are in place throughout the Group. In addition, target-led, performance-related incentive schemes exist.</p>	
<p>* Change in severity and/or likelihood of risk during course of 2015/16. Ranked based on overall risk to the business.</p> <p>** These risks are not new but are now reported as principal risks following the annual review of their ranking.</p>			

FINANCIAL REVIEW

Solid results underpinned by good cash generation.



Segmental performance

The Financial Statements for the period ended 3 September 2016 cover 53 weeks. In the notes to follow all income statement numbers for the financial year use the results for the 52 weeks of trading to 27 August 2016 and the comparative data for the 52 weeks to 29 August 2015. Management believes that comparing like-for-like 52 week periods demonstrates the underlying performance of the business. Cash flow and balance sheet numbers reflect the full 53 weeks to 3 September 2016 and the comparative balance sheet at 29 August 2015.

UK

Gross transaction value for the UK segment increased by 1.2% to £2,352.1 million and reported revenue decreased by 0.8% to £1,906.6 million. This was a result of continued online sales growth and the benefit of new store openings in the first half of FY2016. Sales benefited from a strong Christmas performance, but slowed in the second half of the year as the UK clothing market became weaker and more volatile. However, our strategy to increase the mix of non-clothing sales has supported our performance against this background, with beauty sales and casual dining sales in particular continuing to show good growth.

We continue to see online growth and positive trends in mobile, which now represents over 50% of UK online orders and strong growth in click & collect, up 35% year on year. The like-for-like store sales were a small negative for the year.

As we have continued to add choice in concessions to drive sales, own bought mix declined from 78.3% last year to 76.6%, with a consequent dilution to gross margin rate, offset by reduced markdown.

EBITDA reduced by 2.0% to £193.6 million, reflecting the impact of lower store sales and sales mix towards lower margin divisions. Operating profit decreased by 6.7% to £94.9 million, as depreciation expense rose as expected.

International

In the International segment, gross transaction value of £543.8 million was 1.3% higher than last year and reported revenue increased by 0.9% to £403.8 million. Over the year, the currency impact was minimal, with constant currency International gross transaction value improving by 1.4%.

The gross transaction value growth was driven by a strong performance, particularly over peak trading, in Magasin

du Nord and some improvement in Republic of Ireland sales. Franchise despatches had a 0.5% negative impact on Group GTV. A number of franchise partners have sought to improve their working capital positions by reducing stock intake in the autumn/winter 2015 and spring/summer 2016 seasons. A number of markets, such as the Middle East and Russia, are also planning more prudently as a result of more difficult trading conditions.

International operating profit decreased by 2.2% to £31.7 million as a result of lower franchise despatches previously mentioned.

Group sales and profits

Sales and revenue

Group gross transaction value increased by 1.3% to £2,895.9 million for the 52 weeks to 27 August 2016 and Group, statutory revenue decreased by 0.5% to £2,310.4 million. Group like-for-like sales increased by 0.6% on a reported basis and increased 0.7% on a constant currency basis. Week 53 had a further 1.4% impact on gross transaction value with Group gross transaction value on a 53 week basis increasing 2.7% to £2,938.5 million.

Like-for-like sales growth was principally driven by 9.3% growth in online sales; online now represents 14.7% of Group gross transaction value (FY2015: 13.6%).

The components of the gross transaction value increase of 1.3% and reported like-for-like sales growth of 0.6% are shown below:

Figure 1: Sales growth breakdown

UK stores	(1.1%)
UK online	+1.0%
International	+0.8%
Like-for-like-sales – constant currency	+0.7%
Exchange rate impact	(0.1%)
Like-for-like sales – reported	+0.6%
New UK space	+1.2%
International franchises	(0.5%)
GTV movement – 52 weeks	+1.3%

Figure 2: Financial Summary

£m	53 weeks to 3 September 2016	52 weeks to 27 August 2016	52 weeks to 29 August 2015	% change (52 v. 52)
Gross transaction value ^{1,2}				
UK	2,386.2	2,352.1	2,323.5	1.2%
International	552.3	543.8	536.6	1.3%
Group	2,938.5	2,895.9	2,860.1	1.3%
Statutory revenue ^{1,2}				
UK	1,931.9	1,906.6	1,922.3	(0.8%)
International	409.8	403.8	400.4	0.9%
Group	2,341.7	2,310.4	2,322.7	(0.5%)
Group like-for-like sales movement ³				0.6%
Group gross margin movement ⁴				(10 bps)
EBITDA ^{1,5,6}				
UK	198.6	193.6	197.6	(2.0%)
International	41.1	39.8	41.0	(2.9%)
Group	239.7	233.4	238.6	(2.2%)
Operating profit ^{1,6}				
UK	98.0	94.9	101.7	(6.7%)
International	33.0	31.7	32.4	(2.2%)
Group	131.0	126.6	134.1	(5.6%)
Underlying profit before tax ⁶	118.2	114.1	113.5	0.5%
Exceptional items	(12.4)	(12.4)	–	
Reported profit before tax	105.8	101.7	113.5	(10.4%)
Underlying earnings per share ⁶	7.8p	7.5p	7.6p	(1.3%)
Basic earnings per share	7.0p	6.7p	7.6p	(11.8%)
Dividend per share	3.425p	3.425p	3.400p	0.7%
	3 September 2016		29 August 2015	
Net debt	279.0		319.8	
Net debt : EBITDA (last 12 months) ⁶	1.2x		1.3x	

Notes to the above table and to all references in this statement:

¹ UK operating segment comprises stores in the UK and online sales to UK addresses. International operating segment comprises the international franchise stores, the owned stores in Denmark and the Republic of Ireland and online sales to addresses outside the UK.

² Gross transaction value (GTV): sales on a gross basis before adjusting for concessions, consignments and staff discounts. Statutory revenue: sales after adjusting for these items.

³ Like-for-like sales movement relates to sales from stores which have been open for more than 12 months plus online sales.

⁴ Gross margin: GTV less the value of cost of goods sold, as a percentage of GTV.

⁵ EBITDA is earnings before interest, taxation, depreciation and amortisation (including loss on disposal of fixed assets).

⁶ Before exceptional items, comprising restructure costs in the Republic of Ireland relating to the examinership process, restructure costs associated with streamlining head office and a charge relating to the cost of writing off intangible systems assets following the launch of the new International website.

FINANCIAL REVIEW CONTINUED

Operating profit

As planned, growth in the lower margin cosmetic, gifting and concession categories which are dilutive to gross margin rate, relative to higher-margin own bought clothing categories, has also continued to impact sales mix. However, further progress has been made to tighten stock and reduce the breadth and depth of promotions, resulting in reduced markdown and a 60 bps benefit to gross margin. Although the second half was more promotional than we had planned, it was less so than last year and contributed to the overall markdown saving. The combined effect of these factors was that overall gross margin rate declined 10 bps.

Operating costs before depreciation rose in line with expectations, increasing 1.8% compared to the same period last year despite the further shift into online. From April 2016, the National Living Wage came into effect, having a c.£3 million impact in the second half of the financial year, in line with previous guidance. We expect a further incremental impact in FY2017 of c.£9 million, which is expected to be largely mitigated through further cost efficiencies.

Depreciation and amortisation (including losses on disposals) increased by 2.2% to £106.8 million, reflecting higher capital expenditure over the last few years.

As a result of the above, Group operating profit for the 52 weeks to 27 August 2016, was £126.6 million, 5.6% below last year.

Net finance costs

Net finance costs decreased by 39.3% to £12.5 million reflecting the benefit of lower debt levels and interest costs following the revolving credit facility ("RCF") extension in February 2016. The net finance cost also benefited from a £1.1 million pension valuation credit associated with the pension surplus in accordance with IAS 19 revised "Employee benefits" (FY2015: £0.1 million credit).

Exceptional items

As we continued to manage the business actively in order to improve efficiency and build a more resilient business model, exceptional costs (before tax) of £12.4 million were recorded in the year. The costs related to three areas:

- a) The Irish business entered into an examinership process in May 2016 which successfully concluded in August 2016. As a result, an exceptional charge of £4.0 million has been made relating to the restructure of the Irish business, as detailed on page 7.
- b) A head office restructuring charge of £5.7 million consisting of redundancies and other costs arising from streamlining our head office and local store warehouse function, as detailed on page 17.
- c) A £2.7 million charge relating to the cost of writing off IT system assets following the launch of the new International website in the year.

Of the £12.4 million charge, £9.7 million is cash-related, of which £2.0 million was incurred in the year.

Profit before tax

Underlying profit before tax before exceptional items increased by 0.5% to £114.1 million from £113.5 million in FY2015. Reported profit before tax after exceptional items decreased by 10.4% to £101.7 million.

Taxation

Taxation excluding the impact of exceptional items increased from £20.0 million last year to £21.6 million principally due to an increase in the effective tax rate and an increase in reported profits. The effective tax rate increased to 18.9% from 17.6% last year, as last year's rate benefited from the resolution of prior year tax matters.

Profit after tax

Profit after tax but before exceptional items decreased by 1.1% to £92.5 million. Profit after tax after accounting for exceptional items decreased by 11.8%.

Earnings per share

Underlying basic and diluted earnings per share, before exceptional items, decreased by 1.3% to 7.5 pence. The basic weighted average number of shares in issue increased from 1,226.4 million last year to 1,227.4 million and the diluted weighted average number of shares decreased from 1,228.7 million to 1,227.9 million.

Impact of the 53rd week

The 53rd week in the year covered 28 August to 3 September 2016. This delivered £42.6 million of additional gross transaction value, contributing 1.4% of the 53 week sales, £6.3 million of EBITDA and £4.1 million of profit before tax. There was no material effect on overall debt levels, where benefits from EBITDA generation were offset with timing of capital spend and supplier payments.

Cash flow and uses of cash

Debenhams is cash generative and has clear priorities for the uses of cash. The first priority is to invest in our strategy to build a leading international, multi-channel brand. Second, we pay our shareholders a progressive dividend. Third, as we communicated in October 2015, we have a medium-term financial leverage target for net debt to EBITDA of 0.5 times.

Operating cash flow before financing and taxation increased from £102.9 million to £113.7 million as a result of higher EBITDA, benefits from working capital inflows and lower capital expenditure. Within the working capital improvement, there is a benefit of £10 million related to timing, which will reverse in 2017. This offset the impact of the agreed contributions to the Debenhams Retirement Scheme and the Debenhams Executive Pension Plan.

Cash flow generation, the uses of cash and the movement in net debt are summarised in the table opposite.

Figure 3: Cash flow, uses of cash and movement in net debt

£m	53 weeks to 3 September 2016	52 weeks to 29 August 2015
EBITDA	239.7	238.6
Working capital	0.5	(2.3)
Cash generated from operations	240.2	236.3
Capital expenditure	(126.5)	(133.4)
Operating cash flow before financing and taxation	113.7	102.9
Taxation	(11.0)	1.1
Financing	(15.3)	(19.3)
Dividends paid	(42.0)	(41.7)
Other movements	(4.6)	(1.3)
Change in net debt	40.8	41.7
Opening net debt	319.8	361.5
Closing net debt	279.0	319.8

Figure 4: Capital expenditure

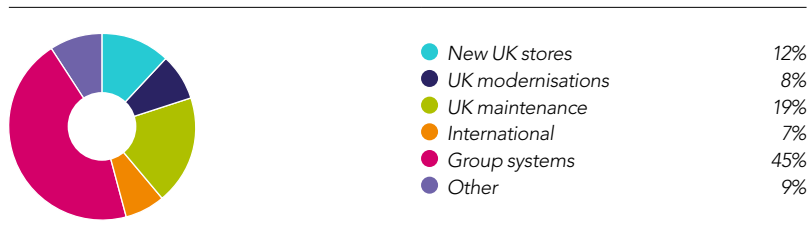


Figure 5: Key balance sheet items

£m	53 weeks to 3 September 2016	52 weeks to 29 August 2015
Intangible assets	962.1	931.5
Property, plant and equipment	670.2	675.3
Inventory	326.3	331.6
Other assets	149.6	124.5
Trade and other payables	(516.3)	(523.6)
Other liabilities	(394.5)	(358.4)
Retirement benefit (obligations)/surplus	(4.1)	26.2
Net deferred tax liabilities	(30.4)	(34.0)
Net debt	(279.0)	(319.8)
Reported net assets	883.9	853.3

FINANCIAL REVIEW CONTINUED

Capital expenditure

Capital expenditure was £126.5 million during the year compared to £133.4 million in the same period last year. The decrease is principally associated with the upfront capital investment in the new stores opened in autumn 2015. Investment in new IT systems continues to be a key focus with 45% (or £57 million) being spent in the year.

Dividends

An interim dividend of 1.025 pence per share was paid to shareholders on 1 July 2016 (FY2015: 1.000 pence), consistent with the progressive dividend policy outlined in October 2015. As the earnings growth (before any exceptional items) has been broadly flat on the previous year, the board is recommending a final dividend in line with last year of 2.4 pence per share which will be paid to shareholders who are on the register on 9 December 2016. The total dividend for the year is 3.425 pence (FY2015: 3.400 pence), an increase of 0.7%.

Net debt

The Group's net debt position as at 3 September 2016 of £279.0 million improved by £40.8 million from the same point last year, a result of the profit performance and the improved operating cash flows. The Group also benefited from the continued effect of reduced tax payments from the adoption of FRS 101 "Reduced disclosure framework" in the first half of the year. This is part of new accounting standards in the UK and ROI that the Group is required to adopt in its subsidiary company statutory accounts. The tax payments are expected to return to normalised levels for FY2017.

The ratio of net debt to EBITDA of 1.2 times on a 53 week basis compares with 1.3 times at the end of the previous year. The improvement is in line with our intention to reduce to 0.5 times over the medium term.

Financial position

During the year the Group refinanced its £320 million revolving credit facility (RCF), and extended the maturity from October 2018 to June 2020. The amended RCF contains an option to request an extension to June 2021.

A £200 million 5.25% bond remains in place to July 2021.

Balance sheet

Key balance sheet items are summarised in figure 5, on page 29.

Inventory

Stock levels continued to be managed tightly during the year, reflecting the ongoing strategy to plan the business prudently. Total stock value decreased by 1.6% to £326.3 million reflecting a 4.2% decline in like-for-like stock. Terminal stock of 3.3% was in line with our historical range of 2.5% to 3.5%.

Pensions

The Group provides a number of pension arrangements for its employees. These include the Debenhams Retirement Scheme and the Debenhams Executive Pension Plan (together "the pension schemes") which both closed for future service accrual from 31 October 2006. Under IAS 19 "Employee Benefits" revised, the net deficit on the Group's pension schemes as at 3 September 2016 was £4.1 million (29 August 2015: surplus of £26.2 million).

The deficit was driven by the reduction in bond yields partly offset by asset returns. During June 2015, the triennial actuarial valuation was completed and a new agreement was concluded under which the Group agreed to contribute £9.5 million per annum to the pension schemes (previously £8.9 million per annum) for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. The

Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

Current pension arrangements for Debenhams' employees are provided by defined contribution pension schemes.

MATT SMITH
CHIEF FINANCIAL OFFICER
27 OCTOBER 2016

OUR APPROACH TO ASSESSING VIABILITY

The aim of the Viability Statement is for the directors to assess the prospects of Debenhams to meet its liabilities, taking into account its current position and principal risks.

Debenhams has developed an annual three year strategic plan, which considers the Group's cash flows, dividend cover and other financial key performance indicators over this period. The three year strategic plan takes into consideration sensitivities that encompass a wide spectrum of potential outcomes including changes in like-for-like sales, margin rate, costs, capital expenditure forecasts and franchise store opening plans. These scenarios are designed to explore the resilience of Debenhams to the potential impact of the Principal risks set out on pages 22 to 25, or a combination of those risks. The directors paid particular attention to the following principal risks:

- Economic environment
- Currency and hedging
- Competition for customers; and
- Business strategy & transformation.

The three year strategic plan is reviewed each year by the directors. Once approved by the board, the plan is cascaded across the business and provides the basis for setting strategic priorities and detailed budgets that are subsequently used by the board to monitor and evaluate performance.

The directors have assessed the viability of Debenhams over the three year period to 31 August 2019. This period has been selected because it reflects the pace of change in retail and aligns with the Group's three year planning process and presents the board and the readers of the annual report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

The board is in agreement that Debenhams is a viable business and the viability statement can be found in the directors' report on page 70. In making this statement the directors have considered the resilience of Debenhams, taking account of its current position and historical financial performance, the principal risks facing the business in severe but theoretical scenarios, and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. As noted in note 21 of the financial statements on page 104, the Group's revolving credit facility is due to expire in June 2020 and contains an option to request an extension to June 2021. The directors have no reason to believe that future financing facilities will not be available when the current facility expires.

The financial position of the Group, including information on cash flow, can be found in the financial review section on pages 26 to 30. In addition, the financial statements include notes on finance costs (page 96) and financial risk management including treasury policies on interest rate, liquidity, currency and credit risk (pages 106 to 111).

RESOURCES, RELATIONSHIPS AND SUSTAINABILITY

Delivering sustainable growth

Our people and culture

Debenhams directly employs around 28,000 people in the UK, Denmark, Republic of Ireland, Hong Kong and Bangladesh. Debenhams is committed to ensuring that employees or applicants for employment are treated equally, regardless of gender (including if reassigned), race, ethnic or national origin, religious, political or philosophical beliefs, disability, marital or civil partnership status, sexual orientation, and age.

Through our equal opportunities policy, we aim to create an environment that offers all employees the chance to use their skills and talent. Decisions on recruitment, training, promotion, pay terms and conditions and leavers are based solely on objective, job-related criteria, and personal competence and performance.

Debenhams has a number of policies in place to protect and promote employee welfare and is committed to supporting all human rights in our business operations as well as in our relationships with our suppliers and other stakeholders. Our statement on Modern Slavery is summarised on the following pages.

Building a pipeline of leaders for the future

We adopt a consistent approach to identifying and developing talent across retail and head office. With a clear view of our top talent at every level of the organisation, we have been able to make a number of key appointments from within our existing workforce.

We have realigned our retail and head office talent development approach to use a consistent framework - our six-step development programme - which allows easy transferability of talent across retail and head office.

We have continued our business placement programme which brings new talent into the business and extended the programme's reach in focus and growth areas such as e-commerce. Our business placement participants undergo an intensive training programme, with around half the participants returning to us on completion of their full-time education.

“Respecting human rights across our global reach is a fundamental part of our company ethics and integrity.”

Apprenticeships

Currently, we have a small number of apprentices in retail and food, as well as early trials of an apprenticeship scheme in head office. We plan to convert our in-house development programme for retail supervisors aiming for their first management appointment, into a level three trailblazer apprenticeship. We will therefore be one of the first retailers to use the new Retail Trailblazer standards for apprenticeships. In 2017 we will review the opportunities to convert other in-house development programmes to these standards, supported by our plan to appoint a national training provider.

Developing employee performance

We continue to roll out a goal-setting approach for all head office employees and are moving performance reviews to an online system for 2017, which will enable better visibility of performance levels.

Business information and key messages are cascaded to all employees via personal briefings and email. Briefings are also led by the executive team and senior management to update employees on Debenhams' performance and strategy. We also have an employee consultation forum, which is attended by elected representatives from stores and head office, both as a means of informing employees about the Company and giving them the opportunity to be consulted on certain activities of the business.

Employee engagement

We carried out our fourth all-employee survey and have maintained the engagement score at last year's high level of 79%. Scores on each question response were maintained or improved on previous years' surveys and there was a high level of unprompted positive commentary on the culture of the organisation.

▼ *Debenhams' sourcing office in Hong Kong*





This is the third year of our Learning@ Work Week programme, with 2,000 head office employees attending learning events in a two week period. For this initiative we were nominated for the Retail Week “Rising Stars” awards.

The Debenhams Foundation

The Debenhams Foundation was formed in 2012, with the aim of providing clarity and direction on charitable fundraising across the business. In the four years since the Foundation was established, we have raised over £5 million. In FY2016, we have raised over £2 million via activities such as in-store fundraising, dedicated product donation and donated carrier bag income. These funds enable the Foundation to support a range of charities including our charity partners, BBC Children in Need, Help for Heroes and Breast Cancer Now. For more information visit our webpage at

Debenhams Foundation funds raised in 2016

£2.0m



<http://sustainability.debenhamsplc.com/debenhams-foundation/>.

Global sourcing

We source our goods from a diverse supply base. Respecting human rights across our global reach is a fundamental part of our company ethics and integrity. Our ethical responsible sourcing programme covers the entire product supply base, which consists of 896 factories and 512 suppliers of our own branded goods. China remains our key sourcing hub, with half of our factories located there. Our other key sourcing regions are India, Bangladesh, Turkey, UK, Romania, Cambodia and Vietnam.

Our extensive due diligence evaluation of suppliers and factories has stringent requirements to ensure that our Code of Conduct is adhered to within the Conditions of Trading. We have been a member of the Ethical Trade Initiative (ETI) since 2001 and our Code is based on the ETI and International Labour Organisation (ILO) core conventions.

Intertek, a FTSE 100 listed company, are our nominated global audit partner. In addition to third party compliance audits for the entire factory base, our own

LIFE female empowerment programme in India

Gender split at financial year end

	Male	Female
Executive team	7	2
Senior management	77	70
All direct employees	5,444	17,612

ethical compliance teams visited more than 500 factories during FY2016. Outside the UK, we use recognised industry standard audit methodology. In the UK we are a founding member of Fast Forward, an audit initiative designed and developed to help identify all guises of modern slavery in relation to pay and working conditions.

We have joined a new programme with the ETI on eastern European supply chains, where risk also lies with migrant labour and the labour provider sector.

For our associates, including franchise partners, we are adopting an approach that is consistent with the principles of our human rights policy.

MODERN SLAVERY STATEMENT 2016

The Modern Slavery Act came into force in 2015. It places a duty on businesses to disclose publicly the steps they are taking to combat forced labour and human trafficking. Our commitment to prohibiting modern slavery is defined in our Human Rights policy, our Supplier code of conduct and has been incorporated in the conditions of trading we have with our suppliers.

A full version of Debenhams’ statement on Modern Slavery may be found on our website at <http://sustainability.debenhamsplc.com>

Debenhams’ actions in place to support the Act are as follows:

Governance

Debenhams operates a Sustainability Committee which, amongst other activities, oversees and monitors actions taken to prevent modern slavery. Whilst everyone has a part to play, the director

SUSTAINABILITY CONTINUED

No. of factories

896



fast forward
Building sustainability in UK supply

“Tackling modern slavery is complex and demands new ways of working between brands operating in global supply chains. Debenhams is a member of the Fast Forward retailer initiative to build legal and ethical labour standards compliance within the supply base and is active in encouraging other brands to collaborate to address human rights risks. Debenhams has required the majority of its UK based suppliers to attend Fast Forward ethical compliance training in 2015 and 2016 which, as well as covering a broad range of ethical labour standards training, covers an introduction to the Stronger Together programme providing free guidance and resources to support organisations to identify and tackle modern slavery within their business and supply chains. Debenhams sits on the Technical Advisory Committee overseeing the development of the Clearview Global Labour Provider Certification Scheme to be launched in 2017. I welcome the active contributions that Debenhams make to these initiatives.”

DAVID CAMP
PROGRAMME LEAD,
STRONGER TOGETHER
AND FAST FORWARD

of ethical trade and corporate responsibility participates in this committee and is responsible for driving initiatives internally and externally to support the Act and is developing a human rights policy. In addition the supplier code

of conduct has been reviewed, updated and communicated to suppliers to reflect Debenhams’ support of the Act.

Risk Assessment

The Directors of Ethical Trade and Corporate Responsibility and Internal Audit have completed a review to identify actions required to improve operational effectiveness in relation to modern slavery. This exercise also identified suppliers with a reliance on temporary and flexible workforces who are reviewed by Fast Forward, the specialists in this field, in conjunction with Audit for Labour Providers (ALP). In addition, a survey was conducted to increase supplier awareness of the Act.

The ethical trade & corporate responsibility departments sit within the sourcing division. Both are fully integrated which results in a close working relationship between the two functions. We are committed to ethical sourcing, mitigating risk and improving the livelihood of the people in our complex operations and supply chain. It is the division’s overall responsibility to ensure risk is identified and managed, which includes regular audit and reviews of the overall corporate social responsibility (CSR) work. A training programme is also under way across the key functions of our business.

Awareness

We have been collaborating with industry bodies such as the ETI and the British Retail Consortium to improve awareness.

We invited Ergon, a specialist consultancy in human rights, to present to senior executives on modern slavery and other human rights issues.

Further sessions have been delivered by Stop the Traffik to train key management within our head office in the requirements of the Act.

Monitoring

We have a nominated global audit partner, Intertek, which perform audits internationally across our global supplier base using the Sedex members ethical trade audit (SMETA) methodology and

for the UK supply base, Fast Forward has designed a specific audit model focusing on six key modern slavery indicators.

Debenhams is committed to continuous improvement in helping prevent and eradicate any instances of modern slavery across its supply chains through effective due diligence, enhanced supplier risk assessment and auditing, and by raising awareness of modern slavery internally to colleagues and externally to suppliers.

This statement is made pursuant to the Modern Slavery Act 2015 and relates to Debenhams financial year end 3 September 2016.

On behalf of Debenhams plc

SIR IAN CHESHIRE
CHAIRMAN OF THE BOARD

Environment and energy efficiency

Debenhams is committed to continuously improving the energy efficiency of our buildings and operations. Five new stores were opened in FY2016, each designed with energy efficiency in mind, utilising LED lighting and energy efficient heating, ventilation and air conditioning (HVAC) systems.

Last year, we pledged to spend £2 million on energy efficiency initiatives in FY2016; we invested over £4 million in this period, and retro-fitted LED lighting in 50 stores. These projects have not only delivered excellent results in reducing energy use, but have also led to a more comfortable customer environment. We will be investing £4 million in FY2017 on energy efficiency projects, using LED lighting where possible, since lighting typically accounts for 35% of energy use in a store.

Greenhouse Gas Report FY2016

Debenhams has reported its greenhouse gas (GHG) emissions for its UK, Irish and Danish operations since 2008. Since then, its footprint boundary has evolved to include areas such as other international

offices, packaging, hangers (material use and recycling), and production of catalogue, brochure and direct mail. This section provides a breakdown of our GHG emissions for this year. Further details of our GHG emissions are found on our website <http://sustainability.debenhamsplc.com>.

With the support of Ricardo Energy & Environment, we have applied the GHG protocol corporate accounting and reporting standard 2013, and UK government conversion factors for company reporting to calculate our carbon emissions. As of this year, following new guidance from the GHG Protocol, Scope 2 emissions are reported using two different quantification methods: location-based and market-based¹. Scope 2 emissions using the market-based method are lower than with the location-based approach, as a result of our decision to purchase 100% renewable electricity in the Republic of Ireland and Northern Ireland.

Excluding Scope 3 emissions, for which the inventory boundary has widened this year, and which is not mandatory, Scope 1 and 2 emissions have decreased by 12%.

Based on the data provided for Scopes 1, 2, and 3, our overall carbon footprint has increased by 7%, from 190,930 tonnes CO₂e in 2015 to 204,136 tonnes CO₂e this year. A breakdown of this is shown in Table 1.

The reason for the increase in the overall emissions is primarily due to a widening of the inventory boundary. As of this year, additional emission sources have been included in Scope 3, such as water supply/treatment in Hong Kong and Bangladesh; UK rail; and plastic material use for carrier bags in UK stores. Excluding these newly added sources, Scope 3 emissions have decreased by 8%, due mainly to a reduction in business travel.

The decrease in Scope 1 emissions this year is a reflection of decreased use of gas, fuels and refrigerants across our UK, Ireland and Denmark operations. Scope 2 emissions have decreased as a result of changes in fuel mixes, as well as a reduction in overall energy consumption.

Emissions data are made more meaningful when compared to a core business variable. We have used intensity ratios for both the total footprint using the annual turnover and premises floor area. Table 1 shows the total annual turnover and floor area for the whole business. Total absolute emissions are then divided by these figures to provide tonnes of CO₂e per million pounds of turnover and tonnes of CO₂e per m² of floor area, respectively, as shown in Table 2. These tables show that the tCO₂e for both intensity metrics have increased.

¹ The location-based method reflects the average emissions intensity of grids on which energy consumption occurs, whereas the market-based method reflects emissions from the electricity that companies have chosen in the market (or their lack of choice).

Overall, monitoring remains stringent and during the next few years towards FY2020, we aim to continue to contribute positively to the Better Retail Climate as part of our drive to save energy and protect the environment.

STRATEGIC REPORT

The strategic report was approved by a duly authorised committee of the board of directors on 26 October 2016 and signed on its behalf by:

MATT SMITH
CHIEF FINANCIAL OFFICER
27 OCTOBER 2016

Table 1 Scope 1, 2 and 3 absolute GHG emissions shown in tonnes CO₂e

	FY2012	FY2013	FY2014	FY2015	FY2016
Scope 1	14,850	17,786	15,989	19,668	14,241
Scope 2 (location-based)	144,536	139,607	149,068	139,354	125,453
Scope 2 (market-based)	Not calculated; market-based method was introduced in 2015				113,134
Scope 3	19,071	16,687	28,308	31,908	64,442
Total	178,457	174,080	193,365	190,930	204,136*

* Total emissions calculated using the location-based Scope 2 emissions figure, covering a 53 week period.

Table 2 Data used for intensity measurements

	FY2012	FY2013	FY2014	FY2015	FY2016
Turnover (£m)	2,700	2,777	2,824	2,860	2,939*
Total floor area** (m ²)	1,838,924	1,808,398	1,850,874	1,894,926	1,888,887

*2015/16 is a 53 week year.

**This total floor area included back of store, offices and distribution centres.

Table 3 Assessment of absolute footprint emissions

	FY2012	FY2013	FY2014	FY2015	FY2016
Absolute Emissions (tCO ₂ e)	178,457	174,080	193,365	190,930	204,136*
Absolute tCO ₂ e / £m Turnover	66	63	68	67	69
Absolute tCO ₂ e / m ²	0.097	0.096	0.104	0.101	0.108

* Total emissions calculated using the location-based Scope 2 emissions figure.

CORPORATE GOVERNANCE

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the period ended 3 September 2016 and at the date of this annual report, it was compliant with all the relevant provisions as set out in the April 2016 UK Corporate Governance Code ("the Code"), copies of which can be downloaded from the Financial Reporting Council website (www.frc.org.uk).

Leadership The board

The board of Debenhams is collectively responsible for the long-term success of the Company by directing and supervising the affairs of the Company and is accountable to its shareholders for the Company's strategic aims, risk management and performance. No individual or small group of individuals dominates the board's decision-making process.

Strong leadership and strong corporate governance are integral parts of our corporate culture and the board leads by example. This sets the tone for the entire organisation and is evidenced in the strategy in action, the risk review and the governance sections of this report.

Biographical details of the board of directors are on pages 42 to 43. As at 26 October 2016 the board has eleven members: the Chairman, six independent non-executive directors, one non-independent non-executive director and three executive directors. Following the Annual General Meeting in January 2017, the board will consist of the Chairman, three executive directors and six independent non-executive directors.

The Chairman

The Chairman is responsible for the effective leadership, operation and governance of the board and its committees. He ensures that all directors contribute effectively in the development and implementation of the Company's strategy whilst ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and challenged.

The Chairman is also responsible for the induction of new directors and their continuing development, board evaluations and succession planning. The Chairman holds regular meetings with the non-executive directors without the executive directors being present and has regular contact with all board members.

Following two terms of office, Nigel Northridge stepped down from the board on 7 April 2016 and was succeeded by Sir Ian Cheshire as non-executive Chairman on 7 April 2016. Sir Ian also succeeded Nigel Northridge as chairman of the Nomination Committee.

The Chief Executive Officer

The Chief Executive Officer is responsible for the management of the Group's business and for implementing the Group's strategic aims. He also chairs the Executive Committee and ensures that it achieves the delegated objectives in accordance with the Company's business policies. The roles and responsibilities of the members of the Executive Committee are detailed in the table on the next page. The Chief Executive Officer also leads an annual strategy event to focus on the Group's overall performance and the development of the business strategy.

Michael Sharp stepped down from the board on 24 June 2016. For the period between Michael stepping down and Sergio Bucher joining the board on 17 October 2016, Matt Smith and Suzanne Harlow shared the Chief Executive responsibilities.

The Chief Financial Officer

The Chief Financial Officer is responsible for the financial reporting and management of the Group. In addition to the finance, audit, tax and treasury teams, the role is also responsible for property, space planning, legal and secretariat and investor relations.

Matt Smith has been Debenhams' Chief Financial Officer since January 2015.

HOW GOVERNANCE SUPPORTS STRATEGY

The board recognises the importance of a robust corporate governance framework to support the delivery of the strategic objectives they have defined. To this end, the board have agreed an overarching framework for internal control, which supports the delivery of these strategic objectives. The board:

- Selects its membership through a comprehensive and considered process, aligned with Company strategy (see sections on the Nomination Committee and Remuneration for more details on our approach)
- Sets the cultural stance for the organisation with management adopting and implementing policies and procedures designed to promote both legal compliance and appropriate ethical standards in all their business interactions, including the delivery of strategic objectives
- Agrees the risk management process which it considers to be a fundamental part of an effective governance programme (see the Risk Review and Principal Risks sections for more details on our approach and how this links to strategy)
- Maintains oversight across the delivery of strategic and operational objectives through independent reports from the Audit Committee (see the section on the Audit Committee for more details on our approach) and reports made by management
- Actively monitors management's execution of approved strategic plans against established budgets, and their alignment to strategic objectives

Board

Chairman	Chief Executive Officer	Chief Financial Officer	Group Trading Director	Senior independent director	Independent non-executive directors	Non-independent non-executive directors
Sir Ian Cheshire (appointed to the board on 14 January 2016 and became Chairman on 7 April 2016)	Sergio Bucher (appointed to the board on 17 October 2016)	Matt Smith	Suzanne Harlow	Terry Duddy (from 14 January 2016)	Terry Duddy	Dennis Millard
Nigel Northridge (resigned from the board on 7 April 2016)	Michael Sharp (resigned from the board on 24 June 2016)			Dennis Millard ¹ (30 August 2015 to 14 January 2016)	Peter Fitzgerald	
					Stephen Ingham	
					Martina King	
					Mark Rolfe	
					Lisa Myers (appointed to the board on 6 September 2016)	

¹ As a result of Dennis Millard's length of tenure, he was no longer considered to be independent and therefore Terry Duddy was appointed as senior independent director with effect from 14 January 2016.

Executive Committee¹

Sergio Bucher Chief Executive Officer						
Matt Smith Chief Financial Officer Financial reporting and management, tax, treasury, internal audit, property, space planning, legal and secretariat and investor relations	Suzanne Harlow Group Trading Director Design, buying, merchandising, supply chain, sourcing and external business	Ross Clemmow Retail Director, UK & ROI UK and ROI store and online sales operations	Richard Cristofoli Marketing Director Product marketing, advertising, PR, visual and creative, customer strategy and insight and Magenta Print	David Smith International Director Franchises, Magasin du Nord and responsibility for growth of the international business in all channels and markets	Peter Swann Operations Director Systems, imports and exports, distribution and logistics	Nikki Zamblera HR Director HR, pay and reward, learning and development, recruitment, pensions and facilities and Chair of Debenhams Foundation

¹ The composition of the Executive Committee is shown as at the date of this document. For the period between Michael Sharp stepping down from the board and Sergio Bucher joining the board, Matt Smith and Suzanne Harlow shared the Chief Executive responsibilities.

CORPORATE GOVERNANCE CONTINUED

The Group Trading Director

The Group Trading Director leads the buying and merchandising activities and is responsible for the development of the Debenhams' brand and product strategy and the external business initiatives with the overriding objective to deliver a compelling customer proposition. The role is also responsible for the sourcing and supply chain functions.

Suzanne Harlow has been Group Trading Director since December 2013.

The table below details the length of service of our Chairman and each of our non-executive directors:

The Senior Independent Director

Any concerns that shareholders may have which are not appropriate for discussion through the normal channels of Chairman, Chief Executive Officer or Chief Financial

Officer will be dealt with by the senior independent director, who also serves as an intermediary for the other directors as necessary and acts as a sounding board for the Chairman. In addition, the role has responsibility for leading the annual appraisal of the Chairman's performance.

As a result of Dennis Millard's length of tenure as disclosed in the report and accounts last year, he was no longer considered to be independent. Terry Duddy has been senior independent director since January 2016 following his appointment as an independent non-executive director in April 2015. Terry is a member of the Audit, Nomination and Remuneration Committees.

Non-executive directors

As detailed in their biographies on pages 42 to 43 our non-executive directors have a diverse range of skills, experience and

backgrounds and provide constructive challenge within the boardroom. They are well informed about the Company and have a strong command of the issues relevant to the business.

As at 3 September 2016, the non-executive directors, other than Dennis Millard, were considered by the board to be independent and free from any relationship or circumstances that could affect their independent judgement.

We welcomed Lisa Myers to the board as non-executive director on 6 September 2016.

The independence of non-executive directors who have served more than six years is subject to rigorous review.

Director	Date of appointment	Length of service as a non-executive director at 3 September 2016
Sir Ian Cheshire – Chairman	14 January 2016	8 months
Terry Duddy	10 April 2015	1 year 4 months
Peter Fitzgerald	4 October 2012	3 years 11 months
Stephen Ingham	8 January 2013	3 years 8 months
Martina King	1 August 2009	7 years 1 month
Dennis Millard	9 May 2006	10 years 4 months
Lisa Myers	6 September 2016	N/A
Mark Rolfe	1 October 2010	5 years 11 months
Nigel Northridge	1 January 2010 (resigned 7 April 2016)	6 years 3 months service on date of leaving the Company

The Company Secretary

The Company Secretary plays a leading role in the good governance of the Company by supporting the Chairman and helping the board and its committees to function efficiently. Together with the Chairman, the Company Secretary keeps under review the governance processes adopted by the Company to ensure that they remain fit for purpose and considers any improvements that could strengthen the governance of the Company. All directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

The Company Secretary acts as secretary to the board and each of its committees. The appointment or removal of the Company Secretary is a matter for the board as a whole. Paul Eardley has been Company Secretary since October 2007.

Board diversity

The Company's diversity policy was adopted by the board in FY2014 and updated in June 2016. It is the responsibility of the Nomination Committee to implement and monitor the objectives set out in the policy and to review the policy annually (last

reviewed September 2016). Debenhams believes that diversity, in all its aspects, is important in order for a board to operate effectively. The main objectives of the policy are to ensure that the board is well balanced and appropriate for the needs of the business and that the board comprises directors who are sufficiently experienced and independent in character and judgement. Regarding the above, the Company will seek to maintain a composition of at least 33% of women on the board and seek to achieve a balanced representation of men and women at all levels throughout

the Group. The Nomination Committee is mindful of the diversity policy when considering board appointments. The charts below demonstrate the gender split at board level, within the Executive Committee, senior management and for the workforce as a whole.

Time commitment

All directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The board, with the support of the Nomination Committee, monitors the extent of their external interests and any conflicts on an ongoing basis. The letters of appointment for non-executive directors set out the time commitment expected for them to perform their duties effectively. The time required by directors will fluctuate depending on the demands of the business and any other events, but the expected number of days required for each non-executive director is ten days per annum.

Induction and ongoing development

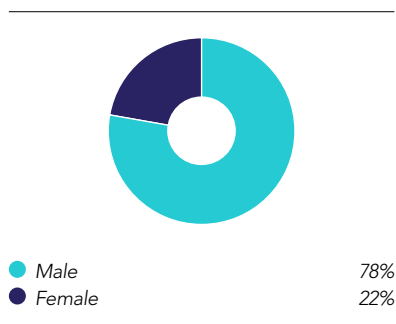
On appointment, a director is provided with an induction programme which is tailored to his or her experience of listed company responsibilities and based on his or her knowledge of the retail sector. The induction includes the provision of relevant current and historical information about the Company together with applicable business policies. Meetings are arranged with advisors and visits to operations around the Group are arranged. One to one meetings are held with members of the Executive Committee, other senior executives in the business and external advisors as appropriate. The Company Secretary assists in the induction of new directors and their ongoing development as required and also undertakes a review with new directors following induction to consider any initiatives which would improve the induction process.

Directors' conflicts of interest

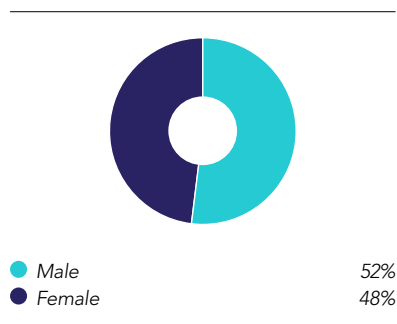
The Nomination Committee annually reviews and considers the interests and other external appointments held by the members of the board. All conflicts declared were approved at its meeting in September 2016. The directors have a continuing duty to inform the board of any potential conflicts immediately so that such conflicts may be considered and, if authorised, included within the register of conflicts. We recognise that the non-executive directors have other business interests outside of the Company and that other directorships bring significant benefits to the board. All existing directorships are detailed within the director biographies on pages 42 to 43. Non-executive directors are required to obtain the approval of the Chairman before accepting any further appointments.

A register of related parties is maintained and updated by the Company Secretary in order that any related party transactions are identified and the necessary disclosures are made.

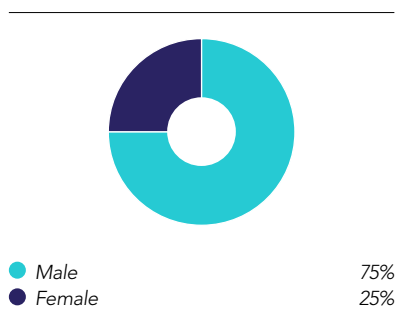
Board gender diversity



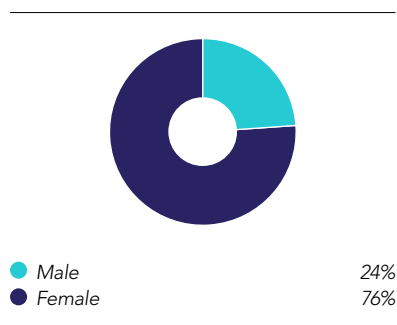
Senior manager gender diversity



Executive Committee gender diversity



All employees gender diversity



Indemnification of directors

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the directors who held office during the year. The Company also provides directors' and officers' liability insurance for its directors and other officers.

Board meetings

The board held seven meetings during FY2016 which were fully attended by all the board members, save for the February meeting which Martina King sent her apologies to. The meeting was convened at relatively short notice and she had a prior commitment. In addition to the directors, the board meetings were attended by members of the Executive Committee and the Company Secretary. Details of the principal items discussed at each meeting are shown in the table on the next page.

The presentation of timely, high quality information to the board and its committees is essential to ensure that there is thorough prior consideration of the issues and informed debate and

Gender split in each of these charts is at financial year end

CORPORATE GOVERNANCE CONTINUED

Board activity throughout the year

September 2015	October 2015	January 2016	February 2016	April 2016	June 2016	September 2016
Approved the budget	Approved full year results, report and accounts and recommended the final dividend	International update Presentation on the Market Abuse Regulation	Presentation of the strategic plan	Approved first half results and resolved to pay interim dividend	Approved the June trading statement	Approval of the budget
Womenswear autumn/winter plan	Approved the corporate risk map	Met with shareholders at the Annual General Meeting	Review of schedule of matters reserved for the board.	Presentation on mobile opportunities and a review of people and talent	Reviewed budget	International update B&M roadmap update
Global growth plan	Reviewed the annual performance evaluation of the board and its committees				Presentation on supply chain	Presentation on the autumn/winter launch and the brand strategy
	Presentation on the Modern Slavery Act				Presentation on principal risks	
	Presentations on product and brand strategy and the Christmas campaign				Review of diversity policy	

challenge at all meetings. All information is published several days in advance via a secure web portal in order that directors can fully prepare for the meeting. If directors are not able to attend meetings due to conflicts in their schedule, they review the papers due for consideration and relay any comments to the Chairman, in advance of the meeting where possible, which are then passed on to the other directors. The Company Secretary ensures relevant information flows within the board, its committees and to senior management and records all matters discussed within the minutes of the meeting. Each board meeting reviews presentations from the executive directors and from the other members

of the Executive Committee. Presentations are also requested by the board on an ad hoc basis from the trading divisions and other business areas, including investor relations, treasury, taxation, health and safety and human resources. In addition, the board receives regular updates on the key Group risks and ensures that the risk management framework and profile supports the business strategy. In accordance with the Code, the formal schedule of matters reserved for the board is reviewed annually.

Board committees

The board committees are the Audit, Remuneration and Nomination Committees. The terms of reference

(which are reviewed annually) of each committee can be found on our website at <http://debenhamsplc.com>. In addition, there is a Sustainability Committee, which is a committee of the board, chaired by Martina King.

The members, together with the role and activities of each board committee, can be found at:

<i>Audit Committee</i>	<i>Pages 46 to 49</i>
<i>Nomination Committee</i>	<i>Pages 44 and 45</i>
<i>Remuneration Committee</i>	<i>Pages 50 to 67</i>

Performance evaluation

In line with best practice, we conduct external evaluations of the board, its

Investor relations calendar

October 2015	November 2015	January 2016	February 2016
Full year results	US shareholder roadshow	Trading update	European investor meetings
UK shareholder roadshow	Investor conference	Annual General Meeting	
		UK investor meetings	

committees and each individual director at least once every three years. As the last external evaluation was carried out in FY2014, the directors will conduct an external evaluation of the board, its committees and each individual director in FY2017. During FY2016, the Chairman carried out an internal evaluation. This year's internal evaluation confirmed that all of the directors, the board and its committees continue to perform effectively. The outcome was that future agendas and presentations will be more strategic and less operational, and timekeeping will be more disciplined. The succession and the change management had been well handled by the Chairman. The Chairman is constantly evaluating the performance and effectiveness of the board and its committees. The performance review of the Chairman was conducted by the Senior Independent Director who consulted with all members of the board.

Share capital and control

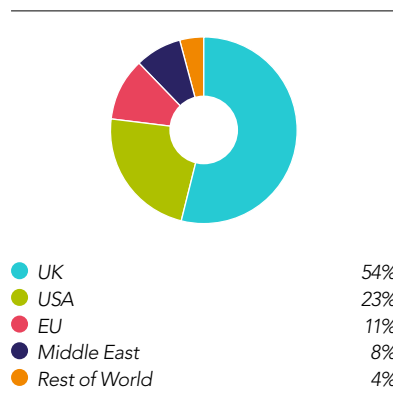
Information which the directors are required to disclose pursuant to section 992 of the Companies Act 2006 can be found on pages 68 to 70 of the directors' report.

Shareholder engagement

The board is responsible for ensuring that the Company maintains a satisfactory dialogue with shareholders. The Chairman and the Senior Independent Director are always available to major shareholders. Formal trading updates are given to the market on four occasions during the year. Following each of these announcements, conference calls are held with shareholders and analysts and, after the full year and interim results, a

presentation is made to shareholders and analysts. Analysts' research is circulated to the board. A programme of meetings and conference calls is also organised at appropriate times during the year at which the Chief Executive Officer and Chief Financial Officer comment on Company performance and respond to any issues raised by investors. In addition, Debenhams arranges visits to its stores for analysts and shareholders and holds regular capital markets days in order to explain aspects of business performance and strategy.

Shareholders by geography



A geographical analysis of shareholders is shown in the chart above.

The major shareholders of the Company are listed on page 69 of the directors' report.

The key elements of the Group's investor relations calendar in FY2016 are shown in the table below.

January 2016 AGM – highlights

- Full director attendance
- Between 816,635,051 and 837,962,764 votes were cast for each resolution
- All directors retired and were elected/re-elected to the board, receiving on average 99.35% of votes cast in favour
- The resolution to approve the directors' remuneration report for the period ended 29 August 2015 was passed with 98.82% of votes cast in favour

March 2016	April 2016	May 2016	June 2016
US investor meetings	First half results	European investor meetings	Trading update
Canadian investor meetings	UK shareholder roadshow	US investor meetings	Investor meetings
		UK investor meetings	

CORPORATE GOVERNANCE CONTINUED

BOARD OF DIRECTORS

Governed with experience.



▲ Left to right:
Dennis Millard, Terry Duddy, Martina King,
Peter Fitzgerald, Matt Smith, Stephen Ingham,
Sir Ian Cheshire, Mark Rolfe,
and Suzanne Harlow

Committee membership at year end

	Remuneration	Nomination	Audit	Sustainability
Sir Ian Cheshire	●	■		
Matt Smith				
Suzanne Harlow				
Terry Duddy	●	●	●	
Peter Fitzgerald			●	
Stephen Ingham	●			
Martina King	■	●	●	■
Dennis Millard		●		
Mark Rolfe	●	●	■	

● Committee member
■ Committee chairman

SIR IAN CHESHIRE

Role: Sir Ian joined the board in January 2016 and became Chairman of the board and of the Nomination Committee in April 2016. Sir Ian is also a member of the Remuneration Committee.

Key strengths: Sir Ian has vast experience of a range of businesses in both executive and non-executive capacity. He spent 17 years with Kingfisher plc, including seven years as group chief executive between 2007 and 2014, where he drove consistent and significant growth in shareholder value. Sir Ian was formerly Chairman of the British Retail Consortium.

Current external directorships: Senior independent director of Whitbread plc, Chairman of Menhaden Capital plc, a non-executive director of Maisons du Monde and the government lead non-executive and a non-executive board member of the Cabinet Office. He is also president of the Business Disability Forum and chair of the advisory board of the Cambridge Institute for Sustainability Leadership.

MATT SMITH ACA

Role: Chief Financial Officer since January 2015.

Key strengths: Matt brings extensive experience of international and multi-channel retailing to his role as Chief Financial Officer. Matt worked for Mothercare as CFO from 2013 and, prior to that, he held a number of senior finance roles within Home Retail Group plc including Finance Director of Argos. Matt is a chartered accountant who has also worked for KPMG in London and Sydney.

Current external directorships: None.

SUZANNE HARLOW

Role: Group Trading Director since December 2013.

Key strengths: Suzanne had led Debenhams' design, buying and merchandising activities in the role of Group Trading Director since 2008 and was appointed to the board in December 2013. She has worked for Debenhams since 1994 and her roles have included trading director of womenswear, lingerie and beauty between 2005 and 2008 and buying and merchandising director of various divisions between 1999 and 2005. Suzanne is a member of the advisory council of the British Fashion Council and the development council of Ballet Rambert, and a representative of the International Association of Department Stores.

Current external directorships: Ermes Department Stores Plc

TERRY DUDDY

Role: Senior Independent Director since January 2016 following appointment as an independent non-executive director in April 2015. Terry is a member of the Audit, Nomination and Remuneration committees.

Key strengths: Terry was Chief Executive of Home Retail Group, following its demerger from GUS in October 2006, until March 2014, having previously served as CEO of Argos since its acquisition by GUS in 1998. He previously held senior executive roles at Dixons Stores Group, latterly as MD at PC World.

Current external directorships: Non-executive director of Hammerson plc and Chair of the Retail Trust.

PETER FITZGERALD

Role: Independent non-executive director since October 2012 and a member of the Audit Committee.

Key strengths: Peter's experience as a leading e-commerce executive is invaluable to Debenhams as we continue to grow our multi-channel business. Peter is country manager at Google Japan where he oversees every aspect of Google Japan's business. Before this, he was country sales director for Google UK/Eire, the biggest market for Google outside the US. Peter joined Google in

2007. From 1999 to 2007, Peter worked for Amazon in Europe and the USA.

Current external directorships: None

STEPHEN INGHAM

Role: Independent non-executive director since January 2013 and a member of the Remuneration Committee.

Key strengths: Stephen has been Chief Executive Officer of PageGroup plc since 2006 having worked for that business since 1987. His experience of building an international business at PageGroup supports our aim to expand the Debenhams brand internationally.

Current external directorships: Chief Executive Officer of Michael Page International plc. Stephen is also a member of Great Ormond Street Hospital's corporate partnership.

MARTINA KING

Role: Independent non-executive director since August 2009 and a member of the Audit and Nomination committees. In January 2016, took over the chair of the Remuneration Committee. She also chairs the Sustainability Committee.

Key strengths: Martina has accumulated extensive experience in management and marketing through holding a number of senior positions in marketing and online media including as managing director of Aurasma, Yahoo! and Capital Radio. She has also served as a non-executive director of Capita. As Chief Executive Officer of Featurespace Limited, Martina also has data analytic experience.

Current external directorships: Chief Executive Officer of Featurespace Limited and a non-executive director of Cineworld Group plc.

DENNIS MILLARD CA (SA), MBA

Role: Non-independent non-executive director since January 2016, having served as an independent non-executive director since May 2006. Dennis is a member of the Nomination Committee.

Key strengths: As Chairman and Deputy Chairman of two other retail public companies and with past experience as a Finance Director, Dennis brings relevant and broad experience to the board.

He was asked to stay on beyond his nine-year term as a non-independent non-executive director to provide continuity and balance through the board changes this year. Dennis has previously served as Chairman of Connect Group PLC and as a non-executive director of Premier Farnell plc.

Current external directorships: Chairman of Halfords Group plc and Deputy Chairman of Pets at Home Group plc.

MARK ROLFE FCA

Role: Independent non-executive director since October 2010. Mark is chairman of the Audit Committee and a member of the Remuneration and Nomination committees.

Key strengths: Mark is a chartered accountant and has considerable financial and accounting experience including 20 years spent with Gallaher Group plc in various finance and executive roles including that of Finance Director. He has also served as a non-executive director of Hornby plc and The Sage Group plc and as Chairman of Lane Clark & Peacock LLP.

Current external directorships: Non-executive director of Barratt Developments plc.

Appointments since year end**LISA MYERS**

Role: Independent non-executive director since 6 September 2016. Lisa is also a member of the Audit Committee.

Key strengths: Lisa spent 19 years at Franklin Templeton, where she was an Executive Vice-president and lead portfolio manager of some of Templeton's flagship global funds, managing or co-managing more than \$10 billion of assets. The coordinator of Templeton's global consumer research, Lisa had direct research responsibility for the retail, textile and apparel and luxury goods sectors. Most recently, Lisa was Co-Head of Global Partnership Investing at BTG Pactual, a global asset management strategy. Lisa studied at the University of Pennsylvania and obtained a law degree at Georgetown University. She is the Chairperson of Penn's Secondary School Committee for the Bahamas and is also a board member of YES!, a Bahamian non-profit organisation dedicated to empowering youth through sport and education.

Current external directorships: None

SERGIO BUCHER

Sergio Bucher joined the Company on 17 October 2016 as Chief Executive Officer. His biographical details can be found on page 3.

CORPORATE GOVERNANCE CONTINUED

NOMINATION COMMITTEE REPORT



Dear shareholder,

On behalf of the Nomination Committee, I am pleased to present its report for the year ended 3 September 2016.

Responsibilities

The key responsibilities of the Committee are:

- Identifying and nominating, for the approval of the board, candidates to fill board vacancies as and when they arise together with leading the process for such appointments
- Putting in place plans for succession, in particular with respect to the Chairman, the Chief Executive Officer and the Senior Independent Director
- Reviewing regularly the board structure, size and composition, in general and in accordance with the Company's policy on diversity, and making recommendations to the board of adjustments that are deemed necessary
- Annually reviewing the time required from and spent by a non-executive director in fulfilling his or her duties
- Annually reviewing the board's diversity policy and recommending any necessary changes in that policy to the board

- Reviewing directors' conflicts of interest and the number of external directorships held

The full terms of reference of the Committee are available on the Company's website and are reviewed annually by the Committee.

Activities during the year

The Committee met four times during the year at which it:

- Recommended the appointment of Sir Ian Cheshire as a non-executive director and Chairman-elect effective from 14 January 2016 and recommended his appointment as non-executive Chairman from 7 April 2016 onwards
- Recommended the appointment of Sergio Bucher as Chief Executive Officer of the Company, effective from 17 October 2016. The appointment was facilitated by external search consultants MWM Consulting which have no other connection to the Company. MWM worked with the Chairman to provide a long list of candidates and then a shortlist. Candidates met with various members of the board after which the Committee was able to formulate its recommendation
- Reviewed the time commitment and length of service of the non-executive directors
- Recommended to the board the re-appointments of Peter Fitzgerald for a further three year term commencing 7 October 2015 and Stephen Ingham for a further three year term commencing 8 January 2016
- Carried out an annual review of the board diversity policy and recommended some changes to the policy which were approved
- Carried out an annual review of the directors' conflicts of interest register and the Committee's terms of reference

Diversity

The goal at Debenhams is to ensure that the board is well balanced and appropriate for the needs of the business, comprising directors who are sufficiently experienced and independent of character and judgement. When recommending new directors to the board, the Nomination Committee has regard to the board's balance of skills, knowledge, experience and diversity, including gender. However, board appointments are always made on merit. Following the board changes which took place this year, the percentage of women on the Debenhams plc board at the end of the 2016 financial year was 22% and at 27 October 2016 is 27%. The board is mindful of its diversity policy and will continue to take this into account when considering future appointments.

Activities since year end

The Committee recommended to the board the appointment of Lisa Myers as an independent non-executive director and the board approved the appointment for a three year term commencing on 6 September 2016. The Committee recommended to the board the re-appointment of Mark Rolfe as an independent non-executive director for a further one year term beginning on 1 October 2017. This re-appointment was approved by the board.

Committee evaluation

As part of the annual board effectiveness review, the board concluded that the Committee works well and continues to operate effectively.



SIR IAN CHESHIRE
CHAIRMAN, NOMINATION
COMMITTEE

Composition

The individuals who served on the Committee during the year under review are set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
Sir Ian Cheshire ¹ (Committee chairman)	14 January 2016	2/2
Terry Duddy	10 April 2015	4/4
Martina King	1 August 2009	4/4
Dennis Millard	9 May 2006	4/4
Mark Rolfe	1 October 2010	4/4
Nigel Northridge ²	1 April 2010	2/2

¹ Sir Ian Cheshire became a member of the Committee on 14 January 2016 and chairman of the Committee on 7 April 2016. Two of the meetings were held prior to his appointment.

² Nigel Northridge stepped down from the board on 7 April 2016, having served two terms of office, and ceased membership of the Committee on that date.

CORPORATE GOVERNANCE CONTINUED

AUDIT COMMITTEE REPORT



“The Audit Committee has continued to implement corporate governance best practice, including the new long-term viability statement, and is satisfied that risks in the business are appropriately managed and that internal controls are effective.”

Dear shareholder,

On behalf of the Audit Committee (“the Committee”), I am pleased to present its report for the period ended 3 September 2016. The report sets out the remit of the Committee, its areas of focus during the year and the Company’s relationship with the external auditors.

The Committee has satisfied itself that the Debenhams plc 2016 annual report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy. The Committee therefore supports the board in making its formal statement on page 71.

The Committee also addressed the requirements of the new viability statement and the board has accepted the Committee’s recommendations on the form of that statement and the assessment period.

I would like to take this opportunity to thank Dennis Millard for his long-term and valued contribution as a member of the Committee. He stepped down from the Committee on 14 January 2016.

MARK ROLFE

CHAIRMAN, AUDIT COMMITTEE

Membership of the Audit Committee

The individuals who served on the Committee during the year under review are set out below:

Member	Date appointed Committee member	Attendance at meetings during the year
Mark Rolfe (Committee chairman)	1 October 2010 (appointed Committee chairman 2 September 2012)	4/4
Terry Duddy	10 April 2015	3/4
Peter Fitzgerald	18 October 2012	4/4
Martina King	1 August 2009	4/4
Dennis Millard ¹	9 May 2006	0/1

¹ Dennis Millard stepped down from the Committee on 14 January 2016.

All of the members of the Committee are independent non-executive directors. Mark Rolfe is considered by the board to have recent and relevant financial experience.

In addition to the members of the Committee, the Chairman, the Chief Financial Officer, the director of internal audit and risk management and senior representatives of the Company's external auditors, PwC, attend and receive papers for each meeting. The Company Secretary is secretary to the Committee assisted by the deputy company secretary. After each meeting, the chairman reports to the board on the matters discussed, on recommendations and on actions to be taken.

The Committee met with the Company's external auditor twice during the year without management being present and once with each of the Chief Financial Officer and the director of internal audit and risk management in attendance without other management being present.

Responsibilities of the Committee

The role and responsibilities of the Committee are set out in its terms of reference which are reviewed annually by the Committee taking into account relevant legislation and recommended good practice. The terms of reference of the Committee are available on the Company's website: <http://debenhamsplc.com>. This year, the Committee updated its terms of reference to describe its responsibilities

in relation to the competitive tendering of the audit and monitoring of the rotation of the audit partner.

In accordance with the terms of reference, the Committee's responsibilities include, but are not limited to, the following matters:

- Monitoring the integrity of financial statements (including any related information presented with the financial statements) and any formal announcements relating to the Company's financial performance
- Reviewing any changes in accounting principles and to consider the appropriateness of accounting policies adopted by the Company
- Reviewing the internal audit programme and ensuring that the internal audit function is properly resourced
- Agreeing with the external auditors the nature and scope of the audit and reviewing the output
- Reviewing and monitoring the effectiveness of the risk management and internal control systems within the business
- Considering the appointment of the external auditors and their independence and making recommendations to the board in relation to their appointment, remuneration and terms of engagement
- Reviewing the Company's plans for the prevention and detection of fraud, bribery and corruption

- Assessing the long-term viability of the Company over a three-year period taking into account its current position and principal risks
- Providing advice to the board on whether the Company's annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

Activities of the Committee during the year

Financial reporting

- The Committee reviewed the annual and interim financial statements during the year. It considered significant accounting policies, financial reporting issues and judgements together with the findings as set out in the reports from the external auditors. The Committee considered the clarity and completeness of the disclosures within the financial reports reviewed.

Internal audit

- The Committee received updates from the director of internal audit and risk management at each of its meetings during the year covering, amongst other matters, updates on the Group's significant risks and internal financial controls, progress against the approved audit plan, the key findings from reviews undertaken and management's implementation of its recommendations.

Governance

- The Committee assessed the effectiveness of the external audit process via an internal questionnaire completed by the Committee, the Company Secretary, the director of finance and support services, the director of internal audit and risk management and the head of finance – accounting and control. The questionnaire circulated focused on the robustness of the audit, the quality of delivery and the quality of people and service. The Committee considered the

CORPORATE GOVERNANCE CONTINUED

AUDIT COMMITTEE REPORT

results of the review at its meeting in October 2016 and concluded that the audit process is robust and that the audit team demonstrate good judgement and integrity

- The compliance committee, chaired by Matt Smith, Chief Financial Officer, supported the Committee in assessing whether the Company's annual report, taken as a whole, is fair, balanced and understandable and complies with all legal and regulatory requirements
- The Risk Committee, which was formed in December 2015 and is chaired by the director of internal audit and risk management, supported the Audit Committee in the identification and assessment of the Group's significant risks
- The members of the Committee and senior management within the business were provided with training by senior members of the accounting team. During the year, training was provided on supplier income and on IFRS 16, "Leases". Previously, training has covered share-based payments, revenue recognition and retirement benefit costs
- The Committee also received a presentation on the process and stress testing undertaken in relation to the viability statement included in this report.

Competition and Markets Authority

- The Committee considered the regulations contained within the Competition and Markets Authority Audit Order to ensure that the Company carries out specific functions in relation to audit services.

External audit

- The scope of the audit for FY2016 was agreed together with the fees and terms of engagement. Details of the amounts paid to the external auditors for the audit services for 2016 are given on page 95 in note 6 to the financial statements.

Significant issues in relation to the financial statements

The significant areas of focus considered by the Committee in relation to the FY2016 accounts continue to be as disclosed in FY2015.

The significant issues considered in relation to the Group's financial statements for the period ended 3 September 2016 are set out in the table below together with a summary of the actions taken. In addition, the Committee and the external auditors have discussed the other areas of focus of the audit as set out in the independent auditors' report on pages 72 to 78.

Matter considered	Actions
Revenue recognition	
As with most companies there continues to be a risk that, in order to achieve the planned results, revenue may be recognised in contravention of the Group's policy for revenue recognition.	The Committee has reviewed revenue recognition practice and the underlying assumptions and estimates. In addition, the internal audit function has reported to the Committee on the controls and processes in this area. The Committee also routinely monitors the views of the external auditors on revenue recognition issues.
Inventory valuation	
The Company continues to use the retail method in respect of valuation of inventory in the UK and Ireland which is reliant on a number of judgemental components, details of which are set out in note 5 to the financial statements on page 94.	During FY2016, the Committee received reports from both the internal and external auditors setting out inventory risk metrics and findings from the examination of controls in these areas. These reports indicated that inventory was valued satisfactorily.

External auditors' independence

In order to ensure that an appropriate relationship is maintained with the external auditors, a policy on auditor independence has been established and is reviewed annually. This policy covers matters such as that auditors and their staff must have no family, financial, employment, investment or business relationship with the Company, the employment by the Company of former audit employees, the rotation of audit partners and the controls around the provision of non-audit services. The Committee updated its external auditor independence policy in response to the Financial Reporting Council's "Ethical Standard" to define more specifically services which the Company's auditors may never provide.

As regards the risk of the external auditors' withdrawal from the market, the Company considers that there are sufficient other auditors in the marketplace should this situation arise.

The objective of the Audit Committee's policy in relation to the provision of non-audit services by the auditors is to ensure that the provision of such services does not impair the external auditors' independence or objectivity. All fees for non-audit work require pre-authorisation by the Chief Financial Officer, or the Company Secretary, or by the Audit Committee in circumstances where the fees are above an agreed threshold. An independent report is produced each quarter detailing all non-audit work, its cost, when it was carried out and who instructed it. This information is reported to the Audit Committee at each meeting by the Company Secretary.

The Company's policy identifies three categories of accounting services. The first category is audit-related services which the auditors are permitted to provide, such as interim and full year reports. The second category is prohibited services which the auditors are not permitted to provide. Prohibited services are those which might result in the external auditors auditing their own work, or making management decisions for the Company, and those where some mutuality of interest is created or where the external auditors are put in the role of advocate for the Company. The prohibited services included in the Company's policy are now itemised in more detail and the list includes all the services set out on the FRC's "black list". The third category is "potential" services which the auditors may, in certain circumstances, provide subject to compliance with the independence policy. These services include services where the auditors are acting as the Company's reporting accountant.

£0.1 million was paid by the Company to PwC for non-audit services which represents 32.7% of the total audit fee paid to PwC. The non-audit services included fees for PwC's role in the Irish examinership as the Independent Expert which is a role typically performed by the auditors.

The audit fees paid by the pension schemes were £37,500.

External auditor appointment

PwC has served as the Company's auditors since flotation in 2006. John Ellis has been the audit partner since 1 September 2013.

As stated in our FY2015 Annual Report and Accounts the Committee considers that based on current guidance and the timeline, mandatory auditor rotation would be required after the August 2020 year end. However, given that the current audit partner must rotate off the Company's account in 2018, the Committee has agreed that, subject to the rules evolving further, 2018 would be the logical time for PwC to rotate off the account and for the audit to be put out to tender.

The Committee is satisfied that PwC remains independent and is best placed to conduct the Company's audit for FY2017. The Committee therefore recommends that PwC be re-appointed as the Company's auditors.

Competition and Markets Authority

The Committee confirms that the Company complied with the Competition and Markets Authority Audit Order for the period ending 3 September 2016.

MARK ROLFE

CHAIRMAN, AUDIT COMMITTEE

DIRECTORS' REMUNERATION REPORT



“I am pleased to present our remuneration report for the 2016 financial year, my first as chairman of the Committee”

Dear shareholder,

On behalf of the Remuneration Committee (“the Committee”), I am pleased to present our remuneration report for the 2016 financial year, my first as chairman of the Committee. I would like to take this opportunity to thank Dennis Millard for his chairmanship of the Committee over the last four years.

Board changes

On 25 May 2016 the Company announced that Sergio Bucher would be taking over the role of Chief Executive Officer. Sergio joined the board on 17 October 2016 and we are delighted to have him with us.

Sergio’s remuneration arrangements are in-line with our shareholder approved policy. He will be paid a basic salary of £700,000 per annum. For FY2017 his annual bonus opportunity will be 150% of base salary and he will receive a PSP award of 200% of salary. Our policy allows for a maximum variable pay award of 350% of salary in connection with recruitment. From FY2018 his bonus and PSP opportunity will revert to 100% and 150% of salary respectively. Sergio will also receive a pension allowance of 20% of salary and a flexible benefits fund of £18,375 per annum.

As a consequence of joining Debenhams, Sergio forfeited an award of restricted stock from his previous employer. In order to compensate him for this, on joining (being around the date on which that restricted stock award would have vested – the award was not subject to performance conditions), he received a cash payment of £445,184 (c.64% of salary) which represents the value of the stock forfeited.

For the first two years of his employment he will be provided with a housing allowance of £5,000 per month (after tax) and the Company has agreed to meet his reasonable relocation expenses up to a total of £30,000 (after tax).

The Committee's view is that this package is appropriate and reflects his skills, experience and potential to add value to Debenhams.

It was announced on 14 April 2016 that Michael Sharp would step down from the board, which he did on 24 June 2016. During his 12 month notice period, Michael will receive his normal annual basic salary, benefits and pension supplement. Unvested performance share plan awards held by Michael have been pro-rated to reflect service and may vest under the normal timetable subject to the achievement of performance conditions.

For the period between Michael stepping down from the board and Sergio joining, Matt Smith and Suzanne Harlow shared the Chief Executive responsibilities. The Committee determined that it was appropriate for them to receive an additional duties allowance for this period of £30,000 each to reflect the increased scope of their roles and additional responsibilities. This allowance did not attract bonus, PSP or pension and £15,000 of it was paid to each of them in FY2016.

Sir Ian Cheshire joined the board on 14 January 2016 and took over the role of Chairman on 7 April 2016. His fees for the role of chairman are £200,000.

Remuneration in respect of FY2016

The annual bonus for Executive Directors in FY2016 was based 100% on Group PBT performance. Despite strong progress in a number of business areas these stretching PBT targets were not met and no bonus will be paid. Michael Sharp remained eligible to receive a bonus for the year but as the target was not met no bonus is payable.

No PSP awards were granted to executive directors in FY2013 and therefore no awards are due to vest based on our performance to 3 September 2016.

Remuneration for FY2017

The Committee reviewed the structure of the bonus for FY2017 to ensure that it continues to reflect our strategy and business focus. Following this review the Committee decided that 80% of the bonus will be based on Group PBT with 20% based on a customer focused measure known as the net promoter score. The maximum bonus opportunity for the CFO and Group Trading Director will continue to be 100% of base salary. As outlined above, the Chief Executive Officer's maximum bonus opportunity for FY2017 will be 150% of base salary.

Debenhams normally grants performance share plan awards in November each year. However, given that the new Chief Executive Officer only joined the Company in October 2016, the Committee determined that it was appropriate to delay the grant of awards until after the first half results to give him the opportunity to consider appropriate performance measures to ensure that

they are aligned with the future business strategy. If a significant change in performance measures is proposed the Committee will consult with shareholders. The performance conditions for awards will be disclosed in the RNS announcement at the time the awards are granted.

The base salaries for the CFO and the Group Trading Director were increased by 1.5% with effect from 1 April 2016 and will next be reviewed with effect from 1 April 2017.

Remuneration policy

Our remuneration policy was approved by shareholders at the AGM on 9 December 2014 and took effect from that date. We have not included the full policy in this year's remuneration report to make the report as concise as possible. We have, however, included a summary of the policy for shareholders' reference. The full details of the policy can be found on our website <http://debenhamsplc.com>.

This directors' remuneration report will be subject to an advisory vote at the AGM on 12 January 2017. We look forward to receiving your support for the report.

MARTINA KING
CHAIRMAN, REMUNERATION
COMMITTEE

DIRECTORS'

REMUNERATION REPORT

REMUNERATION POLICY

This remuneration report for the year ended 3 September 2016 complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the provisions of the 2014 UK Corporate Governance Code.

Summary of remuneration policy table for executive directors

Our remuneration policy was approved by shareholders at the AGM on 9 December 2014 and took effect from that date. The full policy can be found on our website <http://debenhamsplc.com>.

We have provided a summary of the policy table for executive directors below along with a summary of how we intend to implement policy for FY2017.

Element	Key features/operation	What is the maximum potential value?
Base salary	<ul style="list-style-type: none"> Normally reviewed annually with effect from 1 April 	<ul style="list-style-type: none"> Whilst there is no defined maximum salary, any base salary increases will normally be in line with the increases awarded to other employees in the Group
Pension	<ul style="list-style-type: none"> Executive directors are generally provided a cash allowance in lieu of a pension provision or a contribution to a defined contribution pension scheme 	<ul style="list-style-type: none"> The Chief Executive Officer's annual cash pension allowance is 20% of base salary The annual pension contribution for the Chief Financial Officer is 15% of base salary The Group Trading Director's annual pension allowance increases based on her pensionable years' service and age. The allowance is currently 18% but will increase to 23% on 1 April 2017 following her 50th birthday. The maximum annual allowance of 28% of base salary is payable from age 55 (1 April 2022) The Group Trading Director continues to be a deferred member in service of the Debenhams Executive Pension Plan. The plan ceased for future service accruals in 2006
Benefits	<ul style="list-style-type: none"> Executive directors have a benefits allowance which can be used to fund a range of benefits. The wider management population also receive a cash benefits allowance Executive directors receive life assurance and an annual health assessment Executive directors may also buy or sell a week's holiday with the approval of the Committee Executive directors are eligible to receive a staff discount in line with other senior executives 	<ul style="list-style-type: none"> The overall value of benefits will depend on the individual's circumstances and the cost of providing them by the Company and therefore there is no maximum It is the Committee's policy to provide benefits at a market competitive level taking into account local market practice in the location in which the executive director operates

Performance metrics	Implementation for FY2017
–	<ul style="list-style-type: none"> • Chief Executive Officer – £700,000 • CFO – £412,090 • Group Trading Director – £412,090 <p>The salaries for the CFO and the Group Trading Director were increased by 1.5% with effect from 1 April 2016. This was below the average increase received across the Group.</p> <p>Salaries will next be reviewed with effect from 1 April 2017.</p> <p>For the period between Michael Sharp stepping down from the board and Sergio Bucher joining, Matt Smith and Suzanne Harlow shared the Chief Executive responsibilities. The Committee determined that it was appropriate for them to receive an additional duties allowance for this period of £30,000 each to reflect the increased scope of their role and additional responsibilities. This allowance did not attract bonus, PSP or pension. £15,000 of it was paid to each of them in FY2016.</p>
–	No changes
–	<p>For the first two years of his employment the Chief Executive Officer will be provided with a housing allowance of £5,000 per month (after tax) and the Company will meet reasonable relocation expenses up to an agreed level of £30,000 (after tax).</p>

DIRECTORS' REMUNERATION REPORT CONTINUED

REMUNERATION POLICY

Element	Key features/operation	What is the maximum potential value?
Annual bonus	<ul style="list-style-type: none"> • Paid in cash • Malus and clawback provisions apply (see below for further information) • Bonuses are based on annual performance targets • The Committee retains the discretion to adjust the bonus award if it does not consider that it reflects underlying Company performance but may not exceed the maximum policy limit 	<ul style="list-style-type: none"> • Maximum opportunity of 100% of base salary • The bonus starts accruing from threshold levels of performance
Performance Share Plan ("PSP")	<ul style="list-style-type: none"> • Based on performance over a three-year period • Awards may only vest to the extent the Committee is satisfied that the underlying financial performance of the Company over the relevant performance period justifies vesting. The Committee may also decrease the final vesting level if it does not consider that it reflects the underlying performance of the Company • Malus and clawback provisions apply (see below for further information) 	<ul style="list-style-type: none"> • Maximum award normally 200% of base salary, although this limit may be increased to 250% of base salary in exceptional circumstances • 25% of awards vest for threshold levels of performance

Executive directors also have a shareholding guideline. Further details are provided on page 58 of the annual report on remuneration.

Malus and clawback – Clawback provisions were introduced in FY2016 and apply to incentives awarded from this date. Under these provisions the Committee has the discretion to apply clawback in certain circumstances. Annual bonus payments may be subject to clawback for a period of three years following the payment of the cash bonus and PSP awards may be subject to clawback for a period of three years following vesting.

Annual bonus and PSP awards may be subject to clawback in the event of:

- Material misstatement of financial or other data
- Gross misconduct (includes inappropriate conduct by a participant and behaviour which fails to reflect the Company's governance and business values)
- Fraud effected by or with the knowledge of the participant

Malus provisions have applied to the annual bonus and PSP since FY2015. The circumstances to which malus may apply were expanded in FY2016. The Committee has the discretion to reduce or withhold an award in circumstances including (but not limited to):

- Material misstatement of financial or other data
- Gross misconduct (includes inappropriate conduct by a participant and behaviour which fails to reflect the Company's governance and business values)
- Fraud effected by or with the knowledge of the participant

Performance metrics	Implementation for FY2017
<ul style="list-style-type: none"> The Committee may determine appropriate performance measures 	<ul style="list-style-type: none"> The Chief Executive Officer's annual bonus for FY2017 will be 150% of salary in-line with our policy which provides for a maximum variable award of 350% of salary in connection with recruitment The bonus opportunity for the CFO and the Group Trading Director remains at 100% of salary The annual bonus will be based 80% on Group PBT with 20% based on a customer focused measure known as the net promoter score. The Committee determined that this balance was appropriate to reflect our focus on improving the customer experience alongside our ongoing commitment to profit performance. The net promoter score targets set are specific, measurable and appropriately stretching.
<ul style="list-style-type: none"> The Committee may determine appropriate performance measures for awards Strategic measures will account for no more than 30% of awards 	<p>Award levels</p> <ul style="list-style-type: none"> Chief Executive Officer – maximum award of 200% of salary CFO and Group Trading Director – maximum award of 100% of salary <p>Performance measures</p> <ul style="list-style-type: none"> Debenhams normally grants performance share plan awards in November each year However, given that the new Chief Executive Officer only joined us in October 2016, the Committee determined that it was appropriate to delay the grant of awards to the first half of 2017 to give the CEO the opportunity to consider appropriate performance measures to ensure that they are aligned with the future business strategy If a significant change in performance measures is proposed, the Committee will consult with shareholders The performance conditions for awards will be disclosed in the RNS announcement at the time the awards are granted

THE ANNUAL REPORT ON REMUNERATION

This report sets out details of the implementation of the remuneration policy during FY2016 and provides details as to how the Committee intends to implement the policy during FY2017. This part of the report will be subject to an advisory shareholder vote at the Annual General Meeting in January 2017. This report contains unaudited information except where stated that it is audited.

What did executive directors earn in respect of FY2016 and FY2015 (audited)?

The table below sets out a single figure of remuneration for each executive director for FY2016 and FY2015.

Executive director	2016					2015						
	Base salary	Benefits	Retirement benefits	Bonus	PSP awards	Total	Base salary	Benefits	Retirement benefits	Bonus	PSP Award ²	Total
Suzanne Harlow – Group Trading Director	£408,537 ¹	£30,800	£79,932	£0	N/A	£519,269	£402,492	£15,826	£80,003	£0	£46,852	£545,173
Matt Smith – Chief Financial Officer ³	£408,537 ¹	£32,183	£61,280	£0	N/A	£502,000	£243,526	£10,916	£36,529	£0	N/A	£290,971
Former director												
Michael Sharp – Chief Executive ⁴	£520,188	£37,888	£132,454	£0	N/A	£690,530	£618,844	£47,268	£170,529	£0	£149,682	£986,323

¹ For the period between Michael Sharp stepping down from the board and Sergio Bucher joining, Matt Smith and Suzanne Harlow shared the Chief Executive responsibilities. The Committee determined that it was appropriate for them to receive an additional duties allowance for this period of £30,000 each to reflect the increased scope of their role and additional responsibilities. This allowance did not attract bonus, PSP or pension. An amount of £15,000 was paid to each of them in the period to 3 September 2016.

² PSP award figures have been updated with the actual share price on the date of vesting on 1 November 2015 of 88.5p. The reported figure in FY2015 was £46,709 for Suzanne Harlow and £149,226 for Michael Sharp and was based on the three month average share price to year end. The total for 2015 has therefore been adjusted.

³ Appointed to the board on 26 January 2015 so the 2015 disclosure is not a full year.

⁴ Stepped down from the board on 24 June 2016, hence the 2016 disclosure is not a full year and does not include payments made after that date.

The following provides details of how the single figure for FY2016 has been calculated:

- **Base salary** – Matt Smith and Suzanne Harlow received a salary increase of 1.5% on 1 April 2016.
- **Benefits** – Executive directors receive a benefits allowance which can be used to purchase benefits under the Group scheme. In addition, the executive directors receive life assurance. Suzanne Harlow purchased an additional five days' holiday during the year (£7,808). This amount has not been deducted from the above figures. Michael Sharp received a financial planning allowance, a travel allowance and a fuel allowance. The value of the benefits allowance and the additional benefits is included in the table above.
- **Retirement benefits** – Matt Smith received a cash contribution in lieu of pension of 15% of base salary (£61,280). Suzanne Harlow is a deferred in service member of the Debenhams Executive Pension Plan. The increase in her accrued pension, calculated using the methodology set out in the remuneration reporting regulations, was £6,396. Suzanne Harlow also received a cash contribution in lieu of pension of 17% of base salary rising to 18% on 1 April 2015 following 20 years' pensionable service (£73,536). Michael Sharp is a deferred member of the Debenhams Executive Pension Plan. The increase in his accrued pension, calculated using the methodology set out in the revised remuneration reporting regulations, was £28,416 during FY2016. Michael Sharp received a cash contribution in lieu of pension of 20% of base salary (£104,037).
- **PSPs** – No PSP awards were granted in November 2013 and therefore there is no long-term incentive award which vests based on performance to 3 September 2016.
- **Annual bonus for FY2016** – The maximum bonus for the year was 100% of base salary; the bonus was based 100% on PBT. Bonuses start accruing for meeting threshold levels of performance with the maximum bonus only being payable for achieving performance significantly in excess of this level.

Bonus targets and performance achieved are set out in the table below:

Threshold	Target	Maximum	Actual
£117.6m	£120m	£134.2m	£114.1m*

*On a 52 week basis.

The threshold was not met and therefore no bonus was payable.

Pensions (audited)

Suzanne Harlow is a deferred in service member of the Debenhams Executive Pension Plan. The table below shows the pension accrued at the year end.

	Accumulated total accrued pension at 3 September 2016 (£)	Transfer value of accrued pension as at 3 September 2016 (£)	Transfer value of accrued pension as at 29 August 2015 (£)	Increase in accrued pension during the year (£)	Increase in accrued pension during the year (net of inflation) (£)	Increase/ (decrease) in transfer value during the period (£)
Suzanne Harlow	40,176	1,451,702	1,147,437	320	320	304,265
Former director						
Michael Sharp	218,057	7,778,143	8,011,993	1,705	1,705	(233,850)

Suzanne Harlow participated in the Debenhams Executive Pension Plan until 2006 when it was closed to future accruals and is now a deferred in service member of this scheme. Her normal retirement date under this plan is 31 July 2026. She is not entitled to any additional benefits if she retires prior to this date; any benefits drawn early will be actuarially reduced to reflect early retirement. She also currently receives a cash allowance in lieu of pension contribution of 18% of base salary (increased from 17% effective from 1 April 2015 following 20 years' pensionable service).

Michael Sharp participated in the Debenhams Executive Pension Plan until 2006 when he ceased to participate in the plan and is now a deferred member of this scheme. His normal retirement date under this plan is 31 March 2017. He is not entitled to any additional benefits if he retires prior to this date; any benefits drawn early will be actuarially reduced to reflect early retirement. He also receives a cash allowance in lieu of pension contribution of 20% of base salary.

Scheme interests awarded during the financial year (audited)

As set out in last year's report, the Chief Financial Officer and Group Trading Director received PSP awards of 125% of base salary. The Committee determined that this was appropriate as they were considered essential to the continued smooth operation of the business during the Chief Executive Officer succession process. Michael Sharp was granted a PSP award of 50% of base salary for FY2016.

Individual	Type of interest	Basis on which award made	Number of shares awarded	Face value of shares (£) ¹	Percentage vesting at threshold	Performance period end
Suzanne Harlow	0.01 pence option	125% of base salary	566,406	£507,500	25%	1 September 2018
Matt Smith	0.01 pence option	125% of base salary	566,406	£507,500	25%	1 September 2018
Former director						
Michael Sharp	0.01 pence option	50% of base salary	348,339 ²	£ 312,112	25%	1 September 2018

¹ The face value of shares awarded was calculated using the closing mid-market share price on the date of award (3 November 2015), which was 89.6 pence.

² Michael Sharp's award was pro-rated to 96,760 shares following his departure from the Company.

These awards are based 70% on EPS growth targets and 30% on financial measures that underpin our strategy.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

The EPS targets are 3% per annum (25% vesting) to 10% per annum (100% vesting).

The strategic measures are as follows:

Key strategic pillars	Proposed metric (7.5% of award each)
Delivering a compelling customer proposition	Group gross margin improvement
Increasing availability and choice through multi-channel	Online EBITDA growth rate
Focusing on UK retail	UK GTV growth
Expanding the brand internationally	International EBITDA growth rate

Each strategic measure will vest independently. Each financial strategic measure will be subject to a single hurdle performance test (ie each measure will either vest at 0% or in full).

In order for the award to vest, the Committee must be satisfied that the underlying financial performance of the Company over the performance period is sufficient to justify the vesting of the award and, specifically, vesting of any strategic measure will be subject to a ROCE underpin. The definition of ROCE was refined in November 2014 and capital employed now includes a capitalised value of future store rental payments and profitability items on a pre-rental basis.

Financial strategic targets are specific, measurable and the performance hurdle is set at a level which is considered by the Committee to be sufficiently stretching. The financial targets for the strategic measures are considered by the board to be market sensitive and therefore we will not disclose these measures at the current time. However, indications of performance against strategic targets will be provided during the vesting period. We will also disclose the targets in full, along with actual performance against targets, at the time of vesting.

Shareholding guidelines

In order to align the interests of executive directors with those of shareholders and to demonstrate the executive directors' ongoing personal financial commitment to the business, executive directors are expected to build and maintain a holding of Debenhams shares equal to 100% of base salary.

Executives are expected to retain 50% of any post-tax shares that vest under any share incentive plans until this shareholding is reached.

The Committee is aware that some shareholder guidance indicates that the minimum shareholding guideline for executive directors should be 200% of base salary. In the context of our reward levels and our current PSP opportunity, the Committee considers that the current guideline of 100% of salary remains appropriate. The Committee will consider its position again, however, when we review the wider policy ahead of the 2018 AGM.

Directors' shareholdings and share interests (audited)

The value of directors' current shareholding shown in the table below has been calculated using the three month average closing share price to 3 September 2016 of 60.67p and includes the net value of shares vested but not exercised under the ESOP.

	Ordinary shares held at 27 October 2016	Ordinary shares held at 3 September 2016	Ordinary shares held at 29 August 2015	Unvested awards subject to performance	Unvested options subject to performance	Vested options not exercised	Shareholding requirement (£)	Current shareholding (£)	Requirement met?
Suzanne Harlow – Group Trading Director	617,287	617,287	589,337	1,492,331	–	169,689	£412,090	£374,508	No ¹
Matt Smith – Chief Financial Officer	53,000	53,000	28,000	1,467,306	–	–	£412,090	£32,155	No ²
Former director									
Michael Sharp ³	6,711,725	6,711,725	6,622,426	966,744	–	473,961	£624,225	£4,072,000	N/A

¹ Suzanne Harlow has increased her shareholding during the year as she exercised and retained the post-tax number of shares that vested under the 2012 PSP award. However due to the fall in the share price the value of her holding is slightly below the guidelines.

² Matt Smith joined the board on 26 January 2015.

³ Michael Sharp's information is provided as at 24 June 2016 when he stepped down from the board. Michael Sharp's shareholding includes 374,392 ordinary shares held by the Sharp Discretionary Settlement of which he is a trustee.

Scheme interests (audited) Performance Share Plan

Director	Date of award	Number of shares held at 29 August 2015	Shares awarded during the year	Shares lapsed during the year	Shares exercised during the year	Number of shares held at 3 September 2016	Market value on date of award	Market value on date of exercise	Earliest date of vesting	Expiry date of vesting period
Suzanne Harlow	1 November 2012	311,236	–	258,326	52,910	–	123.7p	88.08p	1.11.15	1.5.16
	3 November 2014	925,925	–	–	–	925,925	64.8p	–	3.11.17	3.5.18
	3 November 2015	–	566,406	–	–	566,406	89.6p	–	3.11.18	3.5.19
Matt Smith	1 May 2015	900,900	–	–	–	900,900	88.8p	–	1.5.18	1.10.18
	3 November 2015	–	566,406	–	–	566,406	89.6p	–	3.11.18	3.5.19
Former director										
Michael Sharp	1 November 2012	994,341	–	825,304	169,037	–	123.7p	88.08p	1.11.15	1.5.16
	3 November 2014	1,423,611	–	553,627	–	869,984 ¹	64.8p	–	3.11.17	3.5.18
	3 November 2015	–	348,339	251,579	–	96,760 ¹	89.6p	–	3.11.18	3.5.19

¹ These awards have been pro-rated to 30 August 2016 in accordance with the arrangements agreed for Michael Sharp's departure.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Update on performance against strategic measures for “in-flight” PSP awards

For PSP awards granted in FY2015 and FY2016, 30% of the shares vest subject to the satisfaction of the four key strategic measures of group: gross margin improvement, online EBITDA growth rate, UK gross transaction value growth and International EBITDA growth rate. The Committee set stretching targets for these metrics taking into account our long-term strategic plan. The exact targets were not disclosed at the time of award as they were considered to be commercially sensitive.

Notwithstanding that the Group has made further progress against its strategic priorities, due to the very stretching nature of the targets set for the strategic measures, performance is currently behind target. Vesting will be determined in FY2018 and FY2019 respectively based on performance over the three year performance period.

Executive Share Option Plan (ESOP)

Director	Date of award	Number of shares held at 29 August 2015	Shares granted during the year	Shares lapsed during the year	Shares vested during the year	Number of shares held at 3 September 2016	Option price	Earliest date of exercise	Expiry date of options
Suzanne Harlow	Approved scheme 24 November 2009	35,108	–	–	–	35,108	85.45p	24.11.12	24.11.19
	Unapproved scheme 24 November 2009	134,581	–	–	–	134,581	85.45p	24.11.12	24.11.19
Former director									
Michael Sharp	Approved scheme 24 November 2009	35,108	–	–	–	35,108	85.45p	24.11.12	12.10.17 ¹
	Unapproved scheme 24 November 2009	438,853	–	–	–	438,853	85.45p	24.11.12	12.10.17 ¹

¹ These options lapse six months after the expiry of Michael Sharp's notice period in accordance with the scheme rules.

Recruitment arrangements for Sergio Bucher, Chief Executive Officer

Sergio Bucher's base salary is £700,000 per annum. The Committee believes this salary level appropriately reflects his skills, experience and potential to add value to Debenhams. In line with the Debenhams directors' remuneration policy, his maximum level of variable remuneration for FY2017 will be 350% of basic salary. This comprises a maximum bonus opportunity of 150% of basic salary under the Debenhams executive directors' bonus scheme. This bonus will be pro-rated to reflect actual service during the year. He will also receive an award under the Debenhams performance share plan (PSP) to the value of 200% of basic salary.

For FY2018, his maximum annual bonus opportunity will be 100% of basic salary and his maximum PSP award will be 150% of basic salary.

Sergio receives a pension provision of 20% of basic salary. He also receives a flexible reward fund of £18,375 and, depending on his preferences, he can opt to receive various benefits through the flexible reward fund or take a cash alternative.

For the first two years of his employment Sergio is provided with a housing allowance of £5,000 per month (after tax). The Company has agreed to meet reasonable relocation expenses up to an agreed level of £30,000 (after tax).

As a consequence of joining Debenhams, Sergio forfeited an award of restricted stock in his previous employer's restricted stock plan. In order to compensate him for this he received a cash payment of £445,184 on joining the business (being around the date on which that restricted stock award would have vested). This payment represents the value of that stock on the business day prior to the announcement of his appointment on 26 May 2016.

The service contract requires 12 months' notice of termination by him and 12 months by the Company. The Company may also terminate his employment by making a payment in lieu of notice ("PILON") equivalent to the value of basic salary and benefits set out above (including pension allowance but excluding bonus) in respect of any unserved period of notice. The service contract contains specific provisions enabling, at the Remuneration Committee's discretion, a reduction in any PILON payments in the event that he finds alternative employment during the notice period.

Sergio Bucher's service contract remuneration and benefits on appointment are consistent with the Debenhams directors' remuneration policy approved by shareholders at the Annual General Meeting held on 9 December 2014.

Departure arrangements for Michael Sharp

It was announced on 14 April 2016 that Michael Sharp intended to step down as Chief Executive. He left the board on 24 June 2016.

According to the terms of his contract, Michael is entitled to receive his normal annual basic salary, benefits and pension supplement for his 12 month notice period (14 April 2016 to 13 April 2017).

Michael Sharp was entitled to participate in the annual bonus plan for FY2016. As noted above, the PBT performance conditions were not met and no bonus payment will be made.

The invested performance share plan awards held by Michael Sharp (2014: 869,984 shares and 2015: 96,760) will continue to vest under the normal timetable subject to the achievement of performance conditions. The awards have been pro-rated to reflect Michael Sharp's service from the respective grant dates to 30 August 2016 as disclosed in the RNS announcement dated 14 April 2016.

The vested options under the Executive Share Option Plan (Approved, 35,108, Unapproved, 438,853) lapse six months after expiry of Michael Sharp's notice period.

Payments to past directors (audited)

No payments were made to past directors during the year.

Executive director service contracts

Notice period

- 12 months' notice by the Company or by the executive director
- Sergio Bucher entered into his service agreement on 25 May 2016
- Matt Smith entered into his service agreement on 25 July 2014
- Suzanne Harlow entered into her current service agreement on 11 December 2013
- Michael Sharp's service contract was dated 3 May 2006

Expiry date

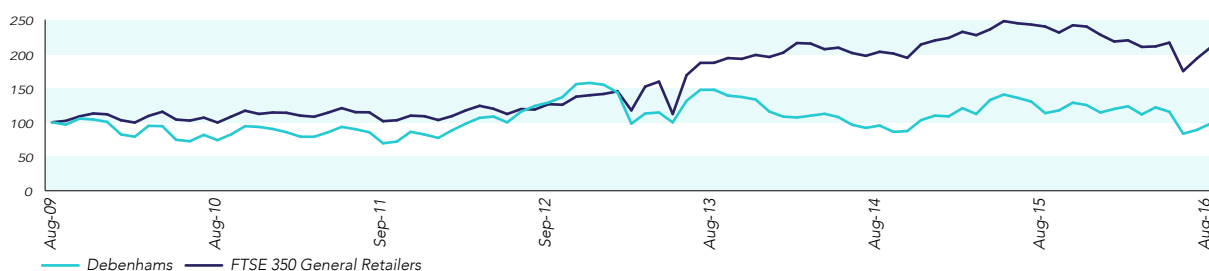
- All are rolling contracts with no expiry date

External appointments for executive directors

Executive directors may undertake external directorships with the consent of the board. Any proposed external directorships are considered by the Nomination Committee to ensure that they do not cause a conflict of interest. Suzanne Harlow is a director of Ermes Department Stores Plc. Fees in respect of this directorship are paid to and retained by Debenhams Retail plc.

Total shareholder return performance graph

The performance graph below shows the Company's total shareholder return against the FTSE 350 General Retailers Index over the period from August 2009 to August 2016. The General Retailers Index has been chosen as Debenhams has been a member throughout the period and it is made up of a broad spectrum of retail competitors (including major general retail listed comparators) in the principal product areas in which the Company trades.



Source: DataStream

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Historical Chief Executive Officer pay

The table below sets out details of the Chief Executive Officer's pay for the current year and the previous six years and the payout of incentive awards as a proportion of the maximum opportunity for each period. The Chief Executive Officer's pay is calculated as per the single figure of remuneration shown on page 56.

	2010	2011	2012	2013	2014	2015	2016
Single figure of total remuneration	£1,477,607	£1,044,515	£1,288,857	£754,396	£990,959	£986,323	£690,530
Annual variable element award rates against maximum opportunity	100%	33.3%	40%	0%	0%	0%	0%
Long-term incentive vesting rates against maximum opportunity	N/A	N/A	PSP: 32% ESOP: 100%	N/A	22%	17%	N/A

The Chief Executive Officer for the period 2009-2011 was Rob Templeman. Michael Sharp was Chief Executive from the start of FY2012 to 24 June 2016. For the remainder of 2016, Matt Smith and Suzanne Harlow shared Chief Executive responsibilities. Their pay has not been included in this analysis.

No PSP award was granted in FY2013.

Percentage change in remuneration of the Chief Executive Officer

The change in remuneration from FY2015 to FY2016 of the Chief Executive Officer and the Group's UK employee population is shown below. This group has been chosen as the comparator group as the majority of Debenhams employees are based in the UK.

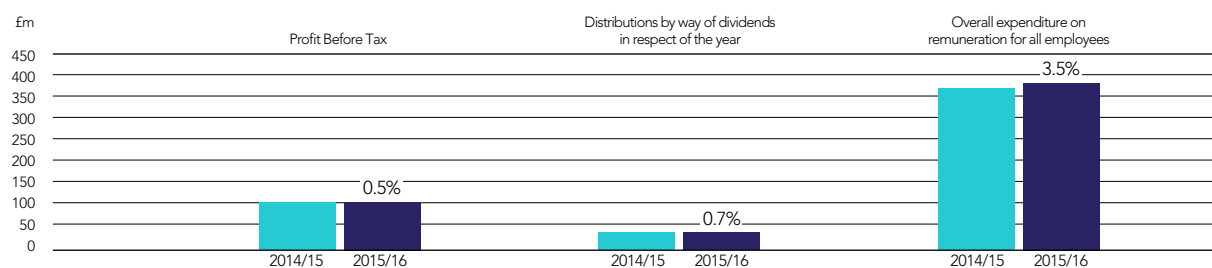
	Chief Executive	UK employees (average full time equivalent)
Base salary	0%	2.2%
Benefits	-3.8%	8.6%
Bonus	0.0%*	-100%

Michael Sharp stepped down as Chief Executive on 24 June 2016. For the remainder of 2016, Matt Smith and Suzanne Harlow shared the Chief Executive responsibilities. Their pay has not been included in this analysis.

* No bonus was paid to the Chief Executive in respect of FY2015 and FY2016.

Relative importance of spend on pay

The chart below sets out the amounts paid in FY2015 and FY2016 in respect of the remuneration of all employees and dividends to shareholders.



The Debenhams Retail Employee Trust 2004

The Debenhams Retail Employee Trust 2004 ("the Trust") currently holds 273,537 shares in the Company. Any shares allocated under the Debenhams 2008 Share Incentive Plan (a plan for employees who are not executive directors) are held by the Trust. Dividends arising on the shares held in the Trust are waived on the recommendation of the Company.

Funding of share schemes

It is the Company's current intention to satisfy any future requirements of its share schemes in a method best suited to the interests of the Company, either by utilising shares held as treasury shares, acquiring shares in the market or issuing new shares. Where the awards are satisfied by newly issued shares or treasury shares, the Company will comply with Investment Association guidelines on shareholder dilution.

Current levels of shareholder dilution are FY2016: 1.08% (FY2015: 1.03%) of share capital.

Summary remuneration policy table for non-executive directors

Element	Key features/operation	Implementation for FY2017
Fees	<ul style="list-style-type: none"> Our non-executive director fees policy is to pay a basic fee for membership of the board and additional fees for the Senior Independent Director, chairmanship of a committee and membership of a committee to take into account the additional responsibilities and time commitment of these roles Fees are reviewed at appropriate intervals by the board The Chairman is paid an all-inclusive fee 	<p>There were no changes to non-executive directors' fees with effect from 4 September 2016.</p> <p>Fees for the year are as follows:</p> <ul style="list-style-type: none"> Basic fee – £40,000 Senior Independent Director – £10,000 Committee chairmanship fee (Audit and Remuneration) – £10,000 Committee chairmanship fee (sustainability) – £7,500 Committee membership fee (per committee) – £2,500 <p>The non-executive Chairman's fee is £200,000.</p>
Benefits and expenses	<ul style="list-style-type: none"> Reasonable costs in relation to travel and accommodation for business purposes are reimbursed to the Chairman and non-executive directors. The Company may meet any tax liabilities that may arise on such expenses The Chairman and non-executive directors are eligible for a staff discount and an annual health assessment 	

Terms and conditions for the Chairman and non-executive directors

The Chairman's appointment may be terminated by the Company in accordance with the Company's Articles of Association and the Companies Act 2006 or upon the Chairman's resignation. In the event that the Chairman's appointment is terminated early, there will be no payment for loss of office or for the unexpired appointment term. The Chairman is permitted to hold other directorships provided that any such appointment does not interfere with his position at the Company.

The non-executive directors have letters of appointment from the Company covering matters such as duties, time commitment, fees and other business interests. The non-executive directors are appointed for an initial three years which may be extended for further terms of three years by mutual agreement. Non-executive director appointments may be terminated by the Company in accordance with the Company's Articles of Association and the Companies Act 2006 or upon the director's resignation. In the event that a non-executive director's appointment is terminated early, there will be no payment for loss of office or for the unexpired appointment term. Dennis Millard's appointment may be terminated by either party giving one month's notice. Dennis Millard is not eligible for any payment in lieu of notice.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

The following summarises when the current non-executives were appointed and the end of their current contract.

Name	Date of appointment	Contract end date
Sir Ian Cheshire	14 January 2016	Appointed for a term of three years ending on 14 January 2019.
Dennis Millard	9 May 2006	Appointment may be terminated by either party giving one month's notice. Dennis Millard is not eligible for any payment in lieu of notice. From January 2016, Dennis Millard is considered to be a non-independent non-executive director as he has been on the board for more than 9 years.
Martina King	1 August 2009	Contract renewed for a further three years at the end of her second term. The end date for her current contract is 31 July 2018.
Mark Rolfe	1 October 2010	Contract renewed for a further one year at the end of his second term. The end date for his current contract is 30 September 2017.
Steve Ingham	8 January 2013	Contract renewed for a further three years at the end of his initial term. The end date for his current contract is 7 January 2019.
Peter Fitzgerald	4 October 2012	Contract renewed for a further three years at the end of his initial term. The end date for his current contract is 3 October 2018.
Terry Duddy	10 April 2015	Appointed for a term of three years ending on 10 April 2018.

Nigel Northridge stepped down as chairman on 7 April 2016.

All appointments are subject to the Company's Articles of Association and the annual re-election by shareholders.

What did non-executive directors earn in respect of FY2016 and FY2015 (audited)?

The table below sets out the fees payable to each director not performing an executive function in respect of FY2016 and FY2015.

		2016			2015		
		Fees	Benefits	Total	Fees	Benefits	Total
Sir Ian Cheshire ¹	Non-executive Chairman, chairman of Nomination Committee, member of Remuneration Committee	£127,435	–	£127,435	–	–	–
Terry Duddy ²	Senior Independent Director and member of Remuneration, Audit and Nomination committees	£53,782	–	£53,782	£18,574	–	£18,574
Peter Fitzgerald	Member of Audit Committee	£42,500	–	£42,500	£42,500	–	£42,500
Stephen Ingham	Member of Remuneration Committee	£42,500	–	£42,500	£42,500	–	£42,500
Martina King	Chairman of Sustainability Committee, chairman of Remuneration Committee, member of Audit and Nomination committees	£59,711	–	£59,711	£55,000	–	£55,000
Dennis Millard ³	Non-independent non-executive director and a member of the Nomination Committee	£50,865	–	£50,865	£65,000	–	£65,000
Mark Rolfe	Chairman of Audit Committee, member of Remuneration and Nomination committees	£55,000	–	£55,000	£55,000	–	£55,000
Former director							
Nigel Northridge ⁴	Non-executive Chairman, chairman of Nomination Committee, member of Remuneration Committee	£105,448	–	£105,448	£175,000	–	£175,000

¹ Sir Ian Cheshire joined the board on 14 January as a non-executive director and became Chairman on 7 April 2016.

² Terry Duddy became Senior Independent Director (SID) on 14 January 2016.

³ Dennis Millard stepped down from the Audit and Remuneration Committees and as SID on 14 January 2016.

⁴ Nigel Northridge stepped down from the board on 7 April 2016.

The total interests of the Chairman and non-executive directors in the share capital of the Company as at 3 September 2016 are shown below.

Director	Ordinary shares held at 29 August 2015	Ordinary shares held at 3 September 2016	Ordinary shares held at 27 October 2016
Sir Ian Cheshire (appointed to the board on 14 January 2016)	–	550,000	550,000
Terry Duddy	40,000	140,000	140,000
Peter Fitzgerald	–	–	–
Stephen Ingham	–	74,557	74,557
Martina King	10,000	10,000	10,000
Dennis Millard	69,455	69,455	69,455
Mark Rolfe	30,000	30,000	30,000
Former director			
Nigel Northridge (stepped down from the board on 7 April 2016) ¹	100,000	100,000	100,000

The information in the table above is audited.

¹ Shareholding as at 7 April 2016, being the date of resignation.

Consideration of matters in relation to directors' remuneration Remuneration Committee members during the year

Martina King took over from Dennis Millard as Remuneration Committee chairman on 14 January 2016. Martina is joined on the Committee by Terry Duddy, Stephen Ingham, and Mark Rolfe. Sir Ian Cheshire joined the Committee on 14 January 2016. Nigel Northridge served on the Committee until he stepped down from the board on 7 April 2016.

Details of the members' background and experience is provided within their biography on pages 42 and 43.

Director	Position	Number of meetings held and attended during the year (of those eligible to attend)
Martina King, Committee chairman from 14 January 2016	Independent non-executive director	4/4
Sir Ian Cheshire (joined the board on 14 January 2016)	Independent non-executive Chairman	2/2
Terry Duddy	Senior Independent non-executive director	4/4
Stephen Ingham	Independent non-executive director	4/4
Mark Rolfe	Independent non-executive director	4/4
Dennis Millard, Committee chairman to 14 January 2016	Non-independent non-executive director	2/2
Nigel Northridge (stepped down from the board on 7 April 2016)		3/3

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Role of the Committee

The full terms of reference for the Remuneration Committee, which are reviewed annually, are available on the Company's website at <http://debenhamsplc.com>. In summary, the Committee has responsibility for determining all elements of the remuneration of the Executive Committee and the Company Secretary together with the provisions of their service agreements, reviewing the bonus structure for the Executive Committee, reviewing the appropriateness and relevance of the Company's remuneration policy (taking into account the remuneration arrangements and levels across the Company) and administering all aspects of any share incentives in operation for senior management. The remuneration of the non-executive directors is a matter for the Company's Chairman and the executive members of the board.

The Committee's main activities during the year

- Approved the directors' remuneration report for FY2016
- Reviewed performance against targets for the executive directors' 2016 bonuses
- Approved the executive directors' 1.5% pay increase
- Approved the fee for the non-executive chairman
- Approved the leaving arrangements for Michael Sharp
- Approved the recruitment arrangements for Sergio Bucher
- Reviewed the executive remuneration strategy for 2016
- Approved the executive directors' bonus plan for 2017
- Evaluated the performance of the Committee and the remuneration consultants

Performance evaluation of the Committee

This year's evaluation of the Committee was conducted by the Company Chairman and it concluded that the Committee continues to be effective and has the correct composition.

Advisors to the Committee

In performing its duties, the Committee has received advice from Deloitte LLP ("Deloitte") which acted as external advisor to the Committee throughout the financial year, providing independent advice on directors' remuneration and share incentives. The fees for advice provided to the Committee during the financial year were £32,500.

Deloitte is one of the founding members of the Remuneration Consulting Group. The Committee has been fully briefed on Deloitte's compliance with the voluntary code of conduct in respect of the provision of remuneration consulting services. Deloitte provides industry and comparative employee remuneration data to Debenhams' management. Deloitte also provided unrelated advisory services in respect of share schemes, and corporate and employment taxes during the year.

Deloitte was appointed by the Committee. It is the view of the Committee that the Deloitte LLP engagement partner and team that provide remuneration advice to the Committee do not have connections with Debenhams that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

During the year, the Committee undertook an evaluation of its advisors and concluded that the advice received from the advisors is independent, straightforward, relevant and appropriate. The Committee has an appropriate level of access to them and has confidence in their advice.

The Chief Executive Officer, the Chief Financial Officer and the HR Director have attended certain Committee meetings and provided advice to the Committee during the year. They are not in attendance when matters relating to their own compensation or contracts are discussed.

Summary of shareholder voting

Debenhams remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to directors' remuneration, Debenhams would seek to understand the reasons for any such vote and would set out in the following annual report and accounts any actions in response to it.

The following table sets out actual voting in respect of two previous reports:

	For	Against
2014 directors' remuneration policy report (2014 AGM)	98.65%	1.35%
2015 annual remuneration report (2015 AGM)	98.82%	1.18%

289,364 and 21,441,806 votes were withheld in relation to the policy report and annual remuneration report resolutions respectively.

On behalf of the board

MARTINA KING
CHAIRMAN, REMUNERATION COMMITTEE
27 OCTOBER 2016

DIRECTORS' REPORT

As required by the Companies Act 2006, the directors' report of Debenhams plc for the year ended 3 September 2016 is comprised of these pages 68 to 70 and information found in the following sections of the Annual Report, all of which are incorporated into this report by reference.

The content of the directors' report has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the directors is restricted to the extent prescribed by the Companies Act 2006.

Profit and dividends

The profit after tax for the financial year ending 3 September 2016 was £85.9 million (2015: £93.5 million). The directors recommend the payment of a final dividend of 2.4 pence per ordinary share, to be paid on 24 January 2017 to members on the register at the close of business on 9 December 2016. This together with the interim dividend of 1.025 pence per share paid on 1 July 2016 gives a full year dividend of 3.425 pence per share.

Directors

The following persons were directors of the Company during the period ended 3 September 2016 and unless otherwise stated at the date of this Annual Report:

Sir Ian Cheshire (appointed 14 January 2016)
Nigel Northridge (resigned 7 April 2016)
Sergio Bucher (appointed 17 October 2016)
Michael Sharp (resigned 24 June 2016)
Matt Smith
Suzanne Harlow
Terry Duddy
Peter Fitzgerald
Stephen Ingham
Martina King
Dennis Millard
Mark Rolfe
Lisa Myers (appointed 6 September 2016)

Information	Location in Annual Report
Review of the business, principal risks & uncertainties and KPIs	Our business model, operational review, KPIs and Principal risks
Strategy	Strategy in action
Business model	Our business model and Strategy in action
Future business developments	Operational review and Strategy in action
Greenhouse gas emissions	Sustainability
Environmental matters, employees and social, community and human rights issues (including information about the Company's policies in relation to these matters)	Sustainability
Employment policy for disabled persons and employee engagement throughout the workforce	Sustainability
Gender diversity	Corporate governance report

The membership of the board and biographical details of the directors are given on pages 42 and 43. The business of the Company is managed by the board who exercise all the powers of the Company, subject to the provisions of the Companies Act 2006, the Company's Articles of Association and any shareholder resolution. In accordance with the Company's Articles of Association, the directors shall be no less than two and no more than 25 in number. Directors may be appointed by the Company by ordinary resolution or by the board. A director appointed by the board holds office only until the next Annual General Meeting. The Company may, by ordinary resolution, remove any director from office. The office of a director is vacated if s/he (i) resigns or retires; (ii) becomes bankrupt or makes an arrangement or composition with his or her creditors generally; (iii) becomes physically or mentally incapable of acting as a director and may remain so for more than three months, or by reason of his or her mental health a court has made an order that prevents the director from acting and in either case, the board resolves that his or her office is vacated; (iv) has been absent for more than six consecutive months without the board's permission from meetings of the board held during that period and his or her alternate director (if any) has not attended in his or her place during that period and the board resolves that his/her office be vacated; or (v) receives a notice signed by not less than three quarters of the other directors stating that the person should cease to be a director. Any amendments

to the Company's Articles of Association may be made in accordance with the Companies Act 2006 by way of special resolution. In accordance with the UK Corporate Governance Code, all of our directors will retire at the forthcoming Annual General Meeting of the Company and they all, other than Dennis Millard, offer themselves either for election, in the case of Sir Ian Cheshire, Sergio Bucher and Lisa Myers, or re-election in the case of all other directors. An internal evaluation of the performance of each director, board and its Committees has been carried out and the results were positive confirming that each of the directors continue to be effective and demonstrate commitment to his or her role and that the board and its committees are operating well and effectively. There is more information on the evaluation and its outcome within the corporate governance report on pages 40 and 41.

In addition to the indemnity provisions in their Articles of Association, the Company and other Group companies have entered into a direct indemnity agreement with each of the directors and certain other officers or senior employees of the Group. These indemnities constitute qualifying indemnities for the purposes of the Companies Act 2006 and remain in force at the date of approval of this report without any payment having been made under them. The Company also maintains directors' and officers' liability insurance which gives appropriate cover

for any legal action brought against its directors.

No director had, during or at the end of the year, any material interest in any contract of significance in relation to the Group's business.

Major shareholders

In accordance with Listing Rule 9.8.6(2), the following investor interests have

been disclosed to the Company pursuant to the Disclosure and Transparency Rules as at 3 September 2016. This information was correct at the date of notification. It should be noted that these holdings may have changed since notified to the Company. Notification of any changes is not required until the next applicable threshold is crossed.

Shareholder	Number of shares	Percentage of issued share capital
Schroders plc	185,193,251	15.083%
Milestone Resources Group Limited	89,183,155	7.264%
Old Mutual plc	73,558,385	5.991%
Standard Life Investments (Holdings) Ltd	62,804,669	5.115%
Brandes Investment Partners LP	61,937,893	5.045%
LSV Asset Management	59,976,652	4.885%
ING Groep N.V.	40,515,686	3.300%
Norges Bank	39,932,025	3.252%

On 12 May 2016, Sports Direct International plc announced that it had extended the Put Option Agreement entered into with Goldman Sachs International referencing 128,927,113 ordinary shares of Debenhams plc (representing 10.5% of the issued share capital of Debenhams) by one year. The maturity period for these option contracts is therefore now October/November 2017.

No notifications have been received since 3 September 2016 up to 26 October 2016.

Share capital

As at 3 September 2016, the issued share capital of the Company was 1,227,821,016 ordinary shares of 0.01 pence each and 59,041,231 ordinary shares of 0.01 pence each were held in Treasury. In addition to the shares trading on the London Stock Exchange, the Company operates a level 1 American depositary receipt programme. Each American depositary share represents four ordinary shares of 0.01p each.

644,496 treasury shares were transferred out of treasury during the year to satisfy awards granted under the Company's Performance Share Plan.

At the January 2016 Annual General Meeting, shareholders authorised the Company to purchase up to 122,716,681 ordinary shares in the market. Although this authority was not utilised by the Company during the last financial year, approval will be sought from shareholders at the forthcoming Annual General Meeting to renew its authority to purchase shares in the market for a further year. This is a standard authority and it is the Company's present intention, should shares be bought back, for them to be cancelled or retained in treasury pending a subsequent sale, cancellation or transfer. The directors have no present intention of exercising the authority to purchase the Company's ordinary shares. The authority will be exercised only if the directors believe that to do so would result in an increase in earnings per share and would be likely to promote the success of the Company for the benefit of its shareholders as a whole.

Voting rights

If voting on a resolution at any general meeting of the Company is on a show of hands, every member present in person has one vote and every proxy appointed by one or more members has one vote regardless of the number of shares held by the shareholder or represented by the proxy. On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder, but a shareholder or proxy entitled to more than one vote need not cast all his/her votes or cast them all the same way. No member shall be entitled to vote at any general meeting of the Company, either in person or by proxy, in respect of any share held unless all monies payable in respect of that share have been paid. There are no known arrangements which may restrict voting rights.

As at 3 September 2016, the Debenhams Retail Employee Trust 2004 (the "Trust") holds 273,537 ordinary shares in the Company (0.02%). Any voting or other similar decisions relating to the shares held by the Trust would be taken by the trustees, who may take account of any recommendations of the Company.

Transfer of shares

Any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any form which the board may approve. The board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis). The board may also refuse to register the transfer of a certificated share where the instrument of transfer is invalid. There are no known arrangements which may restrict the transfer of shares.

DIRECTORS' REPORT CONTINUED

Significant agreements

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- The multi-currency revolving credit facility dated 25 February 2016 contains mandatory prepayment
- The terms and conditions of the 5.25% senior notes due 2021 contain a requirement for the Company to make an offer to repurchase all of the notes at a price equal to 101% of the principal amount thereof, plus any accrued unpaid interest
- The Company's performance share plan contains provision regarding change of control. Awards under the plan may vest subject to the satisfaction of any performance conditions

Other than the provisions of the Company's share plans, there are no agreements providing for compensation for directors or employees on change of control. Details concerning the impact on share options and share awards held by directors or employees in the event of a change of control are set out in the remuneration policy.

Political donations

There were no disclosable expenses made during the financial year which fall within the definition of a political donation under the Political Parties, Elections and Referendums Act 2000. It is the Group's policy not to make donations to political organisations or independent election candidates or incur political expenditure.

Financial instruments

Debenhams does not enter into financial instruments for speculative trade. Details of financial instruments entered into for underlying risks are set out in note 23 on page 111 of the financial statements. Information regarding the Group's financial risk management policies is set out in note 22 to the financial statements on pages 106 to 111.

Events since year end

Lisa Myers was appointed as an independent non-executive director on 6 September 2016 and Sergio Bucher joined the Company as Chief Executive on 17 October 2016.

Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Long-term viability statement

The directors have assessed the viability of the Group over a three year period. This has taken into account the Company's three-year strategy plan, business model, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this review, the directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three-year period under review. Further details on the assessment of the long-term viability statement can be found on page 31.

Corporate Governance Statement

In accordance with the Financial Services Authority's Disclosure and Transparency Rule ("DTR") 7.2.1, the disclosures required by DTR 7.2.2R to DTR 7.2.7 and DTR 7.2.10 are within the corporate governance report on pages 36 to 41 and risk review on pages 20 to 25 and are therefore incorporated into this report by reference.

Disclosure of information to auditors

Each of the directors of the Company at the time when the directors' report was approved confirms that:

a) so far as the director is aware, there is no information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and

b) s/he has taken all the steps that s/he ought to have taken as a director in order to make herself or himself aware of any information needed by the Company's auditors in connection with preparing the report and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue in office and a resolution dealing with its re-appointment as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of Debenhams plc will be held at Debenhams Head Office, 10 Brock Street, Regent's Place, London NW1 3FG on Thursday 12 January 2017. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

The directors' report was approved by a duly appointed and authorised committee of the board of Directors on 27 October 2016 and signed on its order by:

PAUL EARDLEY
COMPANY SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising Financial Reporting Standard 101 Reduced disclosure framework (FRS 101) and applicable law). Under company law, the directors must not approve financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether IFRSs as adopted by the EU or applicable UK Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively

- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's performance, business model and strategy.

Each of the directors, whose names and functions are detailed on pages 42 to 43 confirms that to the best of his/her knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The strategic report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that it faces

On behalf of the board

MATT SMITH
CHIEF FINANCIAL OFFICER
27 OCTOBER 2016

SUZANNE HARLOW
GROUP TRADING DIRECTOR
27 OCTOBER 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (GROUP)

Report on the group financial statements

Our opinion

In our opinion, Debenhams plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 3 September 2016 and of its profit and cash flows for the financial year (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the annual report and accounts (the "annual report"), comprise:

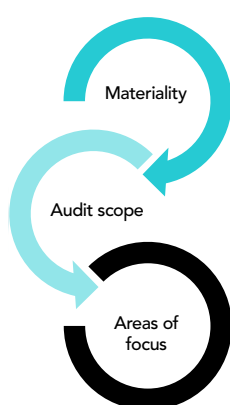
- the consolidated balance sheet as at 3 September 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the annual report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview



Overall group materiality: £5.9 million which represents 5% of profit before tax.

Debenhams plc consists of two operating segments – UK and International. Within these two operating segments there are eight reporting units (excluding dormant entities), of which five are considered to be financially significant to the Group.

We performed full scope audits on the five significant reporting units (Debenhams Retail plc, Debenhams Properties Limited, Debenhams Retail (Ireland) Limited, Debenhams plc and Aktieselskabet Th. Wessel & Vett Magasin du Nord ("Magasin du Nord")).

The entities where we performed full scope audits accounted for 100% of retail revenue and 100% of profit before tax.

- Risk of fraud in revenue recognition in relation to manual adjustments posted to revenue and the cut-off of wholesale invoicing to franchise partners.
- Inventory valuation using the retail method and provisioning for out-of-season inventory.
- Goodwill and store asset impairment assessment.
- Defined benefit pension plans.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as “areas of focus” in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p>Risk of fraud in revenue recognition in relation to manual adjustments posted to revenue and the cut-off of wholesale invoicing to franchisees</p> <p><i>See note 2 to the financial statements for the directors’ disclosures of the related revenue recognition accounting policy and page 48 for the views of the Audit Committee.</i></p> <p>The Group’s revenue relates to both retail trading and trading with franchise partners.</p> <p>Retail revenue comprises high volume, low value cash or credit/debit card transactions where the principal risk of fraud and manual error comes from the ability to manipulate the results through posting manual journals outside of the standard automated transaction flow and therefore not subject to the main controls over revenue. The Group uses manual journals to post accounting adjustments including adjusting concessions sales so as to remove the element of the sale that is due to the concession partner; for deferral of revenue where sale of goods online are not yet despatched at the year end, and adjustments for staff discounts and refund provisions. This risk is applicable to Debenhams Retail plc, Debenhams Retail (Ireland) Limited and Magasin du Nord as these are the only reporting units which generate retail revenue.</p> <p>Franchise revenue comprises revenue from the sale of inventory to franchise partners for sale in overseas franchise stores and franchise fees for the use of the Debenhams brand by overseas franchise partners. The principal risk of fraud and manual error in franchise revenue comes from manual journals as noted above. There is also a risk that management could materially manipulate franchise revenue figures through forcing sales or invoicing the franchises in the incorrect period artificially inflating revenue for the current year. Franchise sales are only recognised in Debenhams Retail plc.</p>	<p>For both retail and franchise revenue we agreed material manual journal entry adjustments made to revenue to supporting documentation. Our work did not identify any significant unexpected or unsupported adjustments.</p> <p>In Magasin du Nord, the system design was such that, rather than manually trace the journal entries to supporting documentation, we were able to use data auditing techniques to trace revenue transactions through the expected transaction flow and to highlight unexpected transactions needing further investigation. Our review of transactions did not highlight any significant unexpected items.</p> <p>In addition, for franchise revenue, we tested a sample of sales transactions back to supporting documentation such as cash receipts or purchase orders and goods despatched notes to ascertain the point at which the revenue should be recorded and to make sure it is in the correct period. Our testing noted that Debenhams is entitled to recognise sales on despatch of the goods in line with the franchise agreements, and all items tested had been despatched in advance of the year end. We also obtained confirmation of a sample of year end accounts receivable balances with no material issues noted.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (GROUP) CONTINUED

Area of focus

Inventory valuation using the retail method and provisioning for out-of-season inventory

Refer to pages 46 to 49 (Audit Committee report) and note 5 to the financial statements for the directors' disclosures of the critical accounting estimates and judgements related to the valuation of inventory.

The valuation of inventory in the UK and Ireland is determined using the retail method. This is an industry specific accounting method used to derive a weighted average product cost. This method relies on a number of inputs including selling price, assumed margin and quantity. The methodology is also impacted by the timing of processing markdowns which could significantly affect gross margin. Due to differences in the systems used, inventory in Magasin du Nord is valued using a cost based method which is less complex and therefore this risk is not applicable to that reporting unit.

Furthermore, the ongoing pressure on consumer spending within the retail sector continues to create competition on the high street, especially in non-essential categories such as fashion. This could put pressure on the level of out-of-season stock identified for markdown within the Group. As such there is a risk that the realisable value of inventory will be lower than its recorded cost. This risk is relevant to Debenhams Retail plc, Debenhams Retail (Ireland) Limited and Magasin du Nord as these are the only reporting units that hold inventory.

How our audit addressed the area of focus

Due to the reliance management places on the various stock systems used within the Group, we evaluated the IT controls over the relevant systems and tested the internal controls over the inventory valuation process including the process of recording inventory on receipt and agreement of inventory invoices to proof of receipt and purchase orders. This work gave us assurance over the processing of the inputs into management's margin calculations which are the basis of the inventory valuation.

We also tested interfaces between the Group's systems to ensure that sales prices used in the valuation were consistent with those prices in the store till system. Our testing did not note any issues between systems.

We obtained evidence over the quantities of inventory through assessing the Group's controls by attending a sample of inventory counts at stores and distribution centres and reviewing the results of those counts not attended. No significant issues were noted regarding existence or accuracy of inventory.

We reviewed departmental level margins against the prior year margins for unusual fluctuations, with none being identified.

We also assessed the level of out-of-season inventory at the year end, including testing management's controls in relation to classifying inventory as current, continuity (inventory with no season) or out-of-season inventory. We also assessed the spend on mark downs in the month following the year-end and the level of out-of-season inventory at the end of this period to check the reasonableness of the judgement involved in the markdown provisions applied to the year-end inventory valuation. Our testing noted that the controls in place were operating effectively for the purposes of our audit and no unusual patterns were noted through examining post year-end markdowns.

Area of focus**Goodwill and store asset impairment assessment**

Refer to note 5 to the financial statements for the directors' disclosures of the critical accounting estimates and judgements related to the goodwill impairment assessment and notes 14 & 15 for further details on the impairment test.

The UK retail market continues to evolve rapidly, with customers' purchasing habits adapting to include online offerings and other convenience options, and there is a risk that this could impact the recoverable value of assets used within the store portfolio.

Management considers each store to be a cash-generating unit ("CGU") and has performed a discounted cash flow impairment assessment at CGU level to ensure that the store assets are supported by its expected future cash flows.

We focused on this area because of the significant carrying value of store assets within the Group and the judgement used in management's impairment assessment including assumptions over future growth rates and discount rate. This risk is relevant to Debenhams Retail plc, Debenhams Retail (Ireland) Limited and Magasin du Nord as these are the only entities that have store assets.

The Group balance sheet also includes £818.9 million of goodwill which relates primarily to the acquisition in December 2003 of the Debenhams Group by Debenhams plc. Management's assessment of the store portfolio as detailed above is used to form the basis of the goodwill impairment review and is therefore subject to the same assumptions as the store impairment review above.

We focused on this area due to the changes noted in the retail market as detailed above. This risk is relevant to Debenhams Retail plc and Debenhams Retail (Ireland) Limited as these are the only entities with goodwill included on their balance sheet.

How our audit addressed the area of focus

We tested that the impairment models used by management for both goodwill and store impairment were mathematically correct with no issues noted.

We challenged the directors on the inputs into their impairment assessment calculations, including:

- The directors' key assumptions for short-term sales growth rates (from 0.0% to 4.0%), by comparing them to historical results and the prospects for the stores, business and industry and noted that the rates used do not appear to be unreasonable;
- The directors' key assumptions for long-term sales growth rates of 2.0%, by comparing this to historical results, and economic and industry forecasts and note that the rates used in management's calculations were in line with this data; and
- The discount rate (post tax rate of 7.1%), by assessing the cost of capital for the Group and comparable organisations, forming a view of risk premiums as appropriate. Having performed this assessment we believe this is an appropriate discount rate.

Having challenged these assumptions, we focused further discussions with management on stores where there were lower levels of profitability or little headroom in the impairment assessment, and as such we considered the risk of impairment to be greater. For those stores that were identified as higher risk, we understood management's support for the carrying value of store assets and agreed that the carrying value was appropriate.

We also performed sensitivity analysis on the key assumptions including the short-term growth rates and discount rates as these are the key assumptions in the impairment model and noted that whilst the calculations are most sensitive to changes in short-term growth rates, there is sufficient headroom for this not to result in impairments being required when using the sensitivities we applied.

We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment.

Defined benefit pension plans

Refer to note 5 to the financial statements for the directors' disclosures on the critical accounting estimates and judgements related to the defined benefit pension plans and note 24 for detailed disclosures in relation to these plans.

The Group has two defined benefit pension plans which comprise total pension assets of £1,057.6 million and total pension liabilities of £1,061.7 million. The valuation of the pension liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions (including inflation, discount rates, and mortality) can have a material impact on the calculation of the liability.

This risk is relevant to Debenhams Retail plc as this is the only entity which has defined benefit pension schemes.

We evaluated the pension liability assumptions, including discount rates, salary increases, inflation and mortality, utilising our internal actuarial specialists. We considered and challenged the reasonableness of the actuarial assumptions comparing the discount and inflation rates used to our internally developed benchmark ranges, finding them to be within an acceptable range.

Both plans are closed to new entrants; the accuracy of census data used to calculate the liability at the date of each triennial valuation was tested by agreeing a sample of individuals' details to the Group's personnel records.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (GROUP) CONTINUED

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

The Group is structured into two operating segments – UK and International. These operating segments consist of eight reporting units (excluding dormant entities).

Our audit approach was based on the underlying reporting units within the two operating segments. We considered there to be five financially significant reporting units - Debenhams Retail plc, Debenhams Properties Limited, Debenhams Retail (Ireland) Limited, Debenhams plc and Magasin du Nord.

The five financially significant reporting units were audited by the UK Group team with the exception of Magasin du Nord which was audited by PwC Denmark as component auditor operating under our instruction. Audit work was performed over the consolidation process and tax at a consolidated Group level.

Where the work was performed by the component auditor, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. As part of our year end procedures, we held detailed discussions with the Magasin du Nord component audit team including update calls on the progress of their fieldwork and attending the clearance meeting with management by conference call.

The reporting units where we performed full scope audit work accounted for 100% of retail revenue and 100% of Group profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£5.9 million (2015: £5.6 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (2015: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 70, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion, the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

information in the Annual Report is:	We have no exceptions to report.
<ul style="list-style-type: none"> materially inconsistent with the information in the audited financial statements; or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading. 	
<ul style="list-style-type: none"> the statement given by the directors on page 71, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit. 	We have no exceptions to report.
<ul style="list-style-type: none"> the section of the annual report on pages 46 to 49, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. 	We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> the directors' confirmation on page 20 of the annual report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. 	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated. 	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> the directors' explanation on page 70 of the annual report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. 	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (GROUP) CONTINUED

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the corporate governance statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 71, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of Debenhams plc for the financial year ended 3 September 2016 and on the information in the directors' remuneration report that is described as having been audited.

JOHN ELLIS (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS
LONDON
27 OCTOBER 2016

CONSOLIDATED INCOME STATEMENT

For the financial year ended 3 September 2016

	Note	53 weeks ended 3 September 2016			52 weeks ended 29 August 2015
		Before exceptional items £m	Exceptional items (note 7) £m	After exceptional items £m	Total £m
Revenue	3, 4	2,341.7	-	2,341.7	2,322.7
Cost of sales		(2,039.8)	(8.5)	(2,048.3)	(2,023.5)
Gross profit		301.9	(8.5)	293.4	299.2
Distribution costs		(115.4)	(1.8)	(117.2)	(111.1)
Administrative expenses		(55.5)	(2.1)	(57.6)	(54.0)
Operating profit	6	131.0	(12.4)	118.6	134.1
Finance income	9	1.4	-	1.4	0.2
Finance costs	10	(14.2)	-	(14.2)	(20.8)
Profit before taxation		118.2	(12.4)	105.8	113.5
Taxation	11	(22.3)	2.4	(19.9)	(20.0)
Profit for the financial year attributable to owners of the parent		95.9	(10.0)	85.9	93.5

Earnings per share attributable to owners of the parent

		Pence per share	Pence per share	Pence per share
Basic earnings per share	13	7.8	7.0	7.6
Diluted earnings per share	13	7.8	7.0	7.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 3 September 2016

	Note	53 weeks ended 3 September 2016 £m	52 weeks ended 29 August 2015 £m
Profit for the financial year		85.9	93.5
Other comprehensive (expense)/income			
Items that will not be reclassified to the income statement			
Remeasurements of pension schemes	24	(41.1)	17.8
Taxation relating to items that will not be reclassified	11	8.1	(3.6)
		(33.0)	14.2
Items that may be reclassified to the income statement			
Currency translation differences		7.4	(5.2)
Change in the valuation of available-for-sale investments	16	(0.8)	(1.5)
Gains on cash flow hedges		41.8	39.2
Cash flow hedges reclassified and reported in the income statement	10	0.8	1.6
Recycled and adjusted against cost of inventory	22	(27.2)	(8.7)
Taxation relating to items that may be reclassified	11	(1.5)	(6.7)
		20.5	18.7
Total other comprehensive (expense)/income		(12.5)	32.9
Total comprehensive income for the financial year		73.4	126.4

CONSOLIDATED BALANCE SHEET

As at 3 September 2016

	Note	3 September 2016 £m	29 August 2015 £m
Assets			
Non-current assets			
Intangible assets	14	962.1	931.5
Property, plant and equipment	15	670.2	675.3
Available-for-sale investments	16	1.3	2.1
Derivative financial instruments	23	10.7	12.1
Trade and other receivables	18	17.4	14.9
Retirement benefit surplus	24	6.4	26.2
Deferred tax assets	25	20.1	20.8
		1,688.2	1,682.9
Current assets			
Inventories	17	326.3	331.6
Trade and other receivables	18	81.1	78.0
Derivative financial instruments	23	39.1	17.4
Cash and cash equivalents	19	56.3	32.7
		502.8	459.7
Liabilities			
Current liabilities			
Bank overdraft and borrowings	21	(135.6)	(155.4)
Derivative financial instruments	23	(7.6)	(1.3)
Trade and other payables	20	(516.3)	(523.6)
Current tax liabilities		(14.7)	(9.0)
Provisions	27	(14.0)	(6.4)
		(688.2)	(695.7)
Net current liabilities		(185.4)	(236.0)
Non-current liabilities			
Bank overdraft and borrowings	21	(199.7)	(197.1)
Derivative financial instruments	23	(3.7)	(1.1)
Deferred tax liabilities	25	(50.5)	(54.8)
Other non-current liabilities	26	(354.5)	(340.6)
Retirement benefit obligations	24	(10.5)	–
		(618.9)	(593.6)
Net assets		883.9	853.3
Equity			
Share capital	28	0.1	0.1
Share premium account		682.9	682.9
Merger reserve		1,200.9	1,200.9
Reverse acquisition reserve		(1,199.9)	(1,199.9)
Hedging reserve		31.2	17.9
Other reserves	28	(9.3)	(16.5)
Retained earnings		178.0	167.9
Total equity		883.9	853.3

The financial statements on pages 79 to 124 were approved by the board on 27 October 2016 and were signed on its behalf by:

MATT SMITH
CHIEF FINANCIAL OFFICER

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 3 September 2016

	Note	Share capital and share premium account £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 30 August 2014		683.0	1,200.9	(1,199.9)	(7.9)	(9.4)	100.7	767.4
Profit for the financial year		–	–	–	–	–	93.5	93.5
Other comprehensive income/(expense) for the financial year		–	–	–	25.8	(7.1)	14.2	32.9
Total comprehensive income/(expense) for the financial year		–	–	–	25.8	(7.1)	107.7	126.4
Share-based payment charge	29	–	–	–	–	–	1.1	1.1
Unallocated dividends		–	–	–	–	–	0.1	0.1
Dividends paid	12	–	–	–	–	–	(41.7)	(41.7)
Total transactions with owners		–	–	–	–	–	(40.5)	(40.5)
Balance at 29 August 2015		683.0	1,200.9	(1,199.9)	17.9	(16.5)	167.9	853.3
Profit for the financial year		–	–	–	–	–	85.9	85.9
Other comprehensive income/(expense) for the financial year		–	–	–	13.3	7.2	(33.0)	(12.5)
Total comprehensive income for the financial year		–	–	–	13.3	7.2	52.9	73.4
Share-based payment credit	29	–	–	–	–	–	(0.8)	(0.8)
Dividends paid	12	–	–	–	–	–	(42.0)	(42.0)
Total transactions with owners		–	–	–	–	–	(42.8)	(42.8)
Balance at 3 September 2016		683.0	1,200.9	(1,199.9)	31.2	(9.3)	178.0	883.9

For a description of other reserves see note 28.

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 3 September 2016

	Note	53 weeks ended 3 September 2016 £m	52 weeks ended 29 August 2015 £m
Cash flows from operating activities			
Cash generated from operations	31	240.2	236.3
Finance income		0.3	0.1
Finance costs		(15.6)	(19.4)
Tax (paid)/received		(11.0)	1.1
Net cash generated from operating activities		213.9	218.1
Cash flows from investing activities			
Purchase of property, plant and equipment		(79.3)	(79.6)
Purchase of intangible assets		(47.2)	(54.0)
Sale of property, plant and equipment		-	0.2
Net cash used in investing activities		(126.5)	(133.4)
Cash flows from financing activities			
Repurchase of senior notes	21	-	(24.8)
Repayment of revolving credit facility	21	(15.0)	(65.0)
Dividends paid	12	(42.0)	(41.7)
Finance lease payments		(2.9)	(3.3)
Debt issue costs		(1.3)	0.2
Net cash used in financing activities		(61.2)	(134.6)
Net increase/(decrease) in cash and cash equivalents			
Net cash and cash equivalents at beginning of financial year		14.4	64.4
Foreign exchange gains/(losses) on cash and cash equivalents		0.2	(0.1)
Net cash and cash equivalents at end of financial year	32	40.8	14.4

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 3 September 2016

1 General information

Introduction

Debenhams plc ("the Company") is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Company number 5448421). The address of the registered office is 10 Brock Street, Regent's Place, London NW1 3FG.

The principal activity of the Company is that of a holding company. The principal activities of the Company and its subsidiaries (together "the Group" or "the Debenhams Group") are the sale of fashion clothing and accessories, cosmetics and products for use in the home. The Group has a multi-channel offer, trades from department stores in the UK, the Republic of Ireland and Denmark, trades online and has international franchise stores.

The Group prepares its financial statements for the financial year ending on the nearest Saturday to 31 August of a given calendar year. Consequently the year ended 3 September 2016 is a 53 week year, with the comparative year ended 29 August 2015 being a 52 week year.

The principal subsidiary undertakings within the Group during the financial year ended 3 September 2016 are disclosed in note 4 to the Debenhams plc Company financial statements.

2 Accounting policies

The Group's principal accounting policies, as described below, have been consistently applied to all financial years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards ("IFRSs") including International Accounting Standards ("IAS") and IFRS Interpretations Committee ("IFRS IC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The consolidated financial statements for the financial years ended 3 September 2016 and 29 August 2015 have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through the income statement.

The preparation of the financial statements, in conformity with IFRSs, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these results are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates (see note 5).

Consolidation

The financial statements comprise a consolidation of the accounts of Debenhams plc and all its subsidiaries. Subsidiaries include all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

On consolidation, inter company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. On acquisition, accounting policies of the Company and its subsidiaries have been changed where these have a significant impact on the Group's income statement or balance sheet to ensure consistency with the policies adopted by the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of staff discounts, and is stated net of value added tax and other sales-related taxes. Revenue is also adjusted for the fair value of loyalty points awarded. Loyalty points awarded are reflected within liabilities until such time as they are redeemed.

Revenue on department store sales of goods and commission on concession and consignment sales is recognised when goods are sold to the customer. Retail sales are usually settled in cash or by credit or debit card. Internet sales are recognised when the goods are despatched to the customer. Revenue from gift cards and gift vouchers sold by the Group is recognised on the redemption of the gift card or gift voucher. Revenue from sales to franchisees is recognised

when goods are despatched or when goods are sold to the customer depending on the terms of the franchise agreement. Revenue from franchise fees is recognised when earned.

It is the Group's policy to sell its products to retail customers with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Supplier income recognition

The Group receives income from its suppliers, mainly in the form of settlement discounts, volume-based rebates and marketing and advertising income. Supplier income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date. The Group only recognises supplier income where there is documented evidence of an agreement with a supplier.

Settlement discounts are recognised on receipt of the invoice, provided that the invoice will be settled in accordance with the agreed terms. Volume-based rebates are earned based on purchase or sales triggers over specific periods, such as the number of units sold to customers or purchased from the supplier. Volume-based rebates are recognised once the Group has a contractual entitlement to the income, income can be estimated reliably and it is probable that it will be received. Marketing and advertising income includes markdown or marketing support provided by suppliers and is agreed with suppliers for specified periods and products.

A proportion of the Group's trading terms state that income due from suppliers will be netted against amounts owing to that supplier. Any outstanding invoiced supplier income relating to these suppliers at the balance sheet date will be deducted from trade payables. Where these trading terms do not exist, the Group classifies outstanding supplier income within trade receivables. Where supplier income is earned and not invoiced to the supplier at the balance sheet date, this is classified within prepayments and accrued income.

Segmental reporting

IFRS 8 "Operating segments" requires segment information to be presented based on what is reported to the Chief Operating Decision Maker. The Group has identified the Executive Committee as its Chief Operating Decision Maker and has identified two operating segments, UK and International.

Interest recognition

Finance income and finance costs are recognised in the period to which they relate using the effective interest rate method.

Dividend distribution

A final dividend distribution to the Company's shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividends are recognised when paid.

Retirement benefit costs

The Group operates various defined benefit and defined contribution schemes for its employees.

A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement.

The pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. This surplus or deficit is actuarially calculated on an annual basis using the projected unit credit method. The income statement is charged or credited with a net interest expense which is calculated by applying the discount rate to the net defined benefit liability or asset. Administration costs of pension funds are recognised as an expense when the administration services are performed. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. A retirement benefit surplus is only recognised to the extent that it is expected to be recoverable in the future.

A defined contribution scheme is a pension plan under which the Group pays fixed contributions to a separate entity. Payments to defined contribution pension schemes are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual as at that date. The Group has no further payment obligations once the contributions have been paid.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

2 Accounting policies continued

Share-based payments

The Group issues equity-settled share-based awards to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market vesting conditions. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest. Non-market performance and service conditions are included in assumptions about the number of awards that are expected to vest.

It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the awards are exercised, the Company may, if permitted, issue new shares, or utilise shares held as treasury shares or those held within the Debenhams Retail Employee Trust. The proceeds received net of any directly attributable transaction costs (for new share issues) are credited to share capital (at nominal value) and share premium when the awards are exercised.

Exceptional items

Items which are both non-recurring and material in either size or nature are presented as exceptional items within their relevant income statement line.

The separate reporting of exceptional items helps provide a better indication of underlying performance of the Group.

Foreign exchange

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

b) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities are translated at the closing rate at the date of the balance sheet.

Income and expenses are translated at the average exchange rate unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction.

The resulting net exchange difference is recognised in other comprehensive income and accumulated as a separate component of equity.

c) Transactions and balances

Transactions denominated in foreign currencies are translated into the respective functional currency at the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at the balance sheet date exchange rate, of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates ruling at the balance sheet date.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income and accumulated as a separate component of equity.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and the translation of inter company loans are presented in the income statement within finance income or costs, with the exception of foreign exchange gains and losses that relate to inter company loans classed as permanent equity which are recognised in other comprehensive income. All other foreign exchange gains and losses are presented in the income statement within cost of sales.

Taxation

Taxation expense represents the sum of current tax and deferred tax. Taxation which relates to items recognised in other comprehensive income or equity is recognised in other comprehensive income or equity respectively.

Current tax is based on taxable profits for the financial period using tax rates that are in force during the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. If deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversals of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Leased assets

a) Finance leases

Leases of assets which transfer substantially all the risks and rewards of ownership to the Group are classified as finance leases. Finance leases are classified as a financial liability and measured at amortised cost. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the asset or the present value of the minimum lease payments and depreciated over the useful economic life or the period of the lease. The resulting lease obligations are included in liabilities.

Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

b) Operating leases

All other leases are classified as operating leases. Rentals payable under operating leases, net of lease incentives, are charged to the income statement on a straight line basis over the period of the lease.

Where property lease contracts contain guaranteed fixed minimum incremental rental payments, the total committed cost is determined and is calculated and amortised on a straight line basis over the life of the lease.

Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the consideration given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. All costs directly attributable to an acquisition are expensed to the income statement.

Identifiable assets, liabilities and contingent liabilities acquired in a subsidiary are initially measured at their fair values at the acquisition date, provided they meet the conditions set out in IFRS 3 "Business combinations" revised. The excess of cost over the Group's share of identifiable net assets acquired is recognised as goodwill. If, after reassessment, the cost of acquisition is less than the fair value of assets acquired, the excess is immediately recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

2 Accounting policies continued

Intangible assets

a) Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but tested for impairment annually, or when trigger events occur, and carried at cost less accumulated impairment losses.

Goodwill represents the goodwill for a portfolio of sites which have been allocated to cash-generating units for the purpose of impairment testing on the basis of UK and other which is the lowest level at which goodwill is monitored for internal management purposes.

b) Other intangible assets

Other intangible assets are held at cost less accumulated amortisation and any provision for impairment.

Internally generated software costs, where it is clear that the software developed is technically feasible and will be completed and that the software generated will generate economic benefit, are capitalised as an intangible asset. Included within intangible assets are assets in the course of construction. These assets include directly attributable costs to bring the assets into use and may include capitalised borrowing costs. Amortisation is provided at the following rates per annum to write off the costs of other intangible assets, less residual value, on a straight line basis from the date on which they are brought into use:

Acquired licences and trademarks	Up to 10.0%
Internally generated software	10.0% to 33.3%
Purchased software	10.0% to 33.3%

Impairment testing

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped by store, which is the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have been impaired are reviewed at each reporting date for possible reversal of the impairment.

Property, plant and equipment

Property, plant and equipment are held at historical purchase cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. This may include capitalised borrowing costs.

Depreciation is provided at the following rates per annum to write off the cost of property, plant and equipment, less residual value, on a straight line basis from the date on which they are brought into use:

Freehold land	Not depreciated
Freehold buildings	1.0%
Long leasehold land and buildings including landlords' fixtures and fittings	1.0% or life of lease if shorter
Short leasehold land and buildings including landlords' fixtures and fittings	Life of lease
Retail fixtures and fittings	4.0% to 25.0%
Office equipment	10.0% to 12.5%
Computer equipment	10.0% to 33.3%
Vehicles	20.0%

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the income statement.

Included within property, plant and equipment are assets in the course of construction. These assets comprise stores which are under construction or modernisation, including costs directly attributable to bring the asset into use. Transfers to the appropriate category of property, plant and equipment are made when the store opens. No depreciation is provided on stores or other assets under construction.

Impairment testing

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped by store, which is the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have been impaired are reviewed at each reporting date for possible reversal of the impairment.

Capitalisation of finance costs

Finance costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised to the cost of the asset, gross of tax relief. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use.

Available-for-sale investments

Purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset. The Group classifies its investments as available-for-sale financial assets in accordance with IAS 39 "Financial instruments: recognition and measurement" ("IAS 39"). Available-for-sale financial investments are non-derivative assets that are either designated in this category or are not classified in the other financial instrument categories being "Fair value through profit or loss" or "Loans and receivables". They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are initially recognised at fair value plus any transaction costs and subsequently at fair value.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset (and for unlisted securities) is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity specific inputs. The fair value of available-for-sale investments denominated in a foreign currency is calculated in that foreign currency and translated at the closing rate at the reporting date. Changes in the fair value of securities classified as "available-for-sale" are recognised in other comprehensive income.

An impairment test is performed annually on the carrying value of each investment. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value primarily using the retail method and represent goods for resale. The retail method is an industry specific accounting method used to derive a weighted average product cost. Product cost and retail values are aggregated at a departmental level to determine an average margin per department. These margins are then applied to the retail value of inventory to derive the cost of the inventory.

Cost includes all direct expenditure and other attributable costs, net of volume and settlement supplier discounts, incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. This method intrinsically takes into account any stock loss or markdown to goods sold below cost. Concession inventories are not included within inventory held by the Group. Inventories on consignment at third parties are included within inventory held by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

2 Accounting policies continued

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently held at amortised cost less provisions for impairment. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of future cash flows discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at the bank and other short-term liquid investments with original maturities of three months or less.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Transaction costs associated with borrowings are recognised initially at fair value and are amortised over the term of the facilities using the effective interest rate on the committed amount of each facility.

Debt repurchase

The nominal value of debt repurchased is accounted for as a loan redemption, reducing net borrowings at the balance sheet date.

Trade payables

Trade payables, defined as financial liabilities in accordance with IAS 39, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

All of the trade payables are non-interest bearing.

Other payables and non-current liabilities

Included within other payables are lease incentives received from landlords either through developers' contributions or rent-free periods. These incentives are credited to the income statement on a straight line basis over the term of the relevant lease. Other payables also relate to the spreading of charges in respect of leases with fixed annual increments in rent (escalating rent clauses) over the term of the relevant lease.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

Derivatives

Derivatives comprise interest rate swaps and forward foreign currency contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, the hedge relationship no longer qualifies for hedge accounting, the forecast transaction is no longer expected to occur or the Group de-designates the hedge relationship. The replacement or roll-over of a hedging instrument into another hedging instrument is not an expiration or termination if it formed part of the Group's documented hedging strategy from inception.

a) Cash flow hedges

The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the income statement which will be affected by the underlying hedged item. Forward foreign currency contracts designated as cash flow hedges are de-designated and subsequently classified as "held for trading" when the underlying forecast transaction is recognised in the financial statements.

Amounts accumulated in equity are reclassified and adjusted against the initial measurement of the underlying hedged item when the underlying hedged item is recognised on the balance sheet or in the income statement.

When a hedged instrument expires, is sold or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. Any cumulative gain or loss existing in equity at that time is held in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the relevant line of the income statement which would have been affected by the forecast transaction.

b) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within cost of sales or finance costs.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares in equity are shown as a deduction, net of tax, from the proceeds.

Where the Company purchases its own ordinary shares, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs together with the related income tax effects, is included in equity attributable to the Company's equity holders.

New standards and interpretations

The following standards and amendments which apply for the first time in the current financial year and do not have a material impact on the consolidated financial information of the Group are as follows:

- Annual improvements to IFRSs: 2011 – 2013 Cycle
- Annual improvements to IFRSs: 2010 – 2012 Cycle
- Amendments to IAS 19 "Employee benefits" on defined benefit plans
- Amendment to IAS 32 "Financial instruments: presentation on offsetting financial assets and financial liabilities"
- Amendment to IAS 36 "Impairment of assets" on recoverable amount disclosures
- Amendment to IAS 39 "Financial instruments: Recognition and measurement" on novation of derivatives and hedge accounting
- Amendment to IFRS 10, 12 and IAS 27 "Consolidation for investment entities"
- IFRIC 21 "Leases"

On 13 January 2016 the International Accounting Standards Board issued IFRS 16 "Leases" which is effective for periods that commence on or after 1 January 2019. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts, subject to limited exceptions for short-term leases and leases of low value assets. The quantitative impact of IFRS 16 on the Group's net assets and results is being assessed. IFRS 16 is expected to have a material impact on the balance sheet as both assets and liabilities will increase and is also expected to have a material impact on key components within the income statement because operating lease rental charges will be replaced by depreciation and finance costs. IFRS 16 will not have any impact on the underlying commercial performance of the Group nor the cash flow generated in the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

2 Accounting policies continued

New standards and interpretations continued

Other standards and interpretations in issue, but not yet effective, which are not expected to have a material effect on the Group's net assets or results are as follows:

- Annual improvements to IFRSs: 2012 – 2014 Cycle
- IFRS 9 "Financial instruments" and amendments to IFRS 9 "Financial instruments" on general hedge accounting
- IFRS 14 "Regulatory deferral accounts"
- IFRS 15 "Revenue from contracts with customers"
- Amendments to IAS 1 "Presentation of financial statements" on disclosure initiative
- Amendment to IAS 7 "Cash flow statements" on disclosure initiative
- Amendment to IAS 12 "Income taxes" on recognition of deferred tax assets for unrealised losses
- Amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" on depreciation and amortisation
- Amendment to IAS 16 "Property, plant and equipment" regarding bearer plants
- Amendments to IAS 27 "Separate financial statements" on equity accounting
- Amendments to IAS 41 "Agriculture" regarding bearer plants
- Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" on applying the consolidation exemption
- Amendment to IFRS 11 "Joint arrangements on acquisition of an interest in a joint operation"
- Amendments to IFRS 15 "Revenue from contracts with customers" clarifications

3 Segmental reporting

IFRS 8 "Operating segments" requires disclosure of the operating segments which are reported to the Chief Operating Decision Maker ("CODM"). The CODM has been identified as the Executive Committee, which includes the executive directors and other key management. It is the Executive Committee that has responsibility for planning and controlling the activities of the Group.

The Group's reportable segments have been identified as UK and International representing the geographical areas in which the Group operates. The UK segment consists of the UK store and online retail business. The International segment consists of subsidiaries in the Republic of Ireland and Denmark, together with international franchise and online operations. Transactions within segments have been eliminated from the information presented below.

The segments are reported to the CODM to operating profit level, using the same accounting policies as applied to the Group accounts. Current assets, current liabilities and non-current liabilities are not reported to or reviewed by the CODM on the basis of operating segment as these are reviewed on a Group-wide basis and therefore these amounts are not presented below.

	UK £m	International £m	Total £m
Financial year ended 3 September 2016			
Gross transaction value	2,386.2	552.3	2,938.5
Concessions, consignments and staff discounts	(454.3)	(142.5)	(596.8)
External revenue	1,931.9	409.8	2,341.7
Operating profit before exceptional items	98.0	33.0	131.0
Exceptional items	(5.4)	(7.0)	(12.4)
Operating profit after exceptional items	92.6	26.0	118.6
Other segment items			
Depreciation (note 15)	82.3	7.1	89.4
Amortisation (note 14)	18.2	1.0	19.2
Impairment loss (note 14)	–	2.2	2.2
Financial year ended 29 August 2015			
Gross transaction value	2,323.5	536.6	2,860.1
Concessions, consignments and staff discounts	(401.2)	(136.2)	(537.4)
External revenue	1,922.3	400.4	2,322.7
Operating profit	101.7	32.4	134.1
Other segment items			
Depreciation (note 15)	80.9	6.8	87.7
Amortisation (note 14)	14.9	1.6	16.5

Segmental analysis of results

Total segmental operating profit may be reconciled to total profit before taxation as follows:

	3 September 2016 £m	29 August 2015 £m
Total operating profit	118.6	134.1
Finance income	1.4	0.2
Finance costs	(14.2)	(20.8)
Total profit before taxation	105.8	113.5

Revenues analysed by country, based on the customers' location, are set out below:

	3 September 2016 £m	29 August 2015 £m
United Kingdom	1,931.9	1,922.3
Denmark	185.1	174.7
Republic of Ireland	136.3	126.0
Rest of the world	88.4	99.7
Total external revenue	2,341.7	2,322.7

Non-current assets, which comprise intangible assets, property and plant and equipment analysed by country, are set out below:

	3 September 2016 £m	29 August 2015 £m
United Kingdom	1,582.1	1,561.2
Denmark	28.4	22.1
Republic of Ireland	21.5	23.1
Rest of the world	0.3	0.4
Total non-current assets	1,632.3	1,606.8

Additions to property, plant and equipment and intangible assets analysed by operating segment are set out below:

	UK £m	International £m	Total £m
Financial year ended 3 September 2016	120.3	9.4	129.7
Financial year ended 29 August 2015	125.0	8.0	133.0

4 Gross transaction value

Revenue from concession and consignment sales is required to be shown on a net basis, being the commission received rather than the gross value achieved on the sale. Management believes that gross transaction value ("GTV"), which presents revenue on a gross basis before adjusting for concessions, consignments and staff discounts, represents a good guide to the overall activity of the Group.

	3 September 2016 £m	29 August 2015 £m
Gross transaction value	2,938.5	2,860.1

A reconciliation of GTV to external revenue is included in note 3.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

5 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2. The recoverable amount of cash-generating units is determined based on a value-in-use calculation. The method requires an estimate of future cash flows and the selection of a suitable discount rate in order to calculate the net present value of the cash flows. Actual outcomes could vary; see note 14 for further details.

Estimated useful life of property, plant and equipment and intangible assets

At the date of capitalising property, plant and equipment and intangible assets, the Group estimates the useful life of the asset based on management's judgement and experience. Due to the significance of capital investment to the Group, variances between actual and estimated useful economic lives could impact results both positively and negatively.

Inventories

Inventories are stated at the lower of cost and net realisable value primarily using the retail method and represent goods for resale. The retail method is an industry specific accounting method used to derive a weighted average product cost. Product cost and retail values are aggregated at a departmental level to determine an average margin per department. These margins are then applied to the retail value of inventory to derive the cost of inventory. This method intrinsically takes into account any stock loss or markdown to goods sold below cost. Concession inventories are not included within inventory held by the Group.

Retirement benefits

The Group's defined benefit schemes' pension surplus/obligation, which is assessed each period by actuaries, is based on key assumptions including discount rates, mortality rates, inflation, future salary costs and pension costs. These assumptions, individually or collectively, may be different to actual outcomes; refer to note 24 for further details.

A retirement benefit surplus is only recognised to the extent that it is expected to be recoverable in the future.

6 Operating profit

	3 September 2016 £m	29 August 2015 £m
The following items have been included in arriving at operating profit:		
The amounts of inventory written down during the financial year	7.5	10.1
Cost of inventory recognised as an expense	1,153.7	1,164.7
Depreciation of property, plant and equipment (note 15)	89.4	87.7
Amortisation of intangible assets (note 14)	19.2	16.5
Impairment of intangible assets (note 14)	2.2	–
Loss on disposal of property, plant and equipment	0.1	0.3
Operating lease rentals	220.7	213.9
Foreign exchange gains	(24.1)	(5.7)
Auditors' remuneration	0.5	0.4

Services provided by the Company's auditors and network firms

During the financial year the Group obtained the following services from the Company's auditors and its associates as detailed below:

	3 September 2016 £m	29 August 2015 £m
Audit services		
Annual audit fees for the Company and the consolidated accounts	0.2	0.2
Other services		
Audit of subsidiary companies	0.2	0.1
Other non-audit services	0.1	0.1

It is cost effective for the Group that such other services are provided by its auditors in view of their knowledge of the Group's affairs. Other non-audit service fees payable to the Group's auditors during the financial year ended 3 September 2016 include £84,277 for their role as independent accountant in the examinership process in the Republic of Ireland (see note 7). This is a role typically performed by the auditors.

7 Exceptional items

Exceptional items comprise the following:

	Irish examinership¹ £m	UK restructuring² £m	International website³ £m	3 September 2016 £m
Exceptional cost of sales	1.9	3.9	2.7	8.5
Exceptional distribution costs	0.7	1.1	–	1.8
Exceptional administrative expenses	1.4	0.7	–	2.1
Exceptional items before taxation	4.0	5.7	2.7	12.4
Taxation on exceptional items	(1.3)	(1.1)	–	(2.4)
Exceptional items after taxation	2.7	4.6	2.7	10.0

There were no exceptional items in the 52 weeks ended 29 August 2015.

¹ The Irish business was entered into an examinership process in May 2016 which concluded in August 2016. Costs were incurred in relation to the examinership and restructuring of the Irish business. These costs include legal and professional fees, a limited number of redundancy costs and warehouse dilapidation costs offset by a £2.3 million reduction in the balance of accounts payable at the end of examinership.

² UK restructuring costs represent the amount incurred for redundancies and fees within head office.

³ This is the write-off of the old International website intangible asset following the launch of the new International website in the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

8 Employees

	3 September 2016 £m	29 August 2015 £m
Wages and salaries including restructuring costs and other termination benefits	357.4	344.7
Social security costs	22.4	21.7
Other pension costs (note 24)	17.0	15.1
Share-based payments (note 29)	(0.8)	1.1
Employment costs	396.0	382.6
	Number	Number
Average monthly number of employees (including key management):		
Full time	8,392	7,895
Part time	19,501	20,232
Total	27,893	28,127

Information concerning directors' remuneration, shares and share interests is included in the directors' remuneration report on pages 50 to 67, which forms part of these financial statements.

Key management compensation

	3 September 2016 £m	29 August 2015 £m
Short-term employee benefits	3.5	3.6
Post-employment benefits	0.5	0.5
Other long-term benefits and termination benefits	1.2	–
Share-based payments	(0.6)	0.6
	4.6	4.7

Members of the Executive Committee (which includes the executive directors) and the non-executive directors are deemed to be key management. During the financial year key management consisted of 15 members (2015: 15 members).

9 Finance income

	3 September 2016 £m	29 August 2015 £m
Interest on bank deposits	0.3	0.1
Net interest on net defined benefit pension schemes' liability (note 24)	1.1	0.1
	1.4	0.2

10 Finance costs

	3 September 2016 £m	29 August 2015 £m
Interest payable on bank loans and overdrafts	3.3	5.3
Interest payable on senior notes	10.6	11.4
Cash flow hedges reclassified and reported in the income statement	0.8	1.6
Amortisation of issue costs on loans and senior notes (note 21)	1.3	1.6
Interest payable on finance leases	0.1	0.2
Other financing costs	–	1.4
Capitalised finance costs – qualifying assets (note 14,15)	(1.9)	(0.7)
	14.2	20.8

11 Taxation

Analysis of taxation charge to the income statement for the financial year:

	3 September 2016 £m	29 August 2015 £m
Current taxation		
Current taxation charge on profit for the financial year	19.7	3.4
Adjustments in respect of prior years	(0.6)	(2.5)
Current taxation charge	19.1	0.9
Deferred taxation		
Origination and reversal of temporary differences	3.2	19.4
Pension cost relief in excess of pension charge	(0.1)	(0.1)
Adjustments in respect of prior years	-	(0.2)
Effect of changes in current tax rate on the net deferred tax asset recognised at the beginning of the financial year	(2.3)	-
Deferred taxation charge (note 25)	0.8	19.1
Taxation charge for the financial year	19.9	20.0

The effective tax rate for the financial year is lower at 18.8%, (excluding exceptional items 18.9%), (2015: 17.6%) than the rate of corporation tax in the UK of 20.0% (2015: 20.6%). The differences are explained below:

	3 September 2016 £m	29 August 2015 £m
Profit before taxation	105.8	113.5
Profit on ordinary activities at standard rate of corporation tax in the UK of 20.0% (2015: 20.6%)	21.2	23.4
Effects of:		
Permanent differences	3.0	(0.2)
Overseas tax rates	(1.0)	0.5
Utilisation of tax losses	(1.3)	(1.8)
Non-qualifying depreciation and lease transactions	1.5	1.5
Effect on deferred taxation of the change in current tax rate	(2.9)	(0.6)
Adjustments in respect of prior financial years	(0.6)	(2.8)
Taxation charge for the financial year	19.9	20.0

The Finance (No. 2) Act 2015 ("the 2015 Act"), which was enacted on 18 November 2015, included legislation to reduce the main rate of corporation tax to 19.0% from 1 April 2017 and to 18.0% from 1 April 2020.

The effect of the reduction in the corporation tax rate enacted in the 2015 Act has been to reduce the net deferred tax liability recognised at the previous year end 29 August 2015 by approximately £2.3 million. This £2.3 million decrease has been recognised in line with the treatment of the assets and liabilities giving rise to the net deferred tax liability.

Following the adoption of FRS 101 "Reduced disclosure framework" ("FRS 101") by Debenhams Retail plc and Debenhams Properties Limited in financial years 2015 and 2014 respectively, the remaining Debenhams Group companies based in the UK and Republic of Ireland changed their reporting framework from UK GAAP and GAAP in Ireland to FRS 101 at the beginning of the financial year. FRS 101 is one of the new accounting frameworks being adopted by all companies throughout the UK and the Republic of Ireland. A consequence of the adoption of FRS 101 is that income from lease incentives held in the subsidiaries is spread over a longer period than previously was the case under UK GAAP and GAAP in Ireland. This has had no effect on the current taxation charge in this financial year. (On 31 August 2014 Debenhams Retail plc changed its reporting framework from UK GAAP to FRS 101 which resulted in a temporary reduction in the current taxation charge in the financial year ended 29 August 2015).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

11 Taxation continued

In the Chancellor's Budget on 16 March 2016, he announced his intention to reduce the main rate of corporation tax to 17.0% from 1 April 2020. As the change had not been substantively enacted at the balance sheet date its effect is not included in these financial statements. The overall effect of this change, if it had applied to the deferred tax balance at the balance sheet date, would have been to reduce the deferred tax liability by £0.9 million and reduce the deferred taxation expense for the period by £0.9 million. In addition, the corporation tax liability would have been reduced by £0.3 million and the current taxation expense for the period would have been reduced by £0.3 million.

In addition to the amount charged to the income statement, taxation movements recognised in other comprehensive income were as follows:

	3 September 2016 £m	29 August 2015 £m
Taxation relating to items that will not be reclassified to the income statement		
Current taxation		
Pension schemes	(2.3)	(2.2)
Deferred taxation		
Remeasurements of pension schemes	(5.8)	5.8
Total taxation relating to items that will not be reclassified to the income statement	(8.1)	3.6
Taxation relating to items that may be reclassified to the income statement		
Deferred taxation		
Currency translation differences	(0.6)	0.4
Gains on cash flow hedges	1.8	6.0
Cash flow hedges reclassified and reported in the income statement	0.1	–
Recycled and adjusted against cost of inventory	0.2	0.3
Total taxation relating to items that may be reclassified to the income statement	1.5	6.7
Total taxation (credit)/charge in other comprehensive income	(6.6)	10.3

12 Dividends

	3 September 2016 £m	29 August 2015 £m
Final paid 2.4 pence (2015: 2.4 pence) per £0.0001 share		
Settled in cash	29.5	29.4
Interim paid 1.025 pence (2015: 1.000 pence) per £0.0001 share		
Settled in cash	12.5	12.3
	42.0	41.7

A final dividend of 2.4 pence per share (2015: 2.4 pence per share) was paid during the financial year in respect of the financial year ended 29 August 2015, together with an interim dividend of 1.025 pence per share (2015: 1.000 pence per share) in respect of the financial year ended 3 September 2016. The directors are recommending a final dividend in respect of the financial year ended 3 September 2016 of 2.4 pence per share (2015: 2.4 pence per share), which will absorb an estimated £29.5 million (2015: £29.5 million) of shareholders' equity. It will be paid on 24 January 2017 to shareholders who are on the register of members at close of business on 9 December 2016. No liability is recorded in the financial statements in respect of the final dividend as it was not approved at the balance sheet date.

13 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the financial year, excluding any shares purchased by the Company and held as treasury shares.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares, those share options granted to employees where the exercise price is less than the market price of the Company's ordinary shares during the financial year.

Basic and diluted earnings per share

	3 September 2016		29 August 2015	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Profit for the financial year after taxation	85.9	85.9	93.5	93.5
Exceptional items after taxation (note 7)	10.0	10.0	–	–
Profit for the financial year after taxation – before exceptional items	95.9	95.9	93.5	93.5
	Number m	Number m	Number m	Number m
Weighted average number of shares	1,227.6	1,227.6	1,226.7	1,226.7
Shares held by ESOP (weighted)	(0.2)	(0.2)	(0.3)	(0.3)
Shares issuable (weighted)	–	0.5	–	2.3
Weighted average number of shares used in calculating earnings per share	1,227.4	1,227.9	1,226.4	1,228.7
	Pence per share	Pence per share	Pence per share	Pence per share
Earnings per share	7.0	7.0	7.6	7.6
Earnings per share – before exceptional items	7.8	7.8	7.6	7.6

14 Intangible assets

	Goodwill £m	Acquired licences and trademarks £m	Internally generated software £m	Purchased software £m	Total £m
Cost					
At 30 August 2014	818.5	7.2	119.0	16.9	961.6
Additions	–	–	38.3	17.7	56.0
Exchange rate movement	(0.5)	–	(0.9)	–	(1.4)
Disposals and write-offs	–	–	(4.8)	(0.3)	(5.1)
At 29 August 2015	818.0	7.2	151.6	34.3	1,011.1
Additions	–	–	43.7	7.2	50.9
Exchange rate movement	0.9	–	1.4	0.1	2.4
Disposals and write-offs	–	–	(2.6)	(1.0)	(3.6)
At 3 September 2016	818.9	7.2	194.1	40.6	1,060.8
Accumulated amortisation					
At 30 August 2014	–	3.7	57.1	8.0	68.8
Charge for the financial year	–	0.7	13.2	2.6	16.5
Exchange rate movement	–	–	(0.6)	–	(0.6)
Disposals and write-offs	–	–	(4.8)	(0.3)	(5.1)
At 29 August 2015	–	4.4	64.9	10.3	79.6
Charge for the financial year	–	0.7	16.4	2.1	19.2
Impairment loss (note 7)	–	–	2.0	0.2	2.2
Exchange rate movement	–	–	1.3	–	1.3
Disposals and write-offs	–	–	(2.6)	(1.0)	(3.6)
At 3 September 2016	–	5.1	82.0	11.6	98.7
Net book value					
At 3 September 2016	818.9	2.1	112.1	29.0	962.1
At 29 August 2015	818.0	2.8	86.7	24.0	931.5
At 30 August 2014	818.5	3.5	61.9	8.9	892.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

14 Intangible assets continued

Expenditure during the financial year on assets in the course of construction, included in purchased software, was as follows:

	3 September 2016 £m	29 August 2015 £m
Assets in the course of construction	61.8	41.4

Amortisation of intangible assets

Amortisation of the Group's intangible assets has been charged to the income statement as follows:

	3 September 2016 £m	29 August 2015 £m
Included within:		
Cost of sales	16.8	13.3
Distribution costs	0.7	0.4
Administrative expenses	3.9	2.8
	21.4	16.5

Impairment of intangible assets

An impairment loss of £2.2 million (2015: £nil) has been charged to the income statement within exceptional cost of sales.

Intangible assets includes within "purchased software" the following assets held under finance leases:

	3 September 2016 £m	29 August 2015 £m
Cost	7.1	3.8
Accumulated amortisation	(1.4)	(1.1)
Net book value	5.7	2.7

Contractual commitments at 3 September 2016 were £6.3 million (2015: £5.4 million).

Capitalised finance costs

Finance costs capitalised on qualifying assets included in additions amounted to £1.2 million (2015: £0.4 million). Accumulated finance costs capitalised included in the cost of intangible assets (net of disposals) amounted to £1.6 million (2015: £0.4 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.5% (2015: 4.4%).

Impairment test for goodwill

Goodwill is not amortised but is reviewed on an annual basis or more frequently if there are indications that goodwill may be impaired. Goodwill represents the goodwill for a portfolio of sites, which has been allocated to cash-generating units ("CGUs") according to the level at which management monitors that goodwill. The CGUs are set out below:

	UK £m	Other £m	Total £m
Goodwill			
At 3 September 2016	793.5	25.4	818.9
At 29 August 2015	793.5	24.5	818.0

For the purposes of this impairment review, the recoverable amounts of the CGUs are determined based on value-in-use calculations. These cash flow projections are based on financial budgets approved by management covering a three-year period. The three year plan is built up using management's previous experience and incorporates management's view of current economic conditions and trading expectations. Management determined sales growth in the three-year period to be a key assumption. The annual sales growth ranges from 0.0% to 4.0% during the three-year period. Cash flows beyond the three-year period are extrapolated based on the assumption of 2.0% (2015: 2.0%) growth after year three. The growth rates do not exceed the long-term average growth rate for the retail sector in which the CGUs operate. The post-tax discount rate used to calculate the value-in-use was 7.1% (2015: 7.5%) and reflects the specific risks in the retail business. The pre-tax discount rate is 8.3% (2015: 8.6%).

Management determined the gross margin for each CGU based on performance of individual stores and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are post-tax and risk-free rates. Based on the value-in-use calculations, there is substantial headroom against each of the operating segments and a reasonable change in the key assumption used would not cause an impairment to goodwill.

As a result of the impairment review, as at 3 September 2016 no impairment of goodwill has been required (2015: £nil).

15 Property, plant and equipment

	Land and buildings			Vehicles, fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold fixtures and fittings £m		
Cost					
At 30 August 2014	1.6	7.7	378.7	959.2	1,347.2
Additions	–	–	3.4	73.6	77.0
Exchange rate movements	–	–	(1.5)	(6.1)	(7.6)
Disposals and write-offs	–	–	(1.6)	(22.8)	(24.4)
At 29 August 2015	1.6	7.7	379.0	1,003.9	1,392.2
Additions	–	–	3.4	75.4	78.8
Exchange rate movements	–	–	3.0	12.6	15.6
Disposals and write-offs	–	–	(2.3)	(32.5)	(34.8)
At 3 September 2016	1.6	7.7	383.1	1,059.4	1,451.8
Accumulated depreciation					
At 30 August 2014	0.2	1.2	142.0	514.6	658.0
Charge for the financial year	–	0.2	14.9	72.6	87.7
Exchange rate movements	–	–	(0.4)	(4.5)	(4.9)
Disposals and write-offs	–	–	(1.6)	(22.3)	(23.9)
At 29 August 2015	0.2	1.4	154.9	560.4	716.9
Charge for the financial year	–	0.1	14.7	74.6	89.4
Exchange rate movements	–	–	1.1	8.9	10.0
Disposals and write-offs	–	–	(2.3)	(32.4)	(34.7)
At 3 September 2016	0.2	1.5	168.4	611.5	781.6
Net book value					
At 3 September 2016	1.4	6.2	214.7	447.9	670.2
At 29 August 2015	1.4	6.3	224.1	443.5	675.3
At 30 August 2014	1.4	6.5	236.7	444.6	689.2

Expenditure during the financial year on assets in the course of construction included primarily fixtures and fittings within “vehicles, fixtures and equipment” above, was as follows:

	3 September 2016 £m	29 August 2015 £m
Assets in the course of construction	24.0	41.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

15 Property, plant and equipment continued

Property, plant and equipment includes the following assets held under finance leases included primarily in "vehicles, fixtures and equipment":

	3 September 2016 £m	29 August 2015 £m
Cost	8.0	8.0
Accumulated depreciation	(5.2)	(4.1)
Net book value	2.8	3.9

Contractual commitments at 3 September 2016 were £0.2 million (2015: £5.9 million).

Capitalised finance costs

Finance costs capitalised on qualifying assets included in additions amounted to £0.7 million (2015: £0.3 million). Accumulated finance costs capitalised included in the cost of property, plant and equipment (net of disposals) amounted to £3.0 million (2015: £2.3 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.5% (2015: 4.4%).

Store assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Store assets (or the CGU to which the assets belong) are written down to the higher of fair value less costs to sell and value-in-use. The key assumptions for the value-in-use calculations are the same as those detailed for the goodwill impairment model in note 14.

16 Available-for-sale investments

	Total £m
At 30 August 2014	3.6
Decrease in the market value charged to the statement of comprehensive income	(1.5)
At 29 August 2015	2.1
Decrease in the market value charged to the statement of comprehensive income	(0.8)
At 3 September 2016	1.3

The Group holds 10% (2015: 10%) of the issued shares of Ermes Department Stores Plc ("Ermes"), a company listed on the Cyprus Stock Exchange whose shares are quoted in Euros. The market value of the shares at 3 September 2016 was £1.3 million (2015: £2.1 million). Ermes is a company that is registered and trades in Cyprus.

17 Inventories

	3 September 2016 £m	29 August 2015 £m
Items held for resale	326.3	331.6

18 Trade and other receivables

	3 September 2016 £m	29 August 2015 £m
Non-current		
Other receivables	17.4	14.9

Other receivables include contractual lease deposits of £16.8 million (2015: £14.4 million).

	3 September 2016 £m	29 August 2015 £m
Current		
Trade receivables	27.9	25.3
Allowance for doubtful debts	(0.9)	(0.4)
	27.0	24.9
Other receivables	3.5	3.3
Prepayments and accrued income	50.6	49.8
	81.1	78.0

At the year end, £24.6 million (2015: £22.8 million) of the trade receivables were denominated in sterling, £0.5 million (2015: £0.3 million) in Euros and £2.8 million (2015: £2.2 million) in Danish krone.

The movement in the allowance for doubtful debts may be analysed as follows:

	Total £m
At 30 August 2014	(0.5)
Decrease in provision	0.1
At 29 August 2015	(0.4)
Increase in provision	(0.5)
At 3 September 2016	(0.9)

Trade receivables which are past their due date but not impaired amount to £6.6 million (2015: £4.0 million). Trade receivables which are past their due date are provided based on estimated irrecoverable amounts from the sale of goods. At 3 September 2016, £0.9 million (2015: £0.4 million) of trade receivables were past their due date and impaired. Included in prepayments and accrued income is £4.8 million (2015: £4.7 million) of accrued supplier income relating to rebates which have been earned but not yet invoiced. Supplier income that has been invoiced but not yet paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables.

19 Cash and cash equivalents

	3 September 2016 £m	29 August 2015 £m
Cash at bank and in hand	56.3	32.7

20 Trade and other payables

	3 September 2016 £m	29 August 2015 £m
Trade payables	338.3	326.7
Other payables	79.8	81.9
Taxation and social security	26.5	28.4
Accruals	68.6	83.8
Deferred income	3.1	2.8
	516.3	523.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

21 Bank overdraft and borrowings

	3 September 2016 £m	29 August 2015 £m
Current		
Bank overdraft	15.5	18.3
Revolving credit facility ¹	117.4	132.9
Senior notes ²	1.5	1.3
Lease obligations	1.2	2.9
Total current borrowings	135.6	155.4
Non-current		
Senior notes ²	197.3	196.8
Lease obligations	2.4	0.3
Total non-current borrowings	199.7	197.1
Total current and non-current borrowings	335.3	352.5

¹ Revolving credit facility is stated net of unamortised issue costs of £2.6 million (2015: £2.1 million).

² Senior notes, due in 2021, were issued during July 2014 at a coupon rate of 5.25%. Senior notes include accrued interest of £1.5 million (2015: £1.3 million) and are stated net of unamortised issue costs of £2.7 million (2015: £3.2 million). Interest on the senior notes is payable semi-annually.

During the year ended 3 September 2016, the Company refinanced its £350.0 million revolving credit facility, choosing to reduce the facility size to £320.0 million in the process and extending the maturity from October 2018 to June 2020. The amended revolving credit facility contains an option to request an extension to June 2021. During the year ended 29 August 2015, the Company repurchased £25.0 million of the £225.0 million senior notes for a consideration of £24.8 million. At 3 September 2016, the Group's drawings under credit facilities outstanding comprised revolving credit facility drawings of £120.0 million (2015: £135.0 million).

During the current and prior financial years, the Group has complied with its covenants relating to its credit facilities.

The amortisation charge relating to the issue costs of the revolving credit facility was £0.8 million for the year ended 3 September 2016 (2015: £1.0 million). The amortisation charge relating to the issue costs of the senior notes was £0.5 million for the year ended 3 September 2016 (2015: £0.6 million). During the previous financial year unamortised issue costs in relation to cancelled credit facilities amounting to £0.4 million were written off.

Finance lease obligations

Finance lease obligations relate mainly to software, leased under hire purchase contracts.

The minimum lease payments under finance leases fall due as follows:

	3 September 2016 £m	29 August 2015 £m
Not later than one year	1.3	2.9
Later than one year but not later than five years	2.6	0.3
	3.9	3.2
Interest element of future instalments	(0.3)	–
Present value of finance lease obligations	3.6	3.2

The present value of finance lease obligations may be analysed as follows:

	3 September 2016 £m	29 August 2015 £m
Not later than one year	1.2	2.9
Later than one year but not later than five years	2.4	0.3
	3.6	3.2

Maturity of borrowings

The maturity of the Group's undiscounted borrowings is as follows:

	3 September 2016 £m	29 August 2015 £m
Amounts falling due:		
In one year or less or on demand	135.6	155.4
In more than one year but not more than two years	1.1	0.3
In more than two years but not more than five years	198.6	–
In more than five years	–	196.8
	335.3	352.5

Interest rates

The effective interest rates at the balance sheet dates were as follows:

	3 September 2016 %	29 August 2015 %
Bank overdraft	1.88	1.88
Revolving credit facility	1.77	2.51
Senior notes	5.25	5.25
Lease obligations	2.30	3.35

Borrowing facilities

The Group has the following undrawn committed facilities available at 3 September 2016, in respect of which all conditions precedent had been met as at that date:

	3 September 2016 £m	29 August 2015 £m
Expiring between two and five years	200.0	215.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

22 Financial risk management

a) Financial risks and treasury management

The Group conducts its treasury activities within the remit of a treasury policy which outlines approved policies, procedures and authority levels. The board delegates its responsibility for reviewing and approving treasury policy to the Audit Committee. Reports are prepared monthly covering all areas of treasury activity and policy compliance and are reviewed by the Chief Financial Officer. The board and Audit Committee receive regular reports covering treasury activities and policy compliance. Group treasury manages the Group's funding requirements and financial risks in line with the agreed treasury policies and procedures.

The Group's financial instruments, other than derivatives, primarily include borrowings, cash and liquid resources, available-for-sale assets, trade receivables and trade payables. The main purpose of these financial instruments is to manage liquidity or raise finance for the Group.

Group treasury uses derivative financial instruments to manage its interest rate risks associated with the Group's financing and currency risk arising from the Group's operations. The derivatives used are mainly interest rate swaps and forward currency contracts.

The Group's activities expose it to a variety of financial risks, which include:

- Funding and liquidity risk
- Credit risk
- Foreign exchange risk
- Interest rate risk
- Other price risk

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The policies and strategies for managing these risks are summarised as follows:

i) Funding and liquidity risk

Prudent liquidity risk management implies sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Group finances its operations by a combination of retained profits, debt finance and leases. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure that it has a sufficient cash or working capital facility to meet the cash flow and covenant requirements of the Group and the current business plan.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group treasury. Group treasury invests surplus cash in interest bearing current accounts, term deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

The table below shows the maturity analysis of the Group's net contractual undiscounted cash flows in respect of non-derivative financial liabilities and derivative assets and liabilities at the balance sheet date.

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 3 September 2016				
Non-derivative financial liabilities				
Borrowings excluding finance lease liabilities	(135.5)	–	(200.0)	–
Interest payments due on borrowings	(10.5)	(10.5)	(31.5)	–
Finance lease liabilities	(1.3)	(1.3)	(1.3)	–
Trade and other payables	(477.3)	–	–	–
Derivative financial assets and liabilities				
Interest rate swaps				
Net settled derivative contracts – payments	(0.2)	–	–	–
Forward foreign currency contracts				
Gross settled derivative contracts – receipts	472.4	171.7	–	–
Gross settled derivative contracts – payments	(439.0)	(162.6)	–	–
Total	(591.4)	(2.7)	(232.8)	–
	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 29 August 2015				
Non-derivative financial liabilities				
Borrowings excluding finance lease liabilities	(153.3)	–	–	(200.0)
Interest payments due on borrowings	(10.5)	(10.5)	(31.5)	(10.5)
Finance lease liabilities	(2.9)	(0.3)	–	–
Trade and other payables	(487.2)	–	–	–
Derivative financial assets and liabilities				
Interest rate swaps				
Net settled derivative contracts – payments	(0.8)	(0.1)	–	–
Forward foreign currency contracts				
Gross settled derivative contracts – receipts	428.9	232.2	34.4	–
Gross settled derivative contracts – payments	(412.0)	(220.8)	(33.6)	–
Total	(637.8)	0.5	(30.7)	(210.5)

ii) Credit risk

Credit risk is the risk that the Group may suffer financial loss through default by customers or financial institutions. The Group has no significant concentrations of credit risk. Sales to retail customers are made in cash or by credit and debit cards. Wholesale sales of products are made to franchise partners with an appropriate credit history and, where possible, are covered by letters of credit and/or credit insurance. Derivative counterparties and cash transactions are limited to high credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. The Group's policy requires that cash surpluses are placed on deposit for no longer than three months and only with counterparties with a credit rating of BBB- or Baa3 or higher as assigned by Standard & Poor's or Moody's respectively. Exceptions to this policy require Audit Committee approval.

The Group considers its maximum credit risk at 3 September 2016 to be £155.3 million (2015: £107.4 million) being the Group's total financial assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

22 Financial risk management continued

iii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Euro, the Chinese yuan and the Danish krone.

To manage the foreign exchange transaction risk, entities in the Group use forward foreign currency contracts transacted by Group treasury. Foreign exchange risk arises when commercial transactions are denominated in a currency that is not the entity's functional currency. Group treasury is responsible for managing the exposure in each foreign currency by using external forward foreign currency contracts with a settlement of up to three (2015: three) years. Forecast cash flows are hedged to the extent that those cash flows are deemed highly probable. The Group regularly reviews the need to hedge foreign exchange exposure arising from the financial results, assets and liabilities of its non-sterling businesses, hedging those exposures to the extent that they are considered appropriate for hedging.

The Group manages foreign exchange translation risk by entering into monthly foreign exchange swap contracts to offset month by month currency translation impacts within the Group, where appropriate.

During the current financial year, the Group closed out certain forward foreign currency contracts and reset the contracts to current market rates. As a result of this transaction, cash amounting to £11.2 million was received. This will be recycled from the hedging reserve as the contracts reach expiry.

A gain of £27.2 million (2015: £8.7 million) was reclassified from equity to the income statement within cost of inventory during the year in respect of forward foreign currency contracts designated as cash flow hedges.

The notional value of open forward foreign currency contracts at 3 September 2016 was £547.5 million (2015: £634.7 million).

The net fair value gains on open forward foreign currency contracts held in the hedging reserve at 3 September 2016 were £38.3 million (2015: £24.3 million). This will be recycled and adjusted against the initial measurement of the acquisition cost of inventory over the next three years.

During the current and prior financial years there were no contracts reclassified to "held for trading" due to cash flow hedges being ineffective.

iv) Interest rate risk

The Group's interest rate risk arises from long-term borrowing facilities with debt issued at variable rates that expose the Group to cash flow interest rate risk. At 3 September 2016, Debenhams plc has in issue £200.0 million (2015: £200.0 million) of senior notes at a coupon rate of 5.25% which reduces the Group's exposure to cash flow interest rate risk.

The interest exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. The aim is to reduce exposure to interest rate movements and to take advantage of low interest rates by hedging an appropriate amount of interest rate exposure whilst maintaining the flexibility to minimise early termination costs. The Group's interest rate hedging strategy is to achieve a target fixed percentage of 75%, with a 15% tolerance (60% – 90%).

The impact of movements in interest rates is managed through fixed debt and the use of interest rate swaps. These are usually matched with specific loans for a period of time up to their maturity or call date.

The Group's main interest rate exposure is from the floating rate loans under the credit facilities. At the year end the percentage of the Group's total borrowings subject to fixed interest rates (either directly or as a result of hedging) was 94.4% (2015: 91.2%). This was temporarily outside the 60% - 90% policy range owing to the Group's working capital cycle but will revert to policy during the next 12 months.

Interest rate swaps

The Group's interest rate swaps switch interest from floating rates to fixed rates. The Group's interest rate swap portfolio is summarised as follows:

	Notional £m	Rate %	Maturity
Interest rate swaps	120.0	1.050 – 1.125	October 2016

The notional principal amount of interest rate swaps at 3 September 2016 was £120.0 million (2015: £125.0 million). The net gains and losses on these swaps, which are deferred in equity, will reverse through interest in the income statement over the life of the swaps. During the financial year a loss of £0.8 million (2015: £1.6 million) was reclassified and reported in the income statement in respect of interest rate swaps.

Borrowings and cash and cash equivalents

The interest rate profiles of borrowings after taking account of interest rate swaps, swapped from floating to fixed rates, used to manage interest were as follows:

	3 September 2016			29 August 2015		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling ¹	(323.6)	(15.5)	(339.1)	(328.2)	(28.3)	(356.5)

¹ Unamortised debt issue costs of £5.3 million (2015: £5.3 million) are excluded from the borrowings above.

Fixed sterling borrowings comprise the hedged portion of the debt facility of £120.0 million (2015: £125.0 million), senior notes of £200.0 million (2015: £200.0 million) and finance lease liabilities of £3.6 million (2015: £3.2 million) at 3 September 2016. The weighted average interest rate on the fixed rate borrowings as at 3 September 2016 was 4.2% (2015: 4.5%), with the weighted average time for which rates are fixed being 3.1 years (2015: 4.0 years). Floating rate borrowings are interest bearing at interest rates based on LIBOR. Cash deposits are interest bearing at rates based on LIBID or relevant base rates. Non-interest bearing cash refers to cash in stores or in transit.

Floating rate borrowings have been classified as fixed if there were derivative financial instruments hedging the floating rate interest exposure.

The interest rate profiles of cash and cash equivalents were as follows:

	3 September 2016			29 August 2015		
	Floating £m	Non-interest bearing £m	Total £m	Floating £m	Non-interest bearing £m	Total £m
Financial assets						
Sterling	3.4	29.5	32.9	–	25.3	25.3
Euro	0.3	4.6	4.9	0.1	3.3	3.4
US dollar	10.7	2.2	12.9	–	0.9	0.9
Danish krone	2.8	–	2.8	–	–	–
Chinese yuan	1.5	–	1.5	–	–	–
Other	–	1.3	1.3	1.6	1.5	3.1
Total financial assets	18.7	37.6	56.3	1.7	31.0	32.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

22 Financial risk management continued

v) Other price risk

The Group is exposed to price risk arising from equity investments.

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. At the year end, if the market value of equity investments had been 10% higher/lower, when all other variables were held constant then:

- The income statement would have been unaffected as the equity investments were classified as available-for-sale investments
- Other reserves would decrease/increase by £0.1 million (2015: £0.2 million) for the Group as a result of the changes in the fair value of available-for-sale investments

The above movement in rates is considered to represent reasonable possible changes. Other larger or smaller changes are also possible.

b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, provide returns for shareholders and benefits to other stakeholders and maintain a structure to optimise the cost of capital. The Group defines capital as debt and equity.

In order to maintain or adjust the capital structure, the Group may consider the amount of dividend paid to shareholders, the return of capital to shareholders, the issue or sale of shares or the sale of assets to reduce debt.

The Group routinely monitors its capital and liquidity requirements through leverage ratios consistent with industry-wide borrowing standards, maintaining suitable headroom to the bank facility fixed charge, senior notes and leverage covenants together with credit market requirements to ensure that financing requirements continue to be serviceable.

c) Fair value estimates

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign currency contracts has been determined based on discounted market forward currency exchange rates at the balance sheet date.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of the Group's loans due in more than one year, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group.

Note 23 shows the carrying value and fair value of financial assets and liabilities.

d) Sensitivity analysis

The Group monitors interest rate risk and foreign exchange risk by determining the effect on profit and equity of a range of possible changes in interest rates and foreign exchange rates. The range of sensitivities chosen, being 1% movement in the interest rate or 5% movement in sterling when compared to the US dollar, Euro, Chinese yuan and Danish krone, reflects the Group's view of reasonably possible changes to these risk variables which existed at the year end.

The table below illustrates the estimated impact on the Group as a result of market movements in interest rates in relation to all the Group's financial instruments. The analysis has been produced assuming no changes in the borrowings and existing interest rate swaps portfolio when considering the interest rate movement.

	3 September 2016		29 August 2015	
	Income statement loss £m	Equity gain £m	Income statement loss £m	Equity gain £m
1% increase in interest rate	(0.2)	0.2	(0.3)	2.9

A 1% decrease in interest rate would result in an equal and opposite change in the income statement and equity respectively.

The table below illustrates the estimated impact on the Group as a result of market movements in foreign exchange rates in relation to all the Group's financial instruments.

	3 September 2016		29 August 2015	
	Income statement gain/(loss) £m	Equity gain/(loss) £m	Income statement gain/(loss) £m	Equity gain/(loss) £m
5% weakening in sterling compared to US dollar	-	13.9	(0.5)	18.2
5% weakening in sterling compared to Euro	-	(5.4)	0.1	(3.1)
5% weakening in sterling compared to Chinese yuan	-	2.0	(0.1)	2.0
5% weakening in sterling compared to Danish krone	0.7	-	0.9	-

A 5% strengthening in sterling compared to the US dollar, Euro, Chinese yuan or Danish krone would result in an equal and opposite change in the income statement and equity respectively.

23 Financial instruments

Financial assets and liabilities by category

Information regarding the Group's financial risk management policies has been disclosed in note 22. The following table shows the classification of the Group's financial assets and liabilities that are measured at fair value:

	3 September 2016		29 August 2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current				
Interest rate swaps – cash flow hedges	-	(0.2)	-	(0.2)
Forward foreign currency contracts – cash flow hedges	37.8	(6.9)	13.5	(0.7)
Forward foreign currency contracts – held for trading	1.3	(0.5)	3.9	(0.4)
	39.1	(7.6)	17.4	(1.3)
Non-current				
Available-for-sale financial assets	1.3	-	2.1	-
Interest rate swaps – cash flow hedges	-	-	-	(0.5)
Forward foreign currency contracts – cash flow hedges	10.7	(3.7)	12.1	(0.6)
	12.0	(3.7)	14.2	(1.1)

There were no material differences between the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, current borrowings and non-current lease obligations and their fair values at the balance sheet date. The carrying value of the Group's senior notes debt was £198.8 million (2015: £198.1 million) and the fair value of this debt was £210.2 million (2015: £200.1 million).

During the previous financial year, the Group cancelled £30.0 million of interest rate swap contracts with a combined balance sheet liability value of £0.1 million.

Fair value measurement

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – Quoted prices (unadjusted) based on active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

23 Financial instruments continued

The following table shows the Group's financial assets and liabilities that are measured at fair value:

	Level 1 £m	Level 2 £m	Total £m
At 3 September 2016			
Assets			
Available-for-sale financial assets	1.3	–	1.3
Derivative financial instruments:			
Forward foreign currency contracts held as cash flow hedges	–	48.5	48.5
Other forward foreign currency contracts	–	1.3	1.3
Total assets	1.3	49.8	51.1
Liabilities			
Derivative financial instruments:			
Interest rate swaps held as cash flow hedges	–	(0.2)	(0.2)
Forward foreign currency contracts held as cash flow hedges	–	(10.6)	(10.6)
Other forward foreign currency contracts	–	(0.5)	(0.5)
Total liabilities	–	(11.3)	(11.3)
<hr/>			
	Level 1 £m	Level 2 £m	Total £m
At 29 August 2015			
Assets			
Available-for-sale financial assets	2.1	–	2.1
Derivative financial instruments:			
Forward foreign currency contracts held as cash flow hedges	–	25.6	25.6
Other forward foreign currency contracts	–	3.9	3.9
Total assets	2.1	29.5	31.6
Liabilities			
Derivative financial instruments:			
Interest rate swaps held as cash flow hedges	–	(0.7)	(0.7)
Forward foreign currency contracts held as cash flow hedges	–	(1.3)	(1.3)
Other forward foreign currency contracts	–	(0.4)	(0.4)
Total liabilities	–	(2.4)	(2.4)

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There has been no transfer of assets or liabilities between levels of the fair value hierarchy during the year. None of the Group's financial assets and liabilities are classed as level 3 within the fair value hierarchy.

24 Retirement benefit schemes

Defined contribution pension schemes

The Group operates defined contribution pension schemes for its employees. Group contributions to defined contribution pension schemes during the financial year were £15.5 million (2015: £14.7 million).

Defined benefit pension schemes

The Group also operates defined benefit type pension schemes, being the Debenhams Executive Pension Plan ("DEPP") and the Debenhams Retirement Scheme ("DRS") (together "the Group's pension schemes"), the assets of which are held in separate trustee-administered funds. The Group's pension schemes were closed to future service accrual from 31 October 2006. The closure to future accrual will not affect the pensions of those who have retired or the deferred benefits of those who have left service or opted out before 31 October 2006.

The Group's pension schemes are established under trust law and each has a corporate trustee that is required to run the schemes in accordance with the scheme's Trust Deed and Rules and to comply with the Pensions Act 2004 and all relevant legislation. Responsibility for governance of the schemes lies with the trustee of each scheme. Each corporate trustee is a company whose directors comprise of representatives:

- Appointed by the Group
- Nominated by scheme members

The chair of both corporate trustees is independent from the schemes and from the Group.

The most recent actuarial valuation of the Group's pension schemes was carried out at 31 March 2014 and has been used by KPMG LLP, a qualified independent actuary, when calculating the IAS 19 revised "Employee benefits" valuation at 3 September 2016.

In 2015, the Group agreed a recovery plan for the Group's pension schemes, which was intended to restore the schemes to a fully funded position on an ongoing basis. Under that agreement, the Group agreed to contribute £9.5 million per annum to the pension schemes for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. Additionally during 2015, the Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

Employees make no further contributions to the schemes. By funding its defined benefit pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities
- The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes
- Scheme members may live longer than assumed
- Legislative changes could lead to an increase in the liabilities of the pension schemes

Investment of the schemes' assets is managed by Hewitt Risk Management Services Limited under a delegated consulting service agreement. As at 3 September 2016 most of the schemes' assets were invested in a delegated liability fund or a delegated growth fund.

The weighted average duration of the defined benefit obligation is 22 years (2015: 22 years).

The major assumptions used by the actuary were:

	3 September 2016 per annum %	29 August 2015 per annum %
Inflation assumption	2.9	3.2
General salary and wage increase	2.9	3.2
Rate of increase in pension payments and deferred payments	2.9	3.2
Pension increase rate	2.8	3.0
Discount rate	2.1	3.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

24 Retirement benefit schemes continued

The inflation assumption is based on the RPI rate because pension increases, both in payment and deferment within the schemes, are set out with reference to this measure.

At the financial year end, the schemes' assets were as follows:

	3 September 2016			29 August 2015		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Assets						
Delegated liability fund	215.5	–	215.5	158.4	–	158.4
Delegated growth fund	614.2	190.0	804.2	473.2	156.1	629.3
Cash and other assets	37.9	–	37.9	8.1	–	8.1
Total market value of assets	867.6	190.0	1,057.6	639.7	156.1	795.8
Present value of scheme liabilities			(1,061.7)			(769.6)
Net (deficit)/surplus in schemes			(4.1)			26.2
Analysed as:						
DEPP scheme surplus			6.4			13.1
DRS scheme (deficit)/surplus			(10.5)			13.1

At 3 September 2016, 82.0% (2015: 80.4%) of investments were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The current life expectancies of a pensioner retiring aged 65 underlying the mortality tables for each of the schemes above are as follows:

	3 September 2016		29 August 2015	
	Years Male	Years Female	Years Male	Years Female
Debenhams Retirement Scheme				
Member currently aged 65	22.1	24.4	22.0	24.3
Member aged 65 in 15 years	23.5	25.8	23.4	25.7

	3 September 2016		29 August 2015	
	Years Male	Years Female	Years Male	Years Female
Debenhams Executive Pension Plan				
Member currently aged 65	24.1	26.3	24.1	26.2
Member aged 65 in 15 years	25.5	27.7	25.4	27.6

Changes in the present value of the defined benefit obligations are as follows:

	3 September 2016 £m	29 August 2015 £m
Present value of obligations at start of the financial year	769.6	750.8
Current service cost (including expenses)	1.5	1.5
Interest cost on the defined benefit liability	28.7	28.6
Benefit payments from plan assets	(30.6)	(27.1)
Settlements	–	(10.0)
Remeasurements:		
Losses from changes in financial assumptions	312.4	34.8
Losses from changes in demographic assumptions	–	2.8
Experience gains	(19.9)	(11.8)
Present value of obligations at end of the financial year	1,061.7	769.6

Changes in the fair value of plan assets are as follows:

	3 September 2016 £m	29 August 2015 £m
Fair value of pension scheme assets at start of the financial year	795.8	748.4
Interest income on plan assets	29.8	28.7
Benefit payments from plan assets	(30.6)	(27.1)
Company contributions	11.2	11.1
Settlements	–	(8.9)
Remeasurements:		
Return on plan assets, excluding amounts included in finance costs	251.4	43.6
Fair value of pension scheme assets at end of the financial year	1,057.6	795.8

Movement in the net (deficit)/surplus during the financial year is as follows:

	3 September 2016 £m	29 August 2015 £m
Net surplus/(deficit) in the schemes at start of the financial year	26.2	(2.4)
Movement in the financial year:		
Company contributions	11.2	11.1
Settlements	–	1.1
Current service cost (including expenses)	(1.5)	(1.5)
Net interest on net defined benefit asset/liability	1.1	0.1
Remeasurements of pension schemes	(41.1)	17.8
Net (deficit)/surplus in the schemes at end of the financial year	(4.1)	26.2

During the financial year ended 29 August 2015, DRS members were given the opportunity to take a trivial commutation payment which resulted in the recognition of a settlement credit of £1.1 million during that financial year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

24 Retirement benefit schemes continued

The table below illustrates the estimated impact on the schemes' liabilities as a result of movements in the principal assumptions used to measure those liabilities.

	3 September 2016 £m	29 August 2015 £m
Increase in schemes' liabilities arising from a 0.5% increase in inflation	117.8	85.4
Increase in schemes' liabilities arising from a 0.5% reduction in the discount rate	128.4	93.1
Increase in schemes' liabilities arising from a one year increase in life expectancy	28.4	20.6

A 0.5% reduction in the inflation assumption, a 0.5% increase in the discount rate assumption and a one year reduction in the life expectancy assumption would result in an equal and opposite change in the schemes' liabilities.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be accumulated. When calculating the sensitivity of the schemes' liabilities to significant actuarial assumptions the same method has been applied as when calculating the retirement benefit obligations/surplus recognised within the balance sheet.

The contributions expected to be paid during the financial year ending 2 September 2017 amount to £11.3 million.

25 Deferred tax assets and liabilities

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20.0% for the UK differences (2015: 20.0%). Local tax rates have been used for overseas differences.

	3 September 2016 £m	29 August 2015 £m
Non-current		
Deferred tax assets	20.1	20.8
Deferred tax liabilities	(50.5)	(54.8)
	(30.4)	(34.0)

Deferred tax expected to be reversed within 12 months of the balance sheet date:

	3 September 2016 £m	29 August 2015 £m
Deferred tax assets	5.3	3.3
Deferred tax liabilities	(17.1)	(4.9)
	(11.8)	(1.6)

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The movement on the deferred tax account is as shown below:

Assets	Developers' contributions received £m	Accelerated tax depreciation £m	Fair value losses £m	Other provisions £m	Retirement benefit obligation £m	Total £m
At 30 August 2014	18.2	–	2.0	30.3	0.5	51.0
Charged to the income statement	(3.6)	–	–	(23.3)	–	(26.9)
Transfer from deferred tax liabilities	–	–	(2.0)	–	(0.5)	(2.5)
Prior year adjustment to the income statement	(0.4)	–	–	–	–	(0.4)
Exchange differences charged to the statement of comprehensive income	–	–	–	(0.4)	–	(0.4)
At 29 August 2015	14.2	–	–	6.6	–	20.8
(Charged)/credited to the income statement	(1.3)	(1.7)	–	(0.9)	0.1	(3.8)
Transfer from deferred tax liabilities	–	3.5	(0.2)	(3.5)	(2.6)	(2.8)
Result of change in the rate of corporation taxation charged to the income statement	(1.0)	–	–	(0.1)	–	(1.1)
Credited to the statement of comprehensive income	–	–	1.6	–	4.4	6.0
Exchange differences credited to the statement of comprehensive income	–	–	–	1.0	–	1.0
At 3 September 2016	11.9	1.8	1.4	3.1	1.9	20.1

Liabilities	Accelerated tax depreciation £m	Fair value gains £m	Retirement benefit surplus £m	Total £m
At 30 August 2014		(53.4)	–	(53.4)
Credited/(charged) to the income statement		7.6	(0.1)	7.6
Transfer to deferred tax assets		–	2.0	2.5
Prior year adjustment to the income statement		0.6	–	0.6
Charged to the statement of comprehensive income		–	(6.3)	(12.1)
At 29 August 2015		(45.2)	(4.4)	(54.8)
Credited to the income statement		0.5	0.2	0.7
Transfer to deferred tax assets		–	0.2	2.8
Prior year adjustment to the income statement		(0.1)	–	–
Result of change in the rate of corporation taxation credited to the income statement		3.4	–	3.4
(Charged)/credited to the statement of comprehensive income		–	(3.8)	(2.4)
Exchange differences charged to the statement of comprehensive income		(0.2)	–	(0.2)
At 3 September 2016		(41.6)	(7.8)	(50.5)

Within other provisions is a deferred tax asset of £3.3 million (2015: £4.2 million) in relation to overseas operations which has been recognised. In addition to this there is no unrecognised deferred tax asset (2015: £1.0 million) relating to operations in the Republic of Ireland.

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries of £40.9 million (2015: £55.3 million) on the basis that the timing of any distribution out of these earnings can be controlled by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

26 Other non-current liabilities

	3 September 2016 £m	29 August 2015 £m
Property lease incentives	354.5	340.6

Property lease incentives received from landlords, either through developers' contributions or rent-free periods are recognised as non-current liabilities and are credited to the income statement on a straight line basis over the term of the relevant lease. Property lease incentives received also relate to the spreading of the charges in respect of leases with fixed annual increments in rent (escalating rent clauses) over the term of the relevant lease.

27 Provisions

	Promotional activities £m	Restructuring £m	Dilapidations £m	Total £m
At 29 August 2015	6.4	–	–	6.4
Charged to the income statement	17.7	8.2	1.2	27.1
Utilised during the financial year	(18.0)	(1.5)	–	(19.5)
At 3 September 2016	6.1	6.7	1.2	14.0

Promotional activities provision

Provisions for promotional activities represent deferred income relating to the internal cosmetics and cardholder loyalty schemes in the UK and the reward scheme in the Republic of Ireland. They are expected to be utilised during the next 12 months and have been analysed as current.

Restructuring provision

The restructuring provision relates to redundancy and other restructuring costs in the UK and the Republic of Ireland. It is expected to be utilised during the next 12 months and has been analysed as current.

Dilapidations provision

The dilapidations provision relates to dilapidations on properties in the UK and the Republic of Ireland based on the best estimate of the Group's future liability. It is expected to be utilised during the next 12 months and has been analysed as current.

28 Share capital and reserves

	3 September 2016		29 August 2015	
	£	Number	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	128,685	1,286,852,540	128,684	1,286,843,441
Allotted under share option schemes	1	9,707	1	9,099
At end of year	128,686	1,286,862,247	128,685	1,286,852,540

Employee share trust – interest in share capital

The number of ordinary shares in the Company held by the Debenhams Retail Employee Trust 2004 ("DRET") was as follows:

	3 September 2016 Ordinary shares Number	29 August 2015 Ordinary shares Number
Debenhams Retail Employee Trust 2004	273,537	273,537

The market value of the shares on 3 September 2016 was £0.2 million for the DRET (2015: £0.2 million). The cost of the shares held at the year end is £0.2 million (2015: £0.2 million).

Merger reserve

The merger reserve of £1,200.9 million exists as a result of the 2005 Group reconstruction.

Reverse acquisition reserve

The reverse acquisition reserve exists as a result of the method of accounting for the 2005 Group reconstruction.

Hedging reserve

The hedging reserve represents the change in fair value of all interest rate swaps and forward foreign currency contracts which have been designated as cash flow hedges. The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the income statement which will be affected by the underlying hedged item.

Other reserves

The other reserves represent the change in fair value in respect of the Group's available-for-sale investments (note 16) and exchange differences arising as part of a reporting entity's net investment in a foreign operation. Other reserves may be analysed as follows:

	Translation reserve £m	Change in fair value of available- for-sale investments £m	Total £m
At 30 August 2014	(8.8)	(0.6)	(9.4)
Currency translation differences	(5.2)	–	(5.2)
Currency translation differences – taxation	(0.4)	–	(0.4)
Change in the fair value of available-for-sale investments	–	(1.5)	(1.5)
At 29 August 2015	(14.4)	(2.1)	(16.5)
Currency translation differences	7.4	–	7.4
Currency translation differences – taxation	0.6	–	0.6
Change in the fair value of available-for-sale investments	–	(0.8)	(0.8)
At 3 September 2016	(6.4)	(2.9)	(9.3)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

29 Share-based payments

The total (credit)/charge to operating profit relates to the following equity-settled scheme:

	3 September 2016 £m	29 August 2015 £m
Performance Share Plan ("PSP")	(0.8)	1.1
(Credit)/charge for the financial year	(0.8)	1.1

The following table reconciles the movement in shares awarded under the Company share schemes and the weighted average exercise price ("WAEP") for the ESOP scheme. Grants under the PSP and SIP all comprise a right to acquire shares for no or nominal consideration.

	PSP Number	SIP Number	Number	ESOP WAEP Pence
Outstanding at 30 August 2014	8,652,656	200,000	643,650	85.5
Granted	9,125,758	–	–	N/A
Exercised	(1,032,093)	(200,000)	–	N/A
Lapsed	(3,641,713)	–	–	N/A
Forfeited	(269,478)	–	–	N/A
Outstanding at 29 August 2015	12,835,130	–	643,650	85.5
Granted	6,112,804	150,000	–	N/A
Exercised	(654,203)	–	–	N/A
Lapsed	(4,684,756)	–	–	N/A
Forfeited	(222,026)	–	–	N/A
Outstanding at 3 September 2016	13,386,949	150,000	643,650	85.5
Exercisable				
At 3 September 2016	–	–	643,650	85.5
At 29 August 2015	–	–	643,650	85.5
Weighted average remaining contractual life (years)				
At 3 September 2016	–	–	3.25	
At 29 August 2015	–	–	4.25	

a) Performance Share Plan

The PSP allows the Company to grant awards of shares to senior management. An award under the PSP will normally vest on the third anniversary of date of grant and must be exercised within six months of vesting. No payment is required for the grant of an award. An award under the PSP comprises a right to receive free shares or a nil cost option with performance conditions attached.

i) Awards granted on 1 November 2012 and 1 May 2013

The vesting of the shares granted under these awards was dependent upon the growth of both EPS and Return on Capital Employed ("ROCE").

75% of the awards were based upon EPS growth. Where growth was less than 6% per annum over the three year performance period, this element of the awards would lapse. Where growth was 6% per annum, 30% of the shares awarded would vest; where growth was 12% per annum, the EPS element of the awards would vest in full. Between these two points, awards would vest on a straight line basis between 30% and 100%.

The remaining 25% of the awards were dependent upon ROCE. If average ROCE was below the cost of capital plus 1% over the three year period, this element of the awards would lapse. If average ROCE was equal to the cost of capital plus 1% over the three year period, then 30% of the shares awarded would vest. If average ROCE was equal to the cost of capital plus 5% then the ROCE element of the awards would vest in full. Between these two points, awards would vest on a straight line basis between 30% and 100%.

At 29 August 2015, the EPS element had not triggered vesting. However ROCE had exceeded the cost of capital by 3.2%. 17% of the awards granted in November 2012 and May 2013 therefore vested in November 2015 and May 2016 respectively. The weighted average share price at the date of exercises for the PSP awards exercised during the year was 87.9 pence.

ii) Awards granted on 1 November 2014 and 1 May 2015

The vesting of the shares granted under these awards is dependent upon a combination of EPS growth and strategic measures with the strategic measures being subject to meeting a ROCE underpin.

70% of the awards are based upon EPS growth. Where growth is less than 3% per annum over the performance period, this element of the awards lapses. Where growth is 3% per annum, 25% of the shares awarded vest. Where growth is 10% per annum, the EPS element of the awards vests in full. Between these two points, awards vest on a straight line basis between 25% and 100%.

The remaining 30% of the awards are dependent upon the performance of the four strategic measures (each with a maximum vesting of 7.5%). The strategic measures are: Group gross margin improvement, online EBITDA growth rate, UK GTV growth and International EBITDA growth rate. Each strategic measure is subject to a single performance test at the end of the performance period which will result in either vesting at 0% or in full (7.5%) of the award. If the Group's ROCE at the end of the applicable performance period is not greater than ROCE at the start of the applicable performance period the 30% of the awards subject to the strategic measures will not vest.

iii) Awards granted on 3 November 2015, 3 May 2016 and 13 May 2016

The vesting conditions of the shares granted under these awards are the same as those applicable to the shares granted under the awards granted on 1 November 2014 and 1 May 2015.

In accordance with IFRS 2 "Share-based payments", the vesting conditions attached to the PSP are classified as non-market conditions and therefore the shares have been fair valued at face value with a discount to take into account the non-entitlement to dividends in the vesting period where relevant. The fair value of these PSP awards is calculated based on the Black-Scholes model assuming the inputs in the table below:

Grant date	13 May 2016	3 May 2016	3 November 2015
Number of shares under award	14,884	391,897	5,706,023
Expected term (years)	3.0	3.0	3.0
Share price at grant (pence)	73.9	78.0	89.6
Exercise price (pence)	–	–	–
Risk-free rate	0.0%	0.0%	0.0%
Expected volatility	0.0%	0.0%	100.0%
Expected dividend yield	4.6%	4.4%	3.8%
Fair value of award (pence)	64.4	68.4	80.0

Volatility is a measure of the amount by which the Company's share price is expected to fluctuate in the period. Where volatility has been used in the calculation of the fair value of the award, it has been estimated by using the most recent historical share price volatility which is commensurate with the expected term of the option taking into account its contractual life.

b) Share Incentive Plan

The SIP allows the Company to grant options to key senior managers below board level, whom the Company wishes to retain and incentivise in the short to medium term. Once the options have vested the employee has six months in which to exercise them.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

29 Share-based payments continued

Options granted on 2 December 2015

The options granted on 2 December 2015 over 150,000 shares have a 24 month vesting period based on the employee's continued employment and performance targets specific to the employee's role within the business and were granted with no exercise price.

In accordance with IFRS 2 "Share-based payments", the vesting conditions attached to the SIP are classified as non-market conditions and therefore the shares have been fair valued at face value with a discount to take into account the non-entitlement to dividends in the vesting period where relevant. The fair value of the SIP awards is calculated based on the Black-Scholes model assuming the inputs in the table below:

Grant date	2 December 2015
Number of shares under award	150,000
Expected term (years)	2.0
Share price at grant (pence)	84.0
Exercise price (pence)	–
Risk-free rate	0.0%
Expected volatility	0.0%
Expected dividend yield	4.1%
Fair value of award (pence)	77.3

Volatility is a measure of the amount by which the Company's share price is expected to fluctuate in the period. Where volatility has been used in the calculation of the fair value of the award, it has been estimated by using the most recent historical share price volatility which is commensurate with the expected term of the option taking into account its contractual life.

c) Executive Share Option Plan

The ESOP allowed the Company to grant options to acquire shares to eligible employees. These options would normally become exercisable following a three-year performance period, only if and to the extent that the performance conditions to which they were subject had been satisfied. Once the options had vested, the employees had a seven-year period in which to exercise. Options were granted with an exercise price equal to the middle market value of the shares on the day immediately preceding the date of grant. The options granted on 24 November 2009 became exercisable in full based on ROCE performance exceeding the cost of capital by 7.8% during the applicable performance period. There are no unvested options under this plan. The rules of this plan expired in 2016.

30 Operating lease commitments

	3 September 2016		29 August 2015	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:				
Within one year	216.9	1.5	206.5	1.7
Later than one year and not later than five years	868.0	1.5	850.9	2.0
Later than five years and not later than ten years	1,020.1	–	1,023.7	–
Later than ten years and not later than 20 years	1,500.3	–	1,579.5	–
Later than 20 years	974.4	–	1,052.7	–
	4,579.7	3.0	4,713.3	3.7

The Group leases department stores, warehouses and offices under non-cancellable operating leases. The leases have various terms including escalating rent and contingent turnover rent clauses and renewal rights. The Group has pre-emption rights over a number of properties, which provides the Group with the right of first refusal to purchase the property in the event the landlord chooses to sell. The option price payable for the property in each instance is referenced to current market value prevailing at the point of pre-emption. The Group also leases vehicles and fixtures and equipment under non-cancellable operating leases.

31 Cash generated from operations

	3 September 2016 £m	29 August 2015 £m
Profit before taxation	105.8	113.5
Depreciation (note 15)	89.4	87.7
Amortisation (note 14)	19.2	16.5
Impairment of intangible assets (note 14)	2.2	–
Loss on disposal of property, plant and equipment	0.1	0.3
Share-based payment (credit)/charge (note 29)	(0.8)	1.1
Fair value gains on derivative instruments	(7.0)	(4.4)
Net movements in provisions (note 27)	7.6	(0.7)
Finance income	(1.4)	(0.2)
Finance costs	14.2	20.8
Cash received on close out of forward foreign currency contracts (note 22)	11.2	–
Pension current service cost	1.5	0.4
Cash contributions to pension schemes (note 24)	(11.2)	(11.1)
Net movement in other long-term receivables	(0.1)	(0.5)
Net movement in other non-current liabilities	13.7	7.9
Changes in working capital		
Decrease in inventories	5.0	14.3
Increase in trade and other receivables	(1.9)	(3.9)
Decrease in trade and other payables	(7.3)	(5.4)
Cash generated from operations	240.2	236.3

In the cash flow statement, proceeds from the disposal of property, plant and equipment comprise:

	3 September 2016 £m	29 August 2015 £m
Net book value	0.1	0.5
Loss on disposal of property, plant and equipment (note 6)	(0.1)	(0.3)
Cash proceeds from the disposal of property, plant and equipment	–	0.2

Cash payments in relation to exceptional costs were £3.3 million during the year ended 3 September 2016 (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

31 Cash generated from operations continued

Non-cash transactions

Other non-cash movements comprise:

	3 September 2016	29 August 2015
	£m	£m
Amortisation of issue costs relating to revolving credit facilities	0.8	1.0
Amortisation of issue costs relating to senior notes	0.5	0.6
Write-off of unamortised issue costs relating to cancelled credit facilities	–	0.4
Non-cash movements associated with finance lease obligations	3.3	–
Non-cash movements associated with senior notes	(0.2)	(0.6)
Foreign exchange gains/(losses)	0.2	(0.1)
Non-cash transactions	4.6	1.3

32 Analysis of changes in net debt

	29 August 2015	Cash flow	Non-cash	3 September
	£m	£m	movements	2016
			£m	£m
Analysis of net debt				
Cash and cash equivalents	32.7	23.4	0.2	56.3
Bank overdrafts	(18.3)	2.8	–	(15.5)
Net cash and cash equivalents	14.4	26.2	0.2	40.8
Debt due within one year	(134.2)	15.0	0.3	(118.9)
Debt due after one year	(196.8)	1.3	(1.8)	(197.3)
Finance lease obligations due within one year	(2.9)	2.9	(1.2)	(1.2)
Finance lease obligations due after one year	(0.3)	–	(2.1)	(2.4)
	(319.8)	45.4	(4.6)	(279.0)

33 Contingent liabilities

The Group is subject to litigation from time to time as a result of its activities. The Group establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Group.

FIVE YEAR RECORD INCOME STATEMENTS

	53 weeks 2016 £m	52 weeks 2015 £m	52 weeks 2014 £m	52 weeks 2013 £m	52 weeks 2012* £m
Gross transaction value	2,938.5	2,860.1	2,823.9	2,776.8	2,708.0
Revenue	2,341.7	2,322.7	2,312.7	2,282.2	2,229.8
Cost of sales	(2,039.8)	(2,023.5)	(2,033.4)	(1,982.6)	(1,927.5)
Gross profit	301.9	299.2	279.3	299.6	302.3
Distribution costs	(115.4)	(111.1)	(98.5)	(97.5)	(81.0)
Administrative expenses	(55.5)	(54.0)	(52.2)	(46.7)	(46.3)
Operating profit before exceptional items	131.0	134.1	128.6	155.4	175.0
Exceptional items	(12.4)	–	–	–	–
Operating profit	118.6	134.1	128.6	155.4	175.0
Net recurring finance costs	(12.8)	(20.6)	(18.3)	(16.4)	(16.7)
Non-recurring finance costs	–	–	(4.5)	–	–
Profit before taxation	105.8	113.5	105.8	139.0	158.3
Taxation	(19.9)	(20.0)	(18.6)	(23.1)	(33.0)
Profit for the financial year attributable to owners of the parent	85.9	93.5	87.2	115.9	125.3

* Prior to the application of IAS 19 revised "Employee benefits".

FIVE YEAR RECORD BALANCE SHEETS

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Assets					
Non-current assets					
Intangible assets	962.1	931.5	892.8	876.5	864.9
Property, plant and equipment	670.2	675.3	689.2	692.1	661.6
Financial assets	12.0	14.2	6.6	3.0	2.7
Trade and other receivables	17.4	14.9	15.6	16.8	19.3
Retirement benefit surplus	6.4	26.2	6.9	4.6	–
Deferred tax assets	20.1	20.8	51.0	69.3	83.2
Total non-current assets	1,688.2	1,682.9	1,662.1	1,662.3	1,631.7
Net current liabilities	(185.4)	(236.0)	(271.7)	(271.4)	(267.5)
Non-current liabilities	(618.9)	(593.6)	(623.0)	(646.5)	(703.2)
Net assets	883.9	853.3	767.4	744.4	661.0
Shareholders' equity					
Share capital	0.1	0.1	0.1	0.1	0.1
Share premium account	682.9	682.9	682.9	682.9	682.9
Other reserves	22.9	2.4	(16.3)	(3.5)	(12.1)
Retained earnings/(accumulated losses)	178.0	167.9	100.7	64.9	(9.9)
Total equity	883.9	853.3	767.4	744.4	661.0

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (COMPANY)

Report on the company financial statements

Our opinion

In our opinion, Debenhams plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 3 September 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the annual report and accounts (the "annual report"), comprise:

- the company balance sheet as at 3 September 2016;
- the company statement of changes in equity for the period then ended;
- the accounting policies; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the annual report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion, the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (COMPANY) CONTINUED

Responsibilities for the financial statements and the audit Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 71, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Debenhams plc for the financial year ended 3 September 2016.

JOHN ELLIS (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS
LONDON
27 OCTOBER 2016

COMPANY BALANCE SHEET

Company number 5448421

As at 3 September 2016

	Note	3 September 2016 £m	29 August 2015 £m
Fixed assets			
Investments	4	2,248.0	2,248.0
Trade and other receivables	5	0.6	–
		2,248.6	2,248.0
Current assets			
Trade and other receivables	5	152.2	98.3
Cash and cash equivalents	6	–	0.1
		152.2	98.4
Current liabilities			
Creditors: amounts falling due within one year	7	(1,036.5)	(917.9)
Derivative financial instruments	8	(0.2)	(0.2)
		(1,036.7)	(918.1)
Net current liabilities			
		(884.5)	(819.7)
Total assets less current liabilities			
		1,364.1	1,428.3
Non-current liabilities			
Creditors: amounts falling due after more than one year	9	(197.3)	(196.8)
Derivative financial instruments	8	–	(0.5)
		(197.3)	(197.3)
Net assets			
		1,166.8	1,231.0
Equity			
Called up share capital	12	0.1	0.1
Share premium account		682.9	682.9
Hedging reserve		(0.1)	(0.6)
Retained earnings		483.9	548.6
Total shareholders' funds			
		1,166.8	1,231.0

The financial statements on pages 129 to 138 were approved by the board on 27 October 2016 and were signed on its behalf by:

MATT SMITH
CHIEF FINANCIAL OFFICER

COMPANY STATEMENT OF CHANGES IN EQUITY

For the financial year ended 3 September 2016

	Note	Called up share capital £m	Share premium account £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 30 August 2014		0.1	682.9	(0.5)	613.0	1,295.5
Loss for the financial year		–	–	–	(23.8)	(23.8)
Other comprehensive expense for the financial year		–	–	(0.1)	–	(0.1)
Total comprehensive expense for the financial year		–	–	(0.1)	(23.8)	(23.9)
Share-based payment charge		–	–	–	1.1	1.1
Dividends paid	3	–	–	–	(41.7)	(41.7)
Total transactions with owners		–	–	–	(40.6)	(40.6)
Balance at 29 August 2015		0.1	682.9	(0.6)	548.6	1,231.0
Loss for the financial year		–	–	–	(21.9)	(21.9)
Other comprehensive income for the financial year		–	–	0.5	–	0.5
Total comprehensive income/(expense) for the financial year		–	–	0.5	(21.9)	(21.4)
Share-based payment credit		–	–	–	(0.8)	(0.8)
Dividends paid	3	–	–	–	(42.0)	(42.0)
Total transactions with owners		–	–	–	(42.8)	(42.8)
Balance at 3 September 2016		0.1	682.9	(0.1)	483.9	1,166.8

The hedging reserve represents the change in fair value of the interest rate swaps which have been designated as cash flow hedges. Information relating to the hedging reserve is shown in note 28 to the Debenhams Group financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the financial year ended 3 September 2016

1 Accounting policies

Basis of preparation

These financial statements are for the 53 weeks ended 3 September 2016. The comparative financial year is the 52 weeks ended 29 August 2015.

Adoption of FRS 100 "Application of financial reporting requirements" (FRS 100) and FRS 101 "Reduced disclosure framework" ("FRS 101")

These financial statements for the year ended 3 September 2016, are the first the Company has prepared in accordance with the adoption of FRS 100 and FRS 101.

For years up to and including the year ended 29 August 2015, the Company prepared its financial statements in accordance with the UK Generally Accepted Accounting Practice (UK GAAP) applicable at that time. For the year ending 3 September 2016, the Company has prepared financial statements which comply with the requirements of FRS 101 (an element of UK GAAP newly applicable through the adoption). The comparative year data at and for the year ended 29 August 2015 included in the financial statements for the year ending 3 September 2016 also complies with the requirements of FRS 101. The Company's reported loss and net assets were unaffected by the transition to FRS 101 and remain consistent with previously applicable UK GAAP.

These financial statements have been prepared on the going concern basis under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

As permitted by section 408 of the Companies Act 2006, the income statement for the Company has not been presented.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 "Share-based payment";
- the requirements of IFRS 7 "Financial instruments: disclosures";
- the requirements of paragraphs 91 to 99 of IFRS 13 "Fair value measurement";
- the requirement in paragraph 38 of IAS 1 "Presentation of financial statements" to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 "Presentation of financial statements";
- the requirements of IAS 7 "Statement of cash flows";
- the requirements of paragraphs 30 and 31 of IAS 8 "Accounting policies, changes in accounting estimates and error";
- the requirements of paragraphs 17 and 18A of IAS 24 "Related party disclosures";
- the requirements in IAS 24 "Related party disclosures" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 "Impairment of assets".

When required, equivalent disclosures are given in the consolidated financial statements of Debenhams plc.

The principal accounting policies, which have been applied consistently for each financial year unless stated otherwise, are set out below.

Investments

Investments comprise the Company's investment in subsidiaries and are shown at cost less any provision for impairment.

Impairment testing

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value in-use.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

1 Accounting policies continued

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Transaction costs associated with borrowings are recognised initially at fair value and are amortised over the term of the facilities using the effective interest rate on the committed amount of each facility.

Debt repurchase

The nominal value of debt repurchased is accounted for as a loan redemption, reducing net borrowings at the balance sheet date.

Property related income and costs

Property related income and costs are recognised in the period to which they relate.

Interest recognition

Finance income and finance costs are recognised in the period to which they relate using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates that are in force during the period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates which are expected to apply in the periods in which the timing differences are expected to reverse, based upon tax rates and laws which have been enacted or substantively enacted by the balance sheet date.

Dividend distribution

A final dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividends are recognised when paid.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Company measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. At each balance sheet date, the Company revises its estimates of the number of awards that are expected to vest. Non-market performance and service conditions are included in assumptions about the number of awards that are expected to vest. The Company recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the awards are exercised, the Company may issue new shares or utilise shares held as treasury shares or within the Debenhams Retail Employee Trust 2004. The proceeds received net of any directly attributable transaction costs are credited to share capital (at nominal value) and share premium when the awards are exercised.

Where the Company has granted options over the Company's shares to employees of its subsidiaries, a capital contribution has been deemed made by the Company. This is then recharged to the subsidiary and is based on the fair value of the options issued spread over the option's vesting period.

Foreign exchange

Transactions denominated in foreign currencies are translated into the respective functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated into sterling at the closing rates ruling at the balance sheet date.

Derivatives

The derivative instruments used by the Company to manage its interest rate risk are interest rate swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Company designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at the inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

a) Cash flow hedges

The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the income statement which will be affected by the underlying hedged item.

Amounts accumulated in equity are reclassified and adjusted against the initial measurement of the underlying hedged item when the underlying hedged item is recognised on the balance sheet or in the income statement.

When a hedged instrument expires, is sold or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. Any cumulative gain or loss existing in equity at that time is held in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the relevant line of the income statement which would have been affected by the forecast transaction.

b) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

1 Accounting policies continued

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of tax, from the proceeds.

Where the Company purchases its own ordinary shares, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs together with the related income tax effects, is included in equity attributable to the Company's equity holders.

2 Income statement

A loss of £21.9 million is attributable to shareholders for the financial year ended 3 September 2016 (2015: £23.8 million).

The contracts of employment for all the executive directors are held by Debenhams plc and Debenhams Retail plc. Information concerning directors' remuneration, shares and share interests is included in the directors' remuneration report on pages 50 to 67, which forms part of these financial statements.

Auditors' remuneration relating to the audit of the Company financial statements of £0.1 million (2015: £0.1 million) is borne by another Group undertaking.

3 Dividends

	3 September 2016 £m	29 August 2015 £m
Final paid 2.4 pence (2015: 2.4 pence) per £0.0001 share		
Settled in cash	29.5	29.4
Interim paid 1.025 pence (2015: 1.000 pence) per £0.0001 share		
Settled in cash	12.5	12.3
	42.0	41.7

A final dividend of 2.4 pence per share (2015: 2.4 pence per share) was paid during the year in respect of the financial year ended 29 August 2015, together with an interim dividend of 1.025 pence per share (2015: 1.000 pence per share) in respect of the financial year ended 3 September 2016. The directors are recommending a final dividend in respect of the financial year ended 3 September 2016 of 2.4 pence per share (2015: 2.4 pence per share), which will absorb an estimated £29.5 million (2015: £29.5 million) of shareholders' funds. It will be paid on 24 January 2017 to shareholders who are on the register of members at close of business on 9 December 2016. No liability is recorded in the financial statements in respect of the final dividend as it was not approved at the balance sheet date.

4 Investments

	Investments in subsidiary undertakings £m
Cost	
At 29 August 2015 and 3 September 2016	3,375.9
Provision for impairment	
At 29 August 2015 and 3 September 2016	1,127.9
Net book value	
At 29 August 2015 and 3 September 2016	2,248.0

The carrying values of the Company's subsidiary undertakings have been compared to their recoverable amounts represented by the value-in-use to the Company. The review has resulted in an impairment of £nil (2015: £nil). The discount rate used in the calculation to arrive at the valuation was 7.1% (2015: 7.5%) on a post-tax basis. The directors consider that the carrying value of the investments is supported by their discounted future cash flows. The pre-tax discount rate was 8.3% (2015: 8.6%).

At 3 September 2016 the Company held, either directly or indirectly, 20% or more of the allotted share capital of the following companies:

Company	Share of issued ordinary share capital and voting rights	Country of incorporation	Country of registration	Activity
Debenhams Retail plc	100%	UK	England	Multi-channel retailing
Debenhams Group Holdings Limited*	100%	UK	England	Holding company
Debenhams Retail (Ireland) Limited	100%	Republic of Ireland	Republic of Ireland	Multi-channel retailing
Aktieselskabet Th. Wessel & Vett. Magasin du Nord	100%	Denmark	Denmark	Multi-channel retailing
Debenhams Properties Limited	100%	UK	England	Property investment
Debenhams Hong Kong Limited	100%	Hong Kong	Hong Kong	Sourcing of goods
Baroness Group Holdings Limited*	100%	Jersey	Jersey	Dormant
BF III Limited*	100%	UK	England	Dormant
BF Properties (No. 2) Ltd	100%	UK	England	Dormant
BF Properties (No. 3) Ltd	100%	UK	England	Dormant
Debenhams Finance Holdings Limited*	100%	UK	England	Dormant
Baroness Retail Limited	100%	UK	England	Dormant
Jerimain Investments Limited*	100%	UK	England	Group finance
Debenhams Pension Trust Limited	100%	UK	England	Dormant
Debenhams (No. 2) Pension Trust Limited	100%	UK	England	Dormant
Debenhams Card Handling Services Limited	100%	UK	England	Dormant
Debenhams Direct Limited	100%	UK	England	Dormant
Debenhams Principles Limited	100%	UK	England	Intellectual property rights
Debenhams Retail Holdings (Ireland) Limited	100%	Republic of Ireland	Republic of Ireland	Holding company
debenhams.com ltd	100%	UK	England	Dormant

* Denotes investments held by the Company. All other investments are held by subsidiary undertakings.

5 Trade and other receivables

	3 September 2016 £m	29 August 2015 £m
Non-current		
Other receivables	0.6	–
	0.6	–
Current		
Deferred tax asset (note 11)	–	0.1
Amounts owed by Group undertakings	147.6	98.1
Other receivables	0.3	–
Prepayments and accrued income	4.3	0.1
	152.2	98.3

Amounts owed by Group undertakings are unsecured, repayable on demand and carry an average rate of interest of 2.3% (2015: 2.4%).

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

6 Cash and cash equivalents

	3 September 2016 £m	29 August 2015 £m
Cash and cash equivalents	–	0.1

7 Creditors: amounts falling due within one year

	3 September 2016 £m	29 August 2015 £m
Bank loans and overdrafts (note 10)	118.9	134.2
Amounts owed to Group undertakings	917.3	783.4
Accruals and deferred income	0.3	0.3
	1,036.5	917.9

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 2.3% (2015: 2.4%) or are interest free.

8 Derivative financial instruments

	3 September 2016 £m	29 August 2015 £m
Current liabilities		
Interest rate swaps – cash flow hedges	(0.2)	(0.2)
Non-current liabilities		
Interest rate swaps – cash flow hedges	–	(0.5)
	(0.2)	(0.7)

Information relating to the derivatives held by the Company is shown in note 23 to the Debenhams Group financial statements.

9 Creditors: amounts falling due after more than one year

	3 September 2016 £m	29 August 2015 £m
Bank and other borrowings (note 10)	197.3	196.8

10 Borrowings

	3 September 2016 £m	29 August 2015 £m
Creditors: amounts falling due within one year		
Revolving credit facility	120.0	135.0
Less: revolving credit facility issue costs	(2.6)	(2.1)
Senior notes accrued interest	1.5	1.3
	118.9	134.2
Creditors: amounts falling due in more than one year		
Senior notes	200.0	200.0
Less: senior notes issue costs	(2.7)	(3.2)
	197.3	196.8

Maturity of debt

	3 September 2016 £m	29 August 2015 £m
Amounts falling due:		
In one year or less or on demand	120.0	135.0
In more than two years but not more than five years	200.0	–
In more than five years	–	200.0
	320.0	335.0

Information relating to the borrowings of the Company is shown in note 21 to the Debenhams Group financial statements.

During the year ended 3 September 2016, the Company refinanced its £350.0 million revolving credit facility, choosing to reduce the facility size to £320.0 million in the process and extending the maturity from October 2018 to June 2020. The amended revolving credit facility contains an option to request an extension to June 2021. During the year ended 29 August 2015 the Company repurchased £25.0 million senior notes for a consideration of £24.8 million. At 3 September 2016, the Company's drawings under credit facilities outstanding comprised revolving credit facility drawings of £120.0 million (2015: £135.0 million). During the current and prior financial years, the Company has complied with its covenants relating to its credit facilities.

The amortisation charge relating to the issue costs of the revolving credit facility was £0.8 million for the year ended 3 September 2016 (2015: £1.0 million). The amortisation charge relating to the issue costs of the senior notes was £0.5 million for the year ended 3 September 2016 (2015: £0.6 million). During the previous financial year unamortised issue costs in relation to cancelled credit facilities amounting to £0.4 million were written off.

11 Deferred taxation

	Fair value gains £m
At 29 August 2015 – asset	0.1
Charged to hedging reserve	(0.1)
At 3 September 2016 – asset	–

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate at which the balances are expected to unwind in line with the enacted tax rates for UK differences and local tax rates for overseas differences.

Deferred tax provided on the fair value gains represents the deferred tax on the derivatives that qualify for cash flow hedges.

12 Called up share capital

	3 September 2016		29 August 2015	
	£	Number	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	128,685	1,286,852,540	128,684	1,286,843,441
Allotted under share option schemes	1	9,707	1	9,099
At end of year	128,686	1,286,862,247	128,685	1,286,852,540

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 3 September 2016

12 Called up share capital continued

The number of ordinary shares in the Company held by the Debenhams Retail Employee Trust 2004 ("DRET") in connection with the Group's employee ownership plan described is as follows:

	3 September 2016 Ordinary shares Number	29 August 2015 Ordinary shares Number
Debenhams Retail Employee Trust 2004	273,537	273,537

The market value of the shares at 3 September 2016 was £0.2 million for the DRET (2015: £0.2 million). The cost of the shares held at the year end was £0.2 million (2015: £0.2 million).

Share option schemes

At 3 September 2016 the Group had three (2015: three) schemes in operation: the Performance Share Plan ("PSP"), the Executive Share Option Plan ("ESOP") and the Share Incentive Plan ("SIP") (2015: the PSP, the ESOP and the SIP).

For further information on these schemes please see note 29 to the Debenhams Group financial statements.

13 Operating lease commitments

	3 September 2016 Land and buildings £m	29 August 2015 Land and buildings £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	19.1	–
Later than one year and not later than five years	76.8	–
Later than five years and not later than ten years	94.6	–
Later than ten years and not later than 20 years	91.2	–
	281.7	–

During August 2016, operating leases for 11 department stores held by Debenhams Retail (Ireland) Limited, a principal subsidiary undertaking, were assigned to the Company. These leases have various terms including in some cases contingent turnover rent clauses. Debenhams Retail (Ireland) Limited continues to occupy and trade from these properties under a letting arrangement with the Company.

14 Contingent liabilities

The Company is subject to litigation from time to time as a result of its activities. The Company establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Company.

STORE LIST

UK

Aberdeen
Altrincham
Ashford
Ayr
Ballymena
Banbury
Bangor
Barrow
Basildon
Basingstoke
Bath
Bedford
Belfast
Beverly
Birmingham
Birmingham Fort
Blackburn
Blackpool
Bolton
Borehamwood
Bournemouth
Bradford
Brighton
Bristol
Bromley
Bury
Bury St Edmunds
Cambridge
Canterbury
Cardiff
Carlisle
Carmarthen
Chatham
Chelmsford
Cheshire Oaks
Chester
Chesterfield
Clapham
Colchester
Coventry
Crawley
Croydon
Derby
Doncaster
Dumfries
Dundee
Dunfermline
East Kilbride
Eastbourne
Edinburgh
Eltham
Exeter
Falkirk
Fareham
Farnborough
Folkestone
Foyle side

Gateshead –
Metro Centre
Glasgow
Glasgow Silverburn
Gloucester
Gravesend
Great Yarmouth
Guildford
Hanley
Harrogate
Harrow
Hastings
Haverfordwest
Hemel Hempstead
Hereford
Hounslow
Hull
Ilford
Inverness
Ipswich
Kidderminster
King's Lynn
Kirkcaldy
Lakeside
Leamington Spa
Leeds – City Centre
Leeds – White Rose
Leicester
Leith
Lichfield
Lincoln
Liverpool
Livingston
Llandudno
Llanelli
London – Oxford
Street
London – Westfield
Luton
Manchester
Manchester –
Trafford Park
Mansfield
Merryhill
Merthyr Tydfil
Middlesbrough
Milton Keynes
Monks Cross
Newbury – Parkway
Newcastle-upon-Tyne
Newport
Newry
Northampton
Norwich
Nottingham
Nuneaton
Oldham
Orpington
Oxford

Perth
Plymouth
Portsmouth
Preston
Reading
Redditch
Romford
Rugby
Rushmere
Salisbury
Scarborough
Scunthorpe
Sheffield
Sheffield – Meadowhall
Slough
Southampton
Southend
Southport
Southsea
South Shields
Staines
Stirling
Stockport
Stockton
Stratford-upon-Avon
Sunderland
Sutton
Swansea
Swindon
Taunton
Telford
Torquay
Truro
Uxbridge
Wakefield
Walsall
Walton
Wandsworth
Warrington
Welwyn Garden City
Westwood Cross
Weymouth
Wigan
Wimbledon
Winchester
Witney
Woking
Worcester
Workington
Worthing
Wrexham
York

International
Magasin du Nord
Århus
Copenhagen – Field's
Copenhagen –
Kgs Nytorv

Lyngby
Odense
Rødovre

Republic of Ireland
Cork – Mahon Point
Cork – Patrick Street
Dublin – Blackrock
Dublin –
Blanchardstown
Dublin – Henry Street
Dublin – Tallaght
Galway
Limerick
Newbridge
Tralee
Waterford

Franchise stores

Armenia
Yerevan
Bahrain
Manama
Bulgaria
Sofia – Bulgaria Mall
Cyprus
Apollon
Central
Engomi
Kinyras
Korivos
Nicosia
Olympia
Zenon
Czech Republic
Prague
Egypt
Alexandria
Cairo, Festival City
Estonia
Tallinn
Iceland
Reykjavik
Indonesia
Jakarta – Senayan City
Karawaci
Iran
Isfahan
Mashad
Shiraz
Tehran
Tehran – Jame Jam
Jordan
Amman
Kuwait
Airport
Avenues
Gate Mall
Souq Sharq

Latvia
Spice Mall
Libya
Tripoli
Malaysia
Kuala Lumpur –
Star Hill
Kuala Lumpur –
The Curve
Penang
Malta
Paola
Tigne Point
Pakistan
Karachi
Philippines
Davao Abreeza Mall
Manila – ECC
Manila – Glorieta
Manila – Shangri La
Manila – Trinoma
Paeso Santa Rosa
Qatar
Doha
Romania
Plaza Mall
Vitan
Russia
Moscow – Avia Park
Moscow – Mega
Belaya Dacha
Saudi Arabia
Dammam Othiam
Herra
Jeddah – Bin Homran
Jeddah – Mall of
Arabia
Madinah Al Noor
Red Sea Mall
Riyadh – Gallery Mall
Riyadh – Granada Mall
Riyadh – Kingdom Mall
Riyadh – Rabwa
Turkey
Istanbul – Cevahir
Istanbul – Mall of
Istanbul
UAE
Abu Dhabi – Dalma
Abu Dhabi –
Khalidja Mall
Dubai – Deira
Dubai – Dubai Mall
Dubai – Ibn Battuta
Dubai – Mall of
Emirates
Dubai – Mirdiff
Sharjah Sahara Centre
Yas Island

GLOSSARY AND REFERENCES

Concessions

Brands which are sold through our stores where the stock belongs to a third party concessionaire. They are found chiefly in clothing (eg Wallis, Oasis, Warehouse), accessories (eg Tripp luggage) and food (eg Costa Coffee).

Core brands

Brands designed and produced exclusively by Debenhams. They include brands such as The Collection, Mantaray, Maine New England and Red Herring. They are found in all product categories.

CRM/eCRM

Customer relationship management programmes.

Designers at Debenhams

Exclusive diffusion ranges designed for Debenhams by leading international designers.

Direct sourcing

Sourcing from suppliers who own all or part of the supply chain processes.

Earnings per share (EPS)

The profit for the year attributable to shareholders, divided by the weighted average number of shares in issue.

EBITDA

Earnings before interest, taxation, depreciation and amortisation.

Exceptional items in FY2016

Costs associated with a) the Irish business examinership process, together with resulting redundancies; b) head office restructuring costs; and c) IT systems costs associated with the international website.

Footfall

The number of people who visit our stores.

Free cash flow

Cash generated from operations before exceptional items less net cash used in investing activities.

Full price sell-through

The number of units sold in store or online at the original selling price, as a percentage of total units sold.

Gross margin

Gross transaction value less the cost of goods sold, as a percentage of gross transaction value.

Gross transaction value (GTV)

Sales (excluding VAT) on a gross basis before adjusting for concessions, consignments and staff discounts. All references to sales in this report refer to GTV. All references to revenue refer to statutory revenue.

International brands

Brands such as Levi's, Ben Sherman, Clarins and Estée Lauder for which Debenhams owns the stock.

International segment

Comprises sales to international franchise partners, sales from our stores in Denmark and the Republic of Ireland and online sales to addresses outside of the UK.

Like-for-like sales

Sales from stores which have been open for at least one year plus online sales.

Market share

The percentage of the market or market segment that is being serviced by Debenhams. For instance, if 100 T-shirts were sold a year in the UK and Debenhams sold ten of them, it would have 10% market share.

Multi-channel

Multi-channel sales comprise those from online, mobile, apps and in-store ordering as well as those which include more than one channel in a single shopping journey such as click & collect. We use online sales as a measure of the growth of the multi-channel business as it is the largest of these sales channels.

Own bought brands

Brands for which Debenhams owns the stock. They include core brands, Designers at Debenhams and international brands.

Own brands

Debenhams' exclusive brands, comprising core brands and Designers at Debenhams.

Reported profit before tax and earnings per share

Reported profit before tax and earnings per share calculated after the impact of exceptional items.

Retail method of inventory valuation

An industry specific accounting method used to derive a weighted average product cost. Product cost and retail values are aggregated at department level to determine an average margin per department. These margins are then applied to the retail value of inventory in each department to derive the cost of inventory.

Terminal stock

The stock, as at the balance sheet date, which is classified as previous season or older. It is expressed as a percentage of total stock measured at retail value.

UK segment

Comprises sales from our UK stores and online sales to UK addresses.

Underlying profit before tax and earnings per share

Reported profit before tax and earnings per share calculated on a 52 week basis and before the impact of exceptional items.

ADDITIONAL INFORMATION

Registered office and head office

10 Brock Street
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London NW1 3FG
Registered in England and Wales
Company number: 5448421

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London W1J 8LL

Stockbrokers

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Citigroup Centre
Canada Square
London E14 5LB

Stifel Nicolaus Europe Limited
150 Cheapside
London EC2V 6ET

Solicitors

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65 Fleet Street
London EC4Y 1HS

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
1 Embankment Place
London WC2N 6RH

Registrars

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Cautionary statement

This report is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this report is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party for any other purpose.

Forward-looking statements are made in good faith, based on a number of assumptions concerning future events and information available to directors at the time of their approval of this report. These forward-looking statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information. The user of this report should not rely unduly on these forward-looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.



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