ANNUAL REPORT & ACCOUNTS 2017

DEBENHAMS

Redesigned

DESTINATION | DIGITAL | DIFFERENT

DELIVERING SHAREHOLDER VALUE THROUGH GROWTH AND EFFICIENCY

We have built a plan that is good for our customers, good for our colleagues and, therefore, good for our shareholders. Our plan will deliver growth and efficiency over the next three years and beyond and create value for our shareholders and stakeholders.

We will deliver growth by becoming a Destination for Social Shopping and offering exciting new products and services; being driven by Digital, with mobile unifying our channels and our interaction with customers, as well as broadening our reach; and being Different in how we create and manage our brands and product, supported by a more innovative culture.

This will be combined with a focus on driving efficiency by removing barriers to shopping both online and instore; Simplifying and Focusing our store estate and operating model; and making more effective use of our resources.

Financial highlights

Gross transaction value*

£3.0bn

Profit before tax[1, *]

£95.2m

Net debt

£275.9m

Strategic highlights

Full price sell-through*

+1.7%

Digital sales growth (52 weeks)*

12.7%

Mobile mix of digital orders*

55%

Shareholder returns

Underlying EPS[1, *]

6.4p

Dividend per share

3.425p

ROCE (lease-adjusted)*

11.1%

1 Pre exceptional items.

* Alternative performance measures are defined in the Glossary section of the Annual Report on pages 152 to 154.


STUDIO BY
PREEN


JM


"Let's TALK beauty"

Business model and strategy

CREATING VALUE FOR OUR STAKEHOLDERS

OUR RESOURCES AND RELATIONSHIPS

People
We employ around 27,000 colleagues in the UK, the Republic of Ireland, Denmark and in our sourcing offices in Hong Kong, Shanghai, Bangladesh and Sri Lanka. They support our own-operated stores in the UK and Europe and our digital operations, and serve 19 million customers

Read more on page 20

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

Read more on page 5

Channels
We have 183 stores across major retail locations in the UK, the Republic of Ireland and Denmark. We have a flagship digital store in the UK and a localised online service in a number of overseas markets. With over 280 million online visits each year to our UK website, it is one of the top online UK retail destinations

Read more on page 6-7

Suppliers and partners
We have a well-established network of more than 1,000 suppliers, as well as concession, logistics and franchise partners, who provide us with high quality product, logistical support and local market expertise. in locations where we trade with a partner

Read more on page 21

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

Read more on page 35

HOW WE CREATE VALUE TODAY

Innovation and culture
We are developing a culture that puts our customers first, enabling product creation and development in an inspiring environment, supported by data-informed decision-making

Developing and managing brands
Approximately half our sales come from our own or exclusive brands. We use the insight from 19 million customers to inform brand development, and to edit and curate the choice of products and brands we sell

Serving our customers
We have worked hard to make shopping easier and more fun for our customers: reducing colleague tasks; equipping them with technology and data; and giving them more time in front of customers

Creating inspiring places to shop
We are reducing clutter in our stores, reducing stock options and improving visual merchandising. We have continued to upgrade our digital presentation for mobile display, to improve conversion

Leveraging partnerships
We continue to strengthen our relationships with third parties to broaden our reach. This includes accessing new customers both in the UK and overseas through partners for our own brands, and working with service providers to exploit growth categories such as food and beauty services in our stores

THE VALUE WE CREATE

We create value for our stakeholders and our business by carefully managing the use of, and the return on, our resources and relationships

Gross transaction value
£3.0bn

EBITDA*
£217.0m

Underlying EPS*
6.4p

Digital sales growth (52 weeks)
12.7%

Return on capital**
11.1%

Direct employment
c27,000

* Before exceptional charges.
** Lease-adjusted.

OUR VALUE CREATION IS UNDERPINNED BY

Risk management
A systematic approach to managing risk to ensure strategic goals are met

Read more on page 26

Governance
Governance framework designed to safeguard long-term shareholder value

Read more on page 42

WHAT WE DO

We aim to make shopping confidence-boosting, sociable and fun for our customers, through our 246 department store destinations and online in more than 60 countries. We give our customers around the world a unique, differentiated and exclusive mix of own brands, international brands and concessions.

THE VALUE WE SHARE

By running a profitable, sustainable, responsible business, we create value which is used to strengthen our financial position, invested to enable growth, and shared with all of our stakeholders

Shareholders
We pay a dividend (2017: £42.0 million) which is approximately twice covered by earnings per share

Read more on page 35

Suppliers
We source globally from more than 1,000 suppliers adopting ethical trading principles. We have increased our business through direct sourcing operations in Hong Kong, Shanghai, Bangladesh and Sri Lanka

Read more on page 21

Colleagues
We invest in training and support for our colleagues in order to enable them to create and manage brands and to serve our customers well

Read more on page 20

Customers
We invest in our stores and integrated digital offer (2017 capex of £125 million) in order to provide our customers with an inspiring environment and a convenient customer journey

Read more on page 34

Communities
We raised over £1.7 million through the Debenhams Foundation in 2017 to support charitable giving and community involvement

Read more on page 21

Environment
We seek to operate our stores, logistics and sourcing operations in a way that minimises the use of energy and resources

Read more on page 22

HOW WE MAXIMISE VALUE THROUGH OUR NEW STRATEGY

Social Shopping

Destination | Digital | Different

Simplify & Focus

Destination
By making Debenhams more of a Destination, especially for Beauty and beauty services; Fashion and accessories; and Food and events, we will grow "Social Shopping" and increase frequency of visits

Digital
By using mobile to integrate our channels and become the primary means of interacting with our customers, we will increase loyalty and personalisation and broaden our reach

Different
By being different in how we create and manage our brands and product, we will increase innovation and differentiation, building the desirability and value of our brands

Underpinned by Simplify & Focus
By simplifying our operations and processes and focusing on doing fewer things better, we will increase the efficiency of our business

See our strategy in action on page 10

Sustainability
Respecting human rights is fundamental to our company ethics and integrity

Read more on page 20

Culture
Taking a customer first approach, fostering innovative thinking underpinned by data

Read more on page 14

Market context

GROWTH IN LEISURE SPEND

Changing consumer trends are driving spend in leisure categories faster than traditional retailing. Debenhams customers have a high propensity towards leisure spending and our research shows an opportunity to become a leader in "Social Shopping".

4%

vs

2.6%

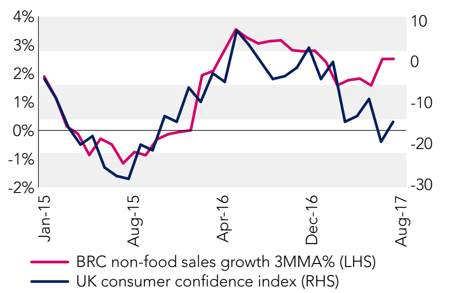
Faster growth in leisure than retail

A CHANGING RETAIL MARKET

Expectations for consumer outlook have continued to weaken through 2017. A recent research report from Deutsche Bank ("Deutsche") suggested that "many… economic indicators today are trending similarly to the austerity years of 2011/12".[1] The UK consumer faces a squeeze on disposable income but the savings ratio is at a 20 year low, which was not the case five years ago.

Despite a backdrop characterised by geo-political uncertainties, this has not yet led to a material slowdown in consumption. Consumer confidence is in line with its historical average and unemployment remains at record lows. Whilst overall UK retail sales growth has remained relatively robust, non-food sales have weakened through 2017.

BRC non-food LFL vs UK consumer confidence



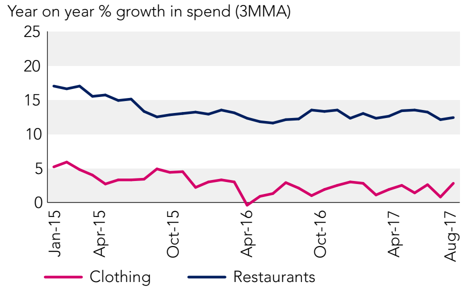
Source: Factset (British Retail Consortium, GFK)

Changing spending priorities

Food and fuel price rises have risen and with real wage growth now flat, discretionary spending power has therefore declined. Deutsche Bank points to evidence of trading down both in the clothing sector and in food retail, to the benefit of value retailers. However, the bank also notes the relatively robust nature of leisure spend – traditionally a more discretionary category than clothing, for example.

Spending in restaurants continues to outpace spending on clothing

Year on year % growth in spend (3MMA)



Source: Barclaycard, Deutsche Bank

Growth of leisure and experience spending

In the period 2010-2016, the annual rate of growth in leisure spending, such as eating out, recreation, culture and hotels, was 50% higher than the growth in non-food retail sales.[2] A number of commentators now suggest that this represents a structural shift in consumer spending priorities, away from "stuff" towards "experience".

In 2016, Debenhams commissioned strategy consultants OC&C to carry out research on these trends as part of the Group's strategy review. The survey of 16,000 consumers found that the leisure experience is as, or more, important than convenience for department store customers, and Debenhams' customers over-index in favour of leisure, with 65% of women and 53% of men citing the importance of leisure over convenience.

How smartphones are influencing behaviour

Another key trend in consumer spending has been the growth of online shopping, which in the past year has shifted decisively towards mobile. Mobile now accounts for over half of Debenhams' annual digital sales of £478 million.

As part of its research, OC&C identified the following consumer characteristics:

- 87% of people have their smartphone by their side day and night
- On average, they check it 150 times per day
- 67% use their phone to browse
- 64% use their phone to research products
- 75% use their phone to check logistics
- 82% will consult their phone whilst in store

The research shows that 18% of mobile shoppers make an immediate transaction, and a further 18% go on to purchase later.

71% of smartphone customers use social media. This is particularly prevalent in the categories of fashion and beauty, which represent over three-quarters of Debenhams' revenue. This data has informed Debenhams' identification of a category of shopping defined as "Social Shopping":

Shopping as a fun, leisure activity enjoyed with friends and family and shared via social media.

40% of customers shop with family or friends, and those who shop with friends spend over 80% more per transaction than those who shop alone.

Debenhams has identified Social Shopping as a category that we can become a leader in, with the space, brand reach and services opportunity to create attractive and sociable destinations that will encourage our 19 million customers to visit us more frequently.

+80%

increase in spend when with friends

Read more on pages 10-11

1 UK Non-Food Retail "Value not value traps", 7th Sept 2017.
2 Source: Mintel, Euromonitor, OC&C estimates.

CEO's strategic perspective

DEBENHAMS *Redesigned*

DEAR SHAREHOLDER

It has been an eventful first year for me at Debenhams, and an eventful year for all our 27,000 colleagues too, and I would like to thank them for their help and support in delivering these results and helping me and my team devise and develop our new strategy.

A year of activity and change

This year's results were achieved against a background of activity and change at Debenhams. After a strong first half, we saw a more volatile trading environment in the second half with some tough cost headwinds to manage. We have focused on getting the basics right and controlling what we can control. Against that background these results demonstrate that we have a resilient business model.

I joined Debenhams in October 2016 bringing with me experience that spans brands, international and online retailing, so I spent my first few months getting under the skin of this business. I commissioned some customer research to understand how and why our customers are changing, and we have analysed the profitability of every store, category and brand to inform the development of our strategy.

I have some core beliefs which have been reinforced by the research we have done: that retailers need to create compelling reasons for customers to shop with them; that shopping is a leisure activity, but convenience and excellent execution is non-negotiable; that brands must be meaningful and differentiated; that decision-making must be data-driven; that offline needs online, but that online also needs offline; and that mobile phones will unite the online and offline channels, becoming the way we build a relationship with our customers.

Great strengths to build on

After the work we have done, my confidence in the future of department stores is as strong as ever. As one of the most powerful brands in UK retail, I see great strengths we can build on at Debenhams; and we have identified a number of ways to improve the way we operate.

The Debenhams brand has 97% awareness in the UK and 19 million customers shop with us every year in stores that are often at the heart of their local community. We have market-leading positions in key categories such as beauty and occasionwear, and half of what we sell is either our own brands or exclusive to us. We are one of the most visited online retailers in the UK, with over 280 million visits to our website last year. And we have profitable international operations, with a successful separately-branded business in Magasin du Nord, the leading department store business in Denmark.

Changing shopping habits

As part of our research, we spent time talking to our customers, and shopping with them. We asked them about their shopping habits in the categories that are important to us and it is clear that, for the majority of our customers, the leisure experience is as, or more, important than convenience. At the same time, we looked at how customers are using the device that is part of everyone's life today, their mobile phone, in the context of shopping and leisure. In Market context on page 4, we explain how that has given rise to the ambition that Debenhams should become the destination for "Social Shopping".

Debenhams is a destination for fashion and beauty. Our customers tell us that shopping for these key categories is about buying a product that will help them look good and feel great, providing a confidence boost; and that the customer journey should be easy and fun – an experience that many of them will want to share. This is our mission: to make shopping confidence-boosting, sociable and fun.

Strategy that starts with what customers want

Our starting point is what our customers want. We need to create products, brands and services that excite them and we need to make it easy for them to buy from us. Our plan is to transform the shopping experience at Debenhams, creating great reasons for our customers to come to us whether they are sitting at home, commuting to work or enjoying leisure time browsing in stores. We want to build stronger, more personalised relationships with them, centred around mobile interaction.

Our objective is to build a successful future for Debenhams against a fast-changing background. To help us deliver this, we have built a plan that is good for our customers, good for our colleagues and, therefore, good for our shareholders. We call it Debenhams Redesigned.

See our strategy in action spreads on pages 9-19

A NEW STRATEGY: DEBENHAMS REDESIGNED

We have identified a category we define as Social Shopping, and in which Debenhams aims to be a leader in, as we explain in the Market context on page 4, through the following strategic framework:

Destination

We aim to make Debenhams a destination for Social Shopping by focusing on three key areas to grow: beauty & beauty services; fashion via accessories; and food & events – which we call Meet me @ Debenhams. If we can be higher in our customers' consideration for these categories, this will increase frequency of visits. Our customers visit us less frequently than some of our peers and by exploiting our market-leading position in premium beauty, encouraging cross-shopping between fashion and accessories and creating exciting places to eat and drink, we can increase traffic and spend per customer.

Digital

Growth in mobile demand is driving growth in UK non-food retail sales and is a significant opportunity overseas. Our growth in mobile demand in 2017 was 57%, and mobile now accounts for 55% of Group digital sales. By using mobile to integrate our channels and become the primary means of interacting with our customers, we will increase loyalty and personalisation and broaden our reach. We intend to increase our digital distribution both through our own infrastructure and via strategic partnerships.

Different

We are redesigning the culture at Debenhams, from being process-driven, to customer-led. We aim to foster creativity and innovation, underpinned by data-driven decision-making. We will reinvent Designers@Debenhams, making the proposition more relevant and managing our brand portfolio more robustly. We will build ranges for our online customers first. By being different in how we create and manage our brands and product, we will build their desirability and value.

Underpinned by Simplify & Focus

We have embarked on a review of our processes and the way we do business in all areas to simplify them and improve our flexibility. We will aim to free up time for our people to serve customers and make better use of our inventory and our infrastructure. Our simplification of processes and operations will free up time for our colleagues to serve our customers better and encourage creativity and innovation at the centre. As we manage our stock more efficiently, this will help to improve full price sales and stock turn.

This strategy will deliver growth and efficiency over the next three years and beyond, delivering an enhanced experience for our customers, helping our colleagues to serve our customers better and creating value for our shareholders.

Fixing the basics

We did not wait until we unveiled our new strategy to start work. In January, I tasked our teams to get on with fixing some of the practices in the business that we needed to improve, and since our new director of HR joined in May, she has been hard at work on the most important part of how we will transform the business, our organisation and culture. We have established three new business units: Fashion & Home, Beauty & Beauty Services; and Food & Events, in line with the Destination categories we identified.

Read more on pages 16-17

My report card to date shows that we have delivered the following important initiatives since the beginning of the year:

- Reduced task-based focus in store, and introduced training programmes to support 2,000 more colleagues in customer-facing roles
- Repurposed our head office as a "support centre" for the business, rather than a head-office "process-driven" approach
- Added customer-service metrics to our internal KPIs, and seen a positive improvement in our net promoter score
- Reduced the average number of stock options by approximately 10% and reduced the fixture density in stores to make shopping easier
- Reduced the time to replenish stock from eight days to two days through our direct-to-floor distribution initiative
- Closed ten regional warehouses and begun consultation for the closure of our Northampton distribution centre
- Announced the closure of two stores, at Farnborough and Eltham
- Opened two new stores, at Stevenage and Wolverhampton, that are providing a "test lab" for new ideas on layout and merchandise presentation
- Developed our own progressive web app with expert partners to make our mobile site much faster and more responsive
- Announced a partnership with blow LTD, the UK's largest and fastest-growing "on-demand" beauty services provider
- Announced a partnership with Sweat! to trial three gyms in stores

A strengthened management team

We have said "Hello" and "Goodbye" to some members of the senior team, so I would like to take a moment to thank Suzanne Harlow, Nikki Zamblera and Peter Swann, who have left us in 2017. Thank you for your dedication, enthusiasm and expertise, and your contribution to Debenhams over many years. And we have welcomed two new members of the Executive Committee: Sally Hyndman, who has joined from Dixons Carphone as Director of HR, and Angela Morrison, Director of Technology and Supply Chain, who has joined from Direct Line. With a number of other senior appointments, we have strengthened our management team and put in place an organisational structure to support the delivery of our strategy.

Sergio Bucher
Chief Executive Officer
26 October 2017

DEBENHAMS' MANAGEMENT TEAM

The right team to take the business forward

Executive Committee (left to right):

Matt Smith
CFO

Sally Hyndman
Director of HR

David Smith
Managing Director, International

Sergio Bucher
CEO

Angela Morrison
Director of Technology and Supply Chain

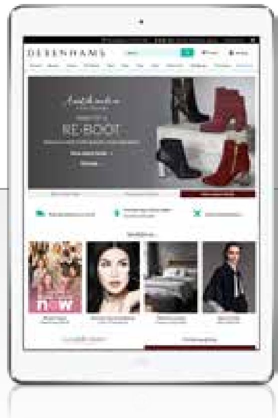
Richard Cristofoli
Managing Director, Beauty & Marketing

Ross Clemmow
Managing Director, Retail, Digital, Food & Events

Read more on page 43

Getting the basics right

A year of significant action



OCT 2016

— Sergio Bucher joins Debenhams as CEO

Initiates customer research and fully loaded P&Ls by store, category and brand

DEC

— Digital sales growth accelerates over peak

Driven by mobile demand up 68%

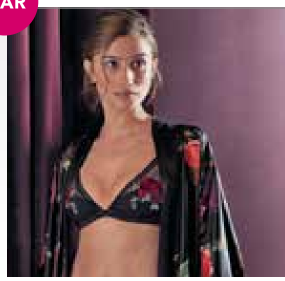
FEB

- **Support centre launches Simplify Week**
- **Customer service metrics added to KPIs**

MAR

— Remerchandising trials for lingerie commence

- **Plans for Stevenage opening revised**



JAN 2017

— Debenhams reports record Christmas trading, with 5% LFL growth over peak

- **"Fix the basics" plan gets under way**

DEBENHAMS *Redesigned*

APR

— Debenhams Redesigned strategy unveiled alongside interims

- **Consultation begins on warehouse closures**

MAY

— New Executive Committee members join

- **Single warehouse management system transition completed**

JUNE

- **Q3 trading update**
- **Direct-to-floor deliveries commence**

JULY

— Colleague training programme begins

- **Regional warehouses start to close**

AUG

New Stevenage store opens

Strategy in Action

Destination

We will make shopping easy and fun for our customers, giving them more reasons to visit us whether at home, travelling to and from work, or on the high street.

BEAUTY PRODUCTS AND SERVICES

What we have done
Debenhams has a leading market position in premium beauty and is the clear number one in make-up. We are becoming the go-to partner for key brands entering the UK market.

What we are going to do
We are targeting a £1 billion business in beauty, being our customers' preferred destination in all channels. We are relaunching Beauty Club, our loyalty scheme with 1.2 million cardholders, with Alesha Dixon as the face of "Let's Talk Beauty", and rolling out new features. We have partnered with blow LTD. as the first step in our plans to accelerate growth in the £4 billion beauty services market.

MEET ME @ DEBENHAMS

What we have done
We have opened around 65 new food and drink offers with a variety of brand partners over the past two years, and at the same time upgraded our own menus and service in instore restaurants.

What we are going to do
We plan exciting store environments, with a further 50 new food and drink offers over the next three years, alongside a new in-house developed brand with a distinctive healthy eating position, Loaf & Bloom. We aim to be the nationwide destination for shopping events, with privileged access for our VIP customers.

FASHION VIA ACCESSORIES

What we have done
Debenhams has a 5% share in the UK clothing market, with a number one market position in important accessories categories (eg bags, swimwear, costume jewellery).

What we are going to do
We plan to reproduce the success of our beauty halls in accessories. We see a major opportunity to grow share in the large categories of footwear and lingerie via a distinctive branded offer, more newness and an enhanced service proposition.

Strategy in Action

Digital

Mobile will become the primary means of interacting with our customers; we aim to increase loyalty and personalisation and broaden our reach.

MOBILE @ EVERYWHERE

What we have done
We delivered strong growth in sales via mobile devices which now account for more than half of online orders, and as a result of a continuing programme of upgrades, we have improved smartphone conversion rate by 15%.

What we are going to do
We aim to move towards fully integrated channels supported by a new progressive web app that has significantly improved our mobile site. Mobile will become the primary means of customer interaction, enabling us to build loyalty and personalisation.

CLICK & PLAY

What we have done
Next day click & collect accounts for over 30% of online orders and drives store footfall. We have been testing a partnership with Doddle in a number of stores providing pick-up points for other online retailers.

What we are going to do
Alongside providing a convenient and reliable service for customers, we aim to transform the experience to be engaging and sociable. We see the opportunity for enhanced service, linked with personal shopping and other activities to make click & collect a leisure experience in its own right.

BROADEN OUR REACH

What we have done
We have used digital growth to reach geographies that would not support a store, and we have begun to reach new demographics through selling some of our brands via online partners.

What we are going to do
We are developing a new income stream through third party partnerships with selected digital partners such as Amazon, ASOS and Zalando. By exploiting opportunities to market our brands outside Debenhams, we will build value for these brands in their own right.

Strategy in Action

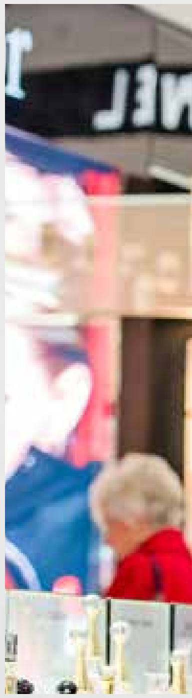
Different

We aim to foster creativity and innovation, underpinned by data-driven decision-making.

INNOVATION AND CULTURE

What we have done
We have begun the transformation of the organisation from a process-based focus towards a customer-first approach.

What we are going to do
We are launching a new service model, with more colleagues in customer-facing roles. We aim to create an agile-minded environment to encourage innovation, where decision-making will be driven by data rather than opinion. We will be open to using partnerships to progress more quickly where appropriate.



BRAND CREATION AND DISTRIBUTION

What we have done
We have a strong track record of brand creation, with a number of our brands generating annual turnover of over £100m, making them sizeable businesses in their own right.

What we are going to do
We intend to take a different approach to ranging our stores, by building brands for online first and editing local store ranges based on online catchment data. For our best brands, we see the opportunity to build global distribution.

DESIGNERS @ DEBENHAMS

What we have done
Our long-standing collaboration with designers remains a core attraction for customers and an important point of differentiation for Debenhams.

What we are going to do
We plan to refresh and revitalise the brands, taking a more robust portfolio approach to managing them with the aim of staying fresh and contemporary. We are testing different merchandising approaches to support a more premium presentation.

GET TO KNOW OUR FABULOUS DESIGNERS EXCLUSIVE TO DEBENHAMS:
www.debenhams.com/designers-at-debenhams

JASPER CONRAN   STUDIO BY PREEN   nine SAVANNAH MILLER   STAR BY julienmacdonald

Strategy in Action

Simplify & Focus

We will simplify our business, eliminating unnecessary tasks and processes and making better use of our resources to improve efficiency and flexibility.

STORE ESTATE

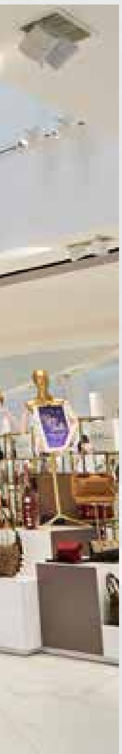
What we have done
We have a good portfolio of 177 stores in the UK and Republic of Ireland. We have analysed the potential for each store's profitability as online sales take a higher proportion of retail sales.

What we are going to do
We have identified up to ten stores for potential closure, and have confirmed that two of these will close in early 2018. We have also tested some new ideas on layout and fixturing in our new stores at Stevenage and Wolverhampton. Where appropriate, we will look to right-size stores for their location; our refitted store at Uxbridge is an example of this approach.

OPERATING MODEL

What we have done
In May 2017 we completed the transition to a single warehouse management system, which gives us a single view of stock across channels. We have continued the replacement of our legacy systems and are now over half way to completion of this project.

What we are going to do
Business units will be aligned to the Destination categories, each overseen by a member of the Executive Committee. Our aim is to shift our model from a process-driven to a customer-led operation, supported by a more flexible supply chain. We plan to accelerate the automation of warehouse processes and in Stevenage have tested a store operating model that will be more flexible and cheaper than a traditional store.



BETTER USE OF RESOURCES

What we have done
We have reduced unnecessary tasks for our store-based colleagues and started a training programme to support enhanced customer service, aligning this with incentives.

What we are going to do
The introduction of direct-to-floor stock deliveries and more frequent replenishment means we can operate with lower stock densities and still improve availability. With fewer tasks to complete, we will switch approximately 2,000 store colleagues to customer-facing roles.

Strategy in Action

International

Debenhams' International accounts for around a third of Group profits, with own-operated businesses in the Republic of Ireland and Denmark, 63 franchise stores and a growing digital presence.

LEVERAGE AND GROW SUCCESSFUL PARTNERSHIPS

What we have done
We have strong existing partnerships in markets such as the Middle East, accounting for half our franchise operations. We have grown international digital sales by more than 40% in FY2017.

What we are going to do
We will open flagship international stores in Australia and Kuwait in FY2018. We plan to build on new digital partnerships with Amazon and other digital marketplaces and we will extend into new markets in Europe and Asia this year.

SIMPLIFY

What we have done
We have reviewed our international market presence, closing nine franchise stores, mainly in Eastern Europe.

What we are going to do
We are developing a future franchise service model for existing and new partners.

Magasin

What we have done
We have invested in our Copenhagen flagship. Digital growth has continued strongly, with the launch of 100 new brands online.

What we are going to do
A new store in Aalborg will open in 2018. We will add a further 150 brands online and plan to develop a digital presence in other Scandinavian markets, leveraging our existing infrastructure.

Q&A WITH CEO SERGIO BUCHER

"Our new strategy is about creating great reasons for our customers to come to Debenhams so they visit us more frequently."

Q: How will Debenhams' new strategy help to mitigate headwinds?

A: Our diversified business model together with good cash generation means that Debenhams is in good shape to withstand a market background that remains uncertain. We have 19 million customers who are changing their shopping habits, so we are changing too. Our new strategy is about creating great reasons for our customers to come to Debenhams so that they visit us more frequently.

Q: Are department stores becoming obsolete?

A: If I believed that I wouldn't have joined Debenhams. This business has faced many different threats in its 200 years of existence but has adapted and survived. For many customers, our stores have been part of their families' lives for years, and many of our 177 UK and Irish stores are in great locations at the heart of their communities. The same is true for our Magasin stores in Denmark. By defining what we want to stand for, and simplifying the way we operate, integrating the digital and physical experience, we can refocus our attention on what makes a difference to our customers today.

Q: What is Social Shopping?

A: It is a fun leisure activity, enjoyed with friends or family and shared directly or via social media. The mobile phone is front and centre of how our customers interact with each other, it is driving growth in retail sales and it is the enabler for Social Shopping. Through this, we want to build stronger, more personalised relationships with our customers.

Q: What's the timeframe for delivering the strategy?

A: We started back in January 2017, fixing some of the basics, before we had finalised the strategy. Our self-help programme is already delivering change. We are well under way with testing and trialling key elements of the strategy, and performance through peak will determine the speed and scale of roll-out. We are also using partnerships to accelerate the pace of change, – for example, our partnership with blow LTD. will allow us to step-change our growth in beauty services. Within three years, you will see real change at Debenhams.

Q: Is this strategy about growing sales or margins?

A: This strategy is about growth, increasing the frequency of customer visits through becoming a Destination, Digital and Different. If we simplify the way we operate, we will become more efficient and by driving operational leverage, this will deliver improved returns for the business.

Q: Will you change course if there is a consumer downturn?

A: We are operating in uncertain markets and we will react to material changes in the market in order not to threaten the stability of the business. However, our direction of travel is clear and we are confident that the changes we are making will enable this business to have a successful and profitable future.

HOW WE MANAGE OUR RESOURCES & RELATIONSHIPS

78%
Employee engagement

>£1.7m
raised by the Debenhams Foundation

COLLEAGUE ENGAGEMENT & CULTURE

Debenhams directly employs around 27,000 people globally. Our annual engagement survey demonstrates we have a loyal and engaged workforce and that our colleagues particularly value the teams that they work with.

Our colleagues have told us that our culture is warm and friendly. To build on this and align our culture to our ambition to be customer-led, we are embarking on a comprehensive review of our Colleague Proposition. We are working with over 200 colleagues to build our new Proposition which will harness the best of our culture today together with the cultural shifts needed to achieve our mission to make shopping confidence-boosting, sociable and fun.

We again held our Learning@Work Week programme, where 2,000 support centre colleagues can choose to attend sessions on a wide variety of topics that range from those aiding understanding of aspects of the business, to those aimed at encouraging health and wellbeing.

We will continue to measure our culture and how engaged our colleagues are through our annual survey and this will be enhanced by the introduction of a pulse survey in FY2018.

We encourage two-way communication throughout the business. Business information and key messages regarding Company performance and the strategy are shared through weekly debrief emails, personal video messages from the CEO and a monthly cascade from members of the executive committee.

EQUAL OPPORTUNITIES

We are committed to ensuring that colleagues are treated equally, regardless of gender, sexual orientation, religion or belief, age, mental status, social class, colour, race, ethnic origin, creed, disability, political or philosophical beliefs,or marital or civil partnership status.

Through our equal opportunities policy, we aim to create an environment that offers all colleagues the chance to use their skills and talent. Decisions on recruitment, training, promotion and employment conditions are based solely on objective, job-related criteria, and personal competence and performance. The Company seeks wherever possible to make reasonable adjustments to ensure that a colleague who becomes disabled during the course of his or her employment is able to continue working effectively. This includes providing equipment or altering working arrangements; providing additional training; reallocating on a temporary or permanent basis some of the colleagues's duties to other members of staff; transferring the colleague to a suitable alternative role; and adjusting working times. Any such adjustment will be monitored and reviewed on a regular basis to ensure it continues to be effective.

Debenhams is also supportive of the UK government's commitment to address the gender pay gap, refer to page 49 for more information on our gender diversity policy. In line with new regulations, we will be publishing our data on our corporate website in FY2018.

BUILDING A PIPELINE OF LEADERS FOR THE FUTURE

We adopt a consistent approach to identifying and developing talent across the stores and the support centres.

We have an aligned talent development approach across our stores and our support centre and use a consistent framework to develop our leaders of the future. Our six-step development programme allows for easy transferability of talent across retail and support centre functions.

"Respecting human rights is a fundamental part of our company ethics and integrity."

In addition, we run a business placement programme which brings new talent into the business and have extended this programme's reach in focus and growth areas such as e-commerce.

APPRENTICESHIPS

With the arrival of the apprenticeship levy, we have developed a three-year plan for apprenticeships to support key areas of the business in order to build our skill set and pipeline of talent. Year one focuses on the first step into retail management with 140 retail apprentices having commenced their 16 month programme in May 2017.

We have been one of the first retailers to use the new retail trailblazer apprenticeships and will continue to build on this in years two and three of our plan. Additionally, in years two and three, we will introduce apprenticeship programmes into our support centre and build further routes to recruit externally for apprenticeship programmes.

DEBENHAMS FOUNDATION

Since 2012, we have raised over £7 million for charitable causes under the Debenhams Foundation. In FY2017, over £1.7 million was raised via activities such as in-store fundraising, dedicated product donation and donated carrier bag income. These funds help to support a range of charities including Look Good Feel Better, Help for Heroes, BBC Children in Need and Breast Cancer Now.

For more information, visit our webpage at http://sustainability.debenhamsplc.com/debenhams-foundation.

ANTI BRIBERY & CORRUPTION

Debenhams is committed to conducting its business affairs so as to ensure that it does not engage in or facilitate any form of bribery or corruption. It is Debenhams' policy to prohibit all forms of corruption involving our employees, contractors, agents, and any associated parties acting on our behalf. Our Anti Bribery Policy outlines the expected standards of behaviour and provides guidance to our colleagues on the giving and receiving of gifts and hospitality. This policy has been supported by a training programme for selected roles.

GLOBAL SOURCING

We source our product from a diverse supply chain. Respecting human rights across our global reach is a fundamental part of our Company ethics and integrity. Our sourcing ethical trade programme covers the entire product supply chain.

939
factories

939 factories impacting over 525,000 workers in 34 countries.

Supplier Compliance
- Supplier on boarding
- Risk management
- Processes
- Capacity building & Supplier ownership

Worker Welfare
- Female empowerment
- Health & Safety
- Worker wellbeing
- Worker inclusion

Top 6 countries	Number of factories April 2017
China	465
India	148
Bangladesh	65
Turkey	40
Romania	23
UK	24

Our extensive due diligence processes and assessment of suppliers and factories ensure that our Supplier Code of Conduct is adhered to. Our Code is based on the ETI (Ethical Trade Initiative) and ILO (International Labour Organisation) core conventions. We have been a member of the ETI since 2001.

>800
compliance audits

Intertek, our global audit partner, together with our own ethical compliance teams based in the UK, Hong Kong, Shanghai, Bangladesh and Sri Lanka, conducted over 800 factory visits in FY2017 to assess their compliance, the majority of which were unannounced.

WHAT WE DO
- New supplier factory on boarding
- Audit programme on factories
- Governance policy and process
- Collaborative industry partnerships
- Factory visits
- Programmes & projects

DRIVEN BY
- Modern Slavery Act 2015
- Human Rights and United Nations guiding principles
- Sustainable development goals

For more information, visit our webpage at www.sustainability.debenhamsplc.com/debenhams-foundation.

-13%

CO_2 emissions

HUMAN RIGHTS & MODERN SLAVERY

The Company 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 commitment to prohibiting modern slavery is defined in our Human Rights and Modern Slavery policy.

The following outlines some of the actions Debenhams has carried out to support the Act:

- Training extended to our suppliers and factories in Delhi, Bangalore and Bangladesh.
- Further sessions have been held internally to raise awareness of modern slavery across UK, Denmark, Hong Kong, Shanghai and Bangladesh. Training will be conducted for our Sri Lankan office, which has recently opened.
- All of our 21 UK manufacturers have had a Fast Forward audit and now have action plans if required.
- We have collaborated with the Gangmasters & Labour Abuse Authority to understand practices of labour providers.
- We have gained further understanding of our goods not for re-sale service providers and they have attended mandatory training on modern slavery which was provided by Fast Forward during FY2017.

Read more on page 29

A full version of Debenhams' statement on Modern Slavery is on our website at www.sustainability.debenhamsplc.com

Debenhams previously operated a Sustainability Committee which, amongst other activities, oversaw and monitored actions taken to prevent modern slavery. This role is now the responsibility of the Risk Committee.

The Director of Ethical Trade and Corporate Responsibility, who is responsible for driving initiatives internally and externally to support the Act, provides quarterly updates to the Risk committee on all risks and mitigating actions covering corporate social responsibility work.

ENVIRONMENT AND ENERGY EFFICIENCY

Annual report Greenhouse Gas ("GHG") emissions reporting

We have reported our greenhouse gas (GHG) emissions for our UK, Irish and Danish operations since 2008. Since then, our footprint boundary has evolved to include areas such as other international offices, packaging, production of hangers, and manufacture of catalogues, brochures and direct mail. This section provides a breakdown of our GHG emissions for this year. Further details of our GHG emissions can be 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 (revised edition), and the UK Government Conversion Factors for Company Reporting, 2017, to calculate our carbon emissions. Our annual reporting year is 4 September 2016 to 2 September 2017 and we report GHG emissions in line with this period.

Last year we followed the GHG Protocol's new, Scope 2 emissions reporting guidance and used two different quantification methods: location-based and market-based. We followed this methodology again this year. Scope 2 emissions using the market-based method are lower than those derived from the location-based approach, mainly because of our decision to purchase 100% renewable electricity in the Republic of Ireland and Northern Ireland.

This year, our overall carbon footprint has decreased by 13%, from 204,136 tonnes CO_2e in 2016 to 177,611 tonnes CO_2e this year (using the location-based approach). Table 1 opposite provides a breakdown of these figures.

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).

Table 1: Absolute GHG emissions from Scopes 1, 2 and 3 shown in tonnes CO_2e (tCO_2e)

	FY2012	FY2013	FY2014	FY2015	FY2016**	FY2017
Scope 1	14,850	17,786	15,989	19,668	14,241	13,721
Scope 2 (location-based)	144,536	139,607	149,068	139,354	125,453	103,754
Scope 2 (market-based)	Not calculated; market-based method was introduced in FY2016				113,134	81,914
Scope 3	19,071	16,687	28,308	31,908	64,442	60,136
Total	178,457	174,080	193,365	190,930	204,136*	177,611*

* Total emissions calculated using the location-based Scope 2 emissions figure.
** FY2016 is a 53 week year.

The emissions data is made more meaningful when compared to a core business variable. We have used intensity ratios, alongside the absolute figures provided above, to report our GHG emissions in the context of our annual turnover and premises floor area.

Table 2 shows the total annual turnover and floor area for the whole business. The total absolute emissions are then divided by these figures to provide tonnes of CO_2e per million pounds of turnover and tonnes of CO_2e per m^2 of floor area, respectively, as shown in Table 3.

These tables show that the tonnes CO_2e for both intensity metrics have also decreased.

Table 2: Data used for intensity measurements

	FY2012	FY2013	FY2014	FY2015	FY2016**	FY2017
Turnover (£m)	2,700	2,777	2,824	2,860	2,939	2,954
Total floor area* (m^2)	1,838,924	1,808,398	1,850,874	1,867,291	1,876,533	1,873,568

* Total floor area includes stores, offices and distribution centres.
** FY2016 is a 53 week year.

Table 3: Assessment of absolute footprint emissions

	FY2012	FY2013	FY2014	FY2015	FY2016**	FY2017
Absolute Emissions (tCO_2e)	178,457	174,080	193,365	190,930	204,136*	177,611*
Absolute tCO_2e/£m Turnover	66	63	68	67	69	60
Absolute tCO_2e/m^2	0.097	0.096	0.104	0.102	0.109	0.095

* Total emissions calculated using the location-based Scope 2 emissions figure.
** FY2016 is a 53 week year.

The carbon footprint has decreased across all three scopes this year compared to 2016. The main reasons for the decrease in the overall emissions is due to a reduction in: electricity consumption, including the associated grid losses (18% reduction); company vehicles mileage (27% reduction); staff travel (21% reduction); and outsourced- freight (4% reduction).

We will continue to invest in projects that will reduce our footprint and environmental impacts. We are committed to continuously improving the energy efficiency of our buildings and operations as seen by a reduction in this year's carbon footprint. In FY2017; we invested over £3 million and retrofitted LED lighting in 16 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 £3 million in 2018 on energy efficiency projects, with LED lighting continuing to feature heavily since lighting typically accounts for 35% of energy use in a store.

We have a carbon reduction target to reduce group-wide Scope 1 and 2 absolute operational CO_2e emissions by 10% by 2020 against our 2007/08 baseline. The FY2017 Scope 1 and Scope 2 total emissions have reduced by 32% compared to the Scope 1 and 2 CO_2e emissions in FY2008. This suggests that if the reduction continues, or remains stable, we will meet our target by 2020.

Overall, the progress on improvement and monitoring management remains stringent and during the next few years towards 2020, we aim to continue to positively contribute to the Better Retail Climate as part of our drive to save energy and protect the environment.

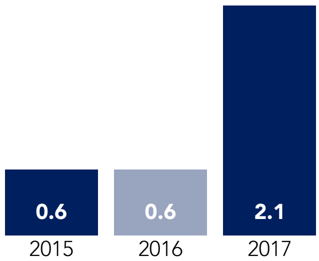
Key performance indicators

In light of our new strategy, Debenhams Redesigned, strategic KPIs linked to the Destination categories where Debenhams is targeting growth have been established. These, along with some of the financial KPIs, are linked to management remuneration and more information can be found in the directors' remuneration report starting on page 64. We have also maintained sustainable KPIs that ensure that the management of resources and relationships remains core to our business model.

All income statement numbers for FY2016 are given on a 52-week basis.

GROUP FINANCIAL KPIs

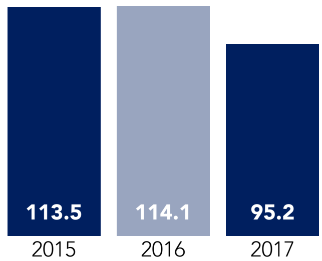
Like-for-like sales change (%)



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

2017 performance
Group LFL sales increased by 2.1%. When adjusted for foreign exchange translation, constant currency LFL growth was (0.2%), with UK LFL of 0.0% and international (0.2%).

Underlying profit before tax* (£m)

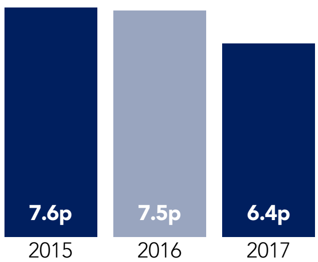


Rationale
PBT is our principal measure of profitability, and excludes items that are one-off in nature.

2017 performance
Underlying PBT* declined by 16.6% to £95.2 million on a 52-week comparative, after a weaker H2 performance mitigated by tight cost management.

* Before exceptional items (2017: £36.2 million; 2016: £12.4 million; 2015: £nil).

Underlying earnings per share* (pence)

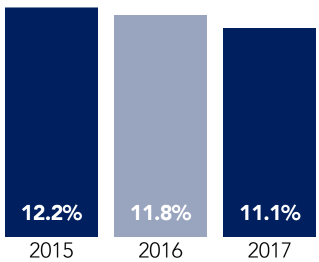


Rationale
Basic earnings per share (EPS) divides earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year.

2017 performance
Underlying EPS* declined by 14.7% to 6.4p, after a reduction in profit after tax.

* Before exceptional items (2017: £36.2 million; 2016: £12.4 million; 2015: £nil).

Return on capital employed* (%)

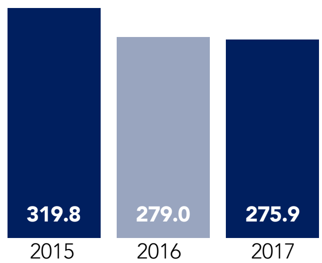


Rationale
Return on capital employed (ROCE) measures the profitability of the company relative to the size of assets used to generate returns.

2017 performance
Underlying ROCE declined from 11.8% to 11.1% reflecting the fall in profitability in the year.

* Lease-adjusted before exceptional items.

Net debt (£m)

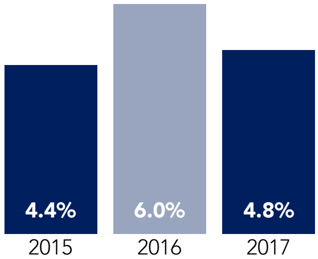


Rationale
Net debt measures Group borrowings net of cash held at the balance sheet date, and reflects the movement in cash generated by the business after cash expenses.

2017 performance
Including cash outflow relating to the exceptional restructuring charges, year end net debt has reduced to £275.9 million.

STRATEGIC KPIs

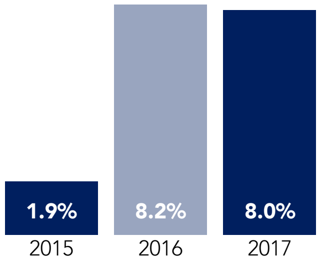
Growth in Beauty & beauty services – gross transaction value growth (%)



Rationale
Core destination category in which Debenhams will build market leadership.

2017 performance
The Beauty category delivered sales growth of 4.8% supported by strong performance in new and exclusive cosmetics brands underpinned by good market growth.

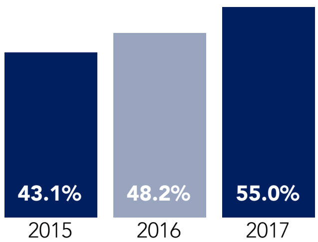
Growth in Food, drink & events – gross transaction value growth (%)



Rationale
"Meet me @ Debenhams" is a core destination category that drives frequency of visits.

2017 performance
Food and drink GTV grew by 8.0% driven by further new third party brand introductions.

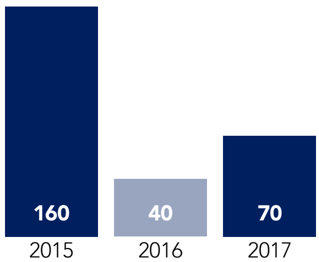
Growth in mobile penetration – Mix of demand (%)



Rationale
Mobile@everywhere will be the primary form of customer interaction unifying channels and building loyalty.

2017 performance
Mobile demand grew by 57%, outpacing desktop demand and accounting for 55% of digital orders.

Accelerating warehouse automation – online cost improvement (bps improvement to GTV)

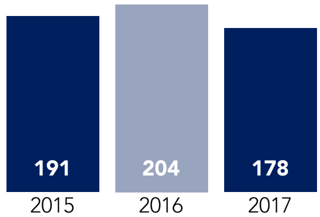


Rationale
Driving efficiency through investment in warehouse automation to improve digital profitability.

2017 performance
Cost ratios improved by 70 bps as a result of efficiencies made.

SUSTAINABILITY KPIs

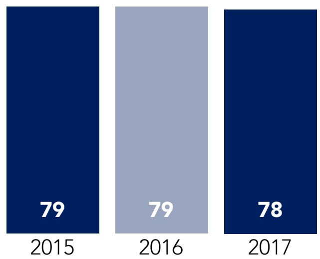
Carbon emissions (CO_2e 000 tonnes)



Rationale
CO_2e is used as a measure of environmental impact. It takes into account harmful emissions from the six greenhouse gases identified by the Kyoto Protocol.

2017 performance
Applying the same emissions criteria as last year, emissions declined by 13%. This reflects a reduction in electricity consumption, reduced company vehicle mileage and outsourced freight.

Employee engagement (%)

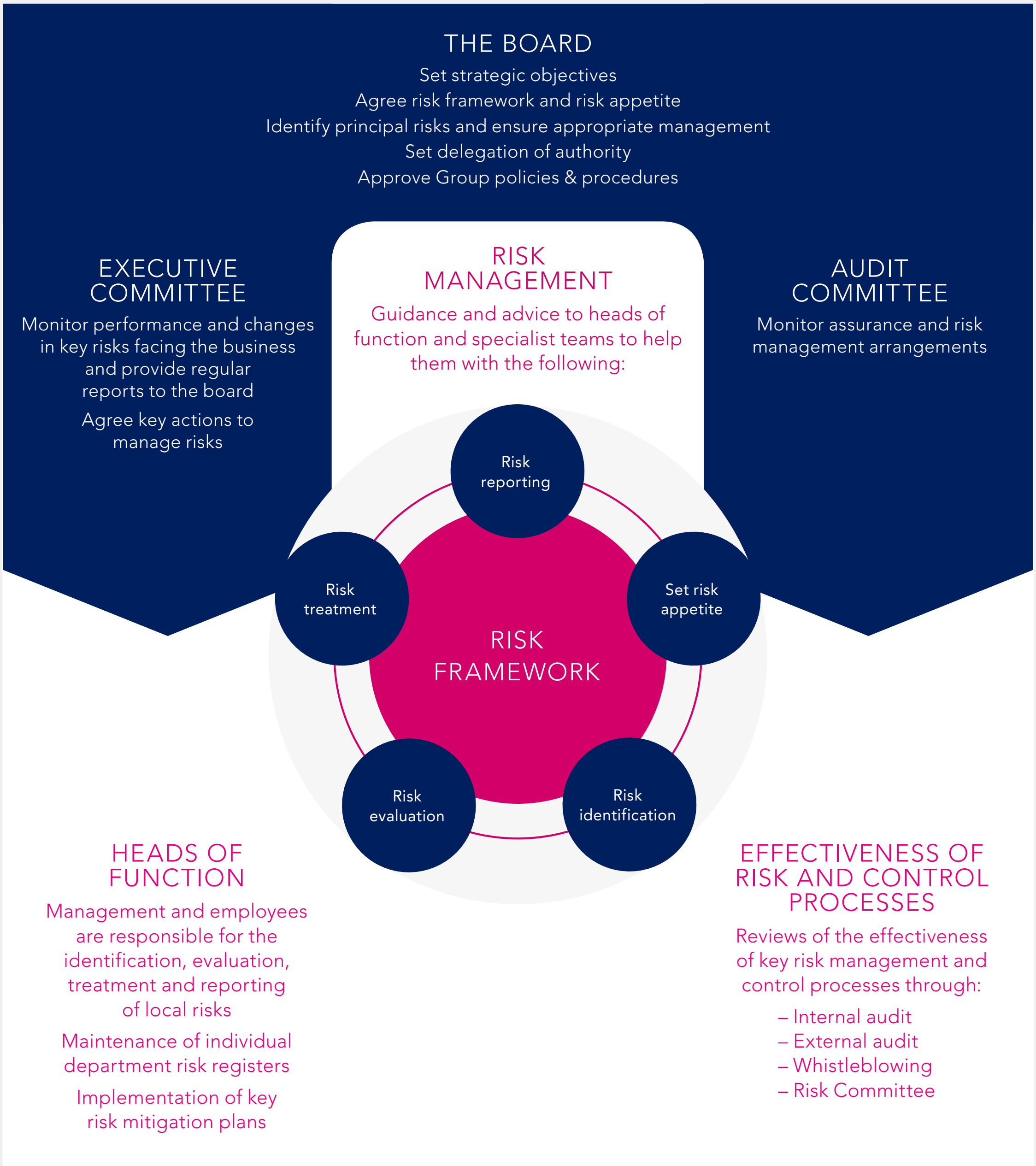


Rationale
We conduct an annual engagement survey, inviting all employees in our UK and Irish stores and support centres to participate.

2017 performance
In a year of rapid change in the organisation, our engagement score was slightly down at 78%, with more than 20,000 colleagues participating.

OPTIMISING OUR RISK MANAGEMENT PROCESSES

Figure 1: Debenhams' risk management framework



The board of Debenhams considers it important that there should be a regular and systematic approach to the management of risks 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 effectiveness of internal controls and is satisfied that those in place remain appropriate.

An overview of the risk management process including clearly defined roles and responsibilities is outlined in the risk management framework (figure 1).

RISK MANAGEMENT ACTIVITIES

Risk appetite
The Group's risk appetite is defined by the board, and provides guidance on any requirement for additional controls, implementation timeframes and authority levels.

Risk identification
Risks are identified through a number of routes, including a regular organisation-wide review facilitated by the risk management team across each operating division on an ongoing cyclical basis. All senior managers participate in the exercise, including the Executive Committee.

Risk evaluation
In order to understand the impact specific risks would have on the Group, risks are evaluated based on the likelihood of occurrence and severity using a standardised scoring model. The model which considers the degree of change across one or more performance indicators.

Risk treatment
The organisation-wide review captures the controls used by management to mitigate identified risks, with the risk score determining if additional treatment is required based on the Group's risk appetite.

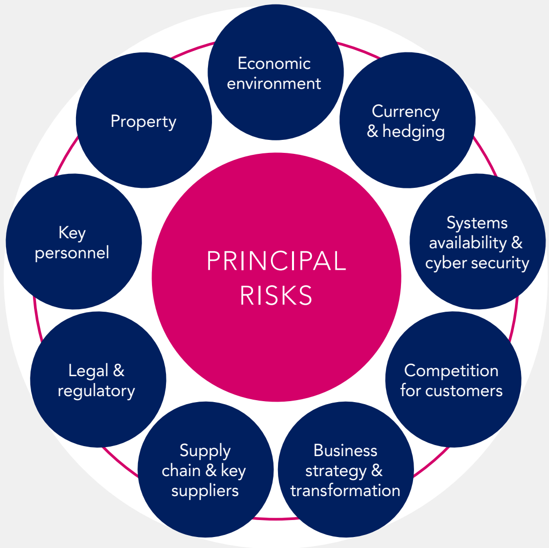
Risk reporting
The outputs from these processes are collated into the Group's risk register and linked together to define the principal risks faced by the Group. Performance is monitored by the board, Executive Committee, Audit Committee, Risk Committee, and other key governance groups. The overall risk profile is taken into consideration when setting the annual internal audit plan.

Viability assessment
The principal risks and uncertainties identified through these risk management activities are taken into consideration as part of the directors' assessment of ongoing viability, described in more detail on page 37.

WHISTLEBLOWING

Two main routes are available to colleagues to raise concerns over malpractice. The first encourages colleagues to talk to their line manager, their manager's manager or the human resources team. The second route is a confidential telephone reporting line via which colleagues can speak to the Group's anti-fraud team.

Figure 2: Principal risks



If a colleague feels that the matter is so serious that it cannot be discussed in any of these ways, they 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 reviewed annually by the Audit Committee and any serious matters identified are raised with the chairman of the Audit Committee.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks detailed on pages 28 to 30 are the principal risks and uncertainties that may impact the Group's ability to achieve its strategic and operational goals. They are reviewed on, at least, an annual basis as part of the risk management process, and have been ranked based on overall risk to the business.

Whilst the impact of the UK's decision to exit the European Union cannot yet be fully quantified, a number of existing risks have already been identified as sensitive to this decision and which continue to be monitored carefully, with appropriate levels of mitigating action being considered as details emerge.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

1 ECONOMIC ENVIRONMENT

Risk
- Continuing adverse economic conditions

Potential impact
- A decline in sales on discretionary purchases leading to a reduction in profit and cashflow alongside a material adverse effect on Debenhams' results

Examples of mitigation
- The board conducts strategic business reviews which ensure that management is focused on key priorities and cost control. These reviews also focus on the Group's strategy to make shopping confidence-boosting, sociable and fun
- The continued volatility of the consumer environment and the ongoing economic uncertainty that has followed the UK vote to leave the European Union make this a risk that is monitored carefully

Strategic focus

2 CURRENCY AND HEDGING

Risk
- Currency fluctuations or insufficient hedging

Potential impact
- Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow
- Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition

Examples of mitigation
- 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
- Debenhams closely monitors all aspects of cash management to optimise balance sheet metrics. Effectiveness is measured regularly by management through a series of KPIs
- The ongoing economic uncertainty that has followed the UK vote to leave the European Union makes this a risk that is monitored carefully

Please refer to note 22 to the financial statements for more information on this risk.

Strategic focus

3 SYSTEMS AVAILABILITY AND CYBER SECURITY

Risk
- Systems failure, external attack of systems, or data inaccuracy.
- Inability to continue smooth operations following a major incident

Potential impact
- Failure in the stability, integrity or availability of information systems could adversely affect Debenhams' business operations and results or could cause inappropriate decisions to be made using wrong, missing or ambiguous information

Examples of mitigation
- A robust systems infrastructure is required to support the delivery of our strategic objectives which are outlined on pages 6 and 7
- Information systems developments are key enablers and critical to ensuring we can compete effectively, and these are monitored through a business change roadmap
- The overall governance framework has been further enhanced, and includes committees that focus on areas such as general data protection regulation and payment card industry compliance
- A business continuity policy and processes, describing roles and responsibilities across the Group, ensure 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
- This is an increasing risk given the rising levels of cybercrime globally and the increasing reliance on information assets

Strategic focus

Key

Destination Digital Different Simplify & Focus

4

COMPETITION FOR CUSTOMERS

Risk

- Inability to predict accurately or fulfil customer preferences or demand through competitive, economic and profitable channels

Potential impact

- 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
- Channel shifts away from stores to online could lead to higher operational costs within the online channel and lower profitability

Examples of mitigation

- Making shopping confidence-boosting, sociable and fun is at the heart of Debenhams' strategy, which is outlined on pages 6 to 19
- In developing its strategy, the Group takes into consideration market, trend and customer research, with the customer insight team providing valuable intelligence on any changes in customer priorities
- 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
- The UK exiting the European Union (EU) may generate foreign exchange rate volatility, or changes to trade agreements and duty rates, which could impede the organisations ability to compete effectively, meaning this is a risk that is carefully monitored

Strategic focus

5

BUSINESS STRATEGY AND TRANSFORMATION

Risk

- Failure to deliver Debenhams' key strategic priorities

Potential impact

- 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

Examples of mitigation

- Debenhams is reviewing and updating its business change roadmap to ensure the project portfolio supports the delivery of the key strategic priorities
- Management supplies detailed updates on progress within the transformation programme, which are closely reviewed by the board to ensure that management is focused on key priorities, cost control and benefit realisation
- The UK exiting the European Union may lead to loss of access to the free movement of goods, services, people and capital, making this a risk that is closely monitored
- 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 make this a risk that is monitored carefully

Strategic focus

6

SUPPLY CHAIN AND KEY SUPPLIERS

Risk

- Adverse events influencing either the sustainability of the supply chain or Debenhams' relationship with any of its major suppliers, service providers, international partners, designers or concessionaires

Potential impact

- Place pressure on margins and profitability or require the Group to divert financial and management resources from more beneficial uses
- Additional unplanned costs required to transfer operations between providers or additional operational costs from a new provider
- Changes in exclusivity arrangements with designers or any decline in their popularity
- The loss of a number of key concession partners

Examples of mitigation

- 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 21 and 22
- 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
- This is an increasing risk given the uncertainty around future trade agreements and duty rates following the UK decision to exit the European Union and is an area of high management focus.

Strategic focus

7

LEGAL AND REGULATORY

Risk
- Events that negatively impact the reputation of, or value associated with, Debenhams' brand

Potential impact
- Loss of stakeholder trust and confidence, including an adverse effect on Debenhams' ability to attract and retain third-party brands, suppliers, designers, concessions and franchisees
- Material adverse effect on Debenhams' business, financial condition or profitability

Examples of mitigation
- Forums exist to focus on specific areas of legislation, with business policies and procedures in place to ensure roles and responsibilities are understood across the Group
- Debenhams has specialist teams in place to monitor changes to legislation and standards, further supported by membership of key industry bodies to enhance awareness
- 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
- This is an increasing risk given the uncertainty around the likely changes to UK legislation following the UK decision to exit the European Union so it is being monitored carefully

Strategic focus

8

PROPERTY*

Risk
- An adverse impact on performance from property-related events, such as store closures and business rate or rental increases

Potential impact
- Significant alterations in rental terms could have a material adverse effect on the business
- Disputes over store modernisations may lead to reinstatement costs and termination of leases may lead to dilapidation costs being incurred that are in addition to those provided for

Examples of mitigation
- Debenhams has a specialist property team which manages all aspects of leasehold property, including cost renegotiations, communication of the store modernisation programme, lease renewals and adherence to all legal obligations under the lease
- This is an increasing risk given the potential ten store closures identified over the next five years and the risk of impairment

Strategic focus

9

KEY PERSONNEL

Risk
- Loss of key management or other personnel whom Debenhams depends upon

Potential impact
- Significantly delay or prevent the achievement of Debenhams' business plan
- Material adverse effect on Debenhams' business, financial condition or results of operations

Examples of mitigation
- 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
- 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, making this a risk that is monitored carefully

Strategic focus

* Risk is not new but now classed as a principal risk following annual review.

RESULTS UNDERPINNED BY TIGHT COST MANAGEMENT

SEGMENTAL PERFORMANCE

The financial statements for the period ended 3 September 2016 included 53 weeks. In the notes that follow, all comparative income statement numbers for the 2016 financial year use the results for the 52 weeks of trading to 27 August 2016. Management believes that comparing like-for-like 52 week periods demonstrates the underlying performance of the business. Comparative cash flow numbers reflect the full 53 weeks to 3 September 2016 and the comparative balance sheet is also at that date.

UK

Gross transaction value for the UK segment was broadly level with last year at £2,350.0 million and reported revenue decreased by 0.7% to £1,892.9 million. Sales benefited from growth in digital performance and strong trading prior to Christmas, supported by the strategy to drive non-clothing sales such as beauty, gifting and casual dining categories. Performance after the Christmas period slowed as the mix of sales moved away from beauty and gifting, towards a more volatile UK clothing market.

We continue to see digital growth and positive trends in mobile, which now represents 55% of UK digital orders, an increase in penetration of c.10% on the year.

As we have continued to add choice in concessions and moved further into non-clothing categories, own bought mix declined from 76.6% last year to 75.3%, with a consequent dilution to gross margin rate, offset by benefits from reduced markdown.

EBITDA before exceptional charges decreased by 10.1% to £174.0 million reflecting the impact of lower store sales and sales mix towards lower margin divisions. Operating profit before exceptional costs decreased by 22.0% to £74.0 million, as depreciation expense rose as expected.

International

In the International segment, gross transaction value of £604.1 million was 11.1% higher than last year and reported revenue increased by 9.5% to £442.1 million. Both metrics have been impacted by stronger Euro and Danish Kroner exchange rates, benefiting Group like-for-like sales by 2.3%. On a constant currency basis, International gross transaction value declined by 0.8%, as a result of difficult trading conditions within Denmark and Republic of Ireland.

Table 1: Financial summary

£m	52 weeks to 2 September 2017	52 weeks to 27 August 2016	53 weeks to 3 September 2016	% change (52 v. 52)
Gross transaction value[1,2]				
UK	2,350.0	2,352.1	2,386.2	(0.1%)
International	604.1	543.8	552.3	11.1%
Group	2,954.1	2,895.9	2,938.5	2.0%
Statutory revenue[1,2]				
UK	1,892.9	1,906.6	1,931.9	(0.7%)
International	442.1	403.8	409.8	9.5%
Group	2,335.0	2,310.4	2,341.7	1.1%
Group like-for-like sales movement[3]				2.1%
Group gross margin movement[4]				(30 bps)
EBITDA[1,5,6]				
UK	174.0	193.6	198.6	(10.1%)
International	43.0	39.8	41.1	8.0%
Group	217.0	233.4	239.7	(7.0%)
Operating profit[1,6]				
UK	74.0	94.9	98.0	(22.0%)
International	33.5	31.7	33.0	5.7%
Group	107.5	126.6	131.0	(15.1%)
Underlying profit before tax[6]	95.2	114.1	118.2	(16.6%)
Exceptional items	(36.2)	(12.4)	(12.4)	
Reported profit before tax	59.0	101.7	105.8	(42.0%)
Underlying earnings per share[6]	6.4p	7.5p	7.8p	(14.7%)
Basic earnings per share	4.0p	6.7p	7.0p	(40.3%)
Dividend per share	3.425p	3.425p	3.425p	0.0%

	2 September 2017	3 September 2016
Net debt	275.9	279.0
Net debt : EBITDA (last 12 months)[6]	1.3x	1.2x

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 costs associated with the Strategic Review and the restructure of Warehouses and Logistics (FY2016: comprising restructure costs in the Republic of Ireland relating to the examinership process, restructure costs associated with streamlining support centre and a charge relating to the cost of writing off intangible systems assets following the launch of the new International website.)

Franchise despatches have stabilised in the year as we have focused on optimising the number of strategic partners and closed out some of those in the low profit, low growth category. During the year we closed nine franchise stores. Four franchise stores were opened together with 27 brand franchise stores - partners selling Debenhams brands in their own branded stores (23 in Australia and four in Vietnam).

International EBITDA increased by 8.0% to £43.0 million as a result of savings achieved through the Irish examinership process finalised in the Republic of Ireland last year and translation benefits on profit generated in Magasin du Nord. Operating profit increased by 5.7% to £33.5 million.

GROUP SALES AND PROFITS

Sales and revenue

Group gross transaction value increased by 2.0% to £2,954.1 million for the 52 weeks to 2 September 2017 and Group revenue increased by 1.1% to £2,335.0 million. Group like-for-like sales increased by 2.1% on a reported basis and decreased 0.2% on a constant currency basis.

The constant currency like-for-like sales performance reflects the mix from stores to digital, with digital sales growth of 12.7%, representing 16.0% of Group gross transaction value (FY2016: 14.7%).

The components of the gross transaction value increase of 2.0% and like-for-like sales growth of 2.1% are shown in Table 2:

Table 2: Contribution to sales growth

UK stores	(1.5%)
UK digital	+1.4%
International	(0.1%)
Like-for-like-sales – constant currency	(0.2%)
Exchange rate impact	+2.3%
Like-for-like sales – reported	+2.1%
Other	(0.1%)
GTV movement – 52 weeks	+2.0%

Operating profit[1]

As planned, growth in the beauty, gifting and concession categories, which are dilutive to gross margin relative to higher margin own bought clothing categories, has continued to impact sales mix. However, further progress has been made to tighten stock and improve full price sales, resulting in a 20 bps improvement to markdown. The combination of the sales mix and markdown is an overall 30bps reduction to the Group gross margin.

Operating costs before depreciation increased in line with expectations, increasing 3.3% compared to the same period last year driven by the translation impact of foreign exchange rates, and the growth of digital. Operating cost growth in constant currency was 1.5%. As previously guided, the increase in the National Living Wage rate continues to have an impact, driving c.£10 million additional costs in the year, but this has been largely mitigated through cost efficiencies.

Depreciation and amortisation increased by 2.5% to £109.5 million, reflecting an increase in capital expenditure over the last few years.

As a result of the above, Group operating profit for the 52 weeks to 2 September 2017, was £107.5 million, (15.1%) below last year.

Net finance costs

Net finance costs decreased by 1.6% to £12.3 million reflecting the benefit of lower average debt levels of £257 million compared with £273 million last year.

1 All items stated before exceptional charges.

Exceptional items
During the financial year, the Group conducted a strategic review and embarked on a new strategic business plan together with a planned restructuring of operations encompassing the following areas:

Strategic review and restructuring
As a result of the strategic review, the Group identified that a number of stores may become unprofitable in the future and so has recognised exceptional store costs of £10.4 million during the financial year. This relates to the impairment of property, plant and equipment and onerous lease commitments.

A £5.1 million charge relates to writing off legacy IT system assets following the launch of the new strategy.

Other exceptional charges of £8.0 million were also incurred in respect of the strategic review including redundancies (including some senior management within the trading division and support centre), professional fees, recruitment costs of key people to help drive the strategy and costs arising from strategic exits from certain international markets.

Read more on pages 104-105

Strategic warehouse restructuring
During the financial year, the Group carried out a strategic review of its warehouse operations which has led to a restructuring of these facilities. As a result, the Group announced the closure of its distribution centre in Northampton and a number of regional warehousing facilities and recognised exceptional closure costs of £8.8 million relating to accelerated depreciation of assets, dilapidations, onerous lease commitments and redundancy costs.

Exceptional charges of £3.9 million were incurred during the financial year relating to one-off transition costs including staff time, training and inventory moves totalling £3.5 million and asset write offs of property, plant and equipment of £0.4 million. Part of this restructuring is warehouse automation which is an ongoing project over the next two years.

Of the £36.2 million charge, £19.2 million is cash related, of which £8.5m was incurred in the year.

Profit before tax
Underlying profit before tax before exceptional items decreased by 16.6% to £95.2 million (2016: £114.1 million). Reported profit before tax after exceptional items decreased by 42.0% to £59.0 million.

Taxation
Taxation excluding the impact of exceptional items decreased from £21.6 million last year to £17.2 million, principally due to a decrease in reported profits and a decrease in the effective tax rate. The effective tax rate decreased to 18.1% from 18.9% last year, due to a reduction in the headline corporation tax rates.

Profit after tax
Profit after tax but before exceptional items decreased by 15.7% to £78.0 million. Profit after tax after accounting for exceptional items decreased by 40.8%.

Earnings per share
Underlying basic and diluted earnings per share, before exceptional items, decreased by 14.7% to 6.4 pence. The basic weighted average number of shares in issue increased from 1,227.4 million last year to 1,227.8 million and the diluted weighted average number of shares increased from 1,227.9 million to 1,229.0 million.

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 Debenhams Redesigned strategy. Second, we pay our shareholders a 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 reduced from £113.7 million to £75.6 million as a result of lower EBITDA and exceptional payments relating to FY2017 (£8.5 million) and FY2016 (£7.4 million).

Cash flow generation, the uses of cash and the movement in net debt are summarised in Table 3 opposite.

Capital expenditure
Capital expenditure was £124.8 million during the year compared to £126.5 million last year. The small decrease reflects the capital investment in new stores and modernisations last year, not repeated this year, offset by an increased focus on warehouse automation this year. Investment in new IT systems continues to be a key focus with 44% (£55 million) of total capital spend being spent in the year.

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

£m	52 weeks to 2 September 2017	53 weeks to 3 September 2016
EBITDA	217.0	239.7
Working capital	(0.7)	2.5
Exceptional items	(15.9)	(2.0)
Cash generated from operations	200.4	240.2
Capital expenditure	(124.8)	(126.5)
Operating cash flow before financing and taxation	75.6	113.7
Taxation	(16.3)	(11.0)
Financing	(11.1)	(15.3)
Dividends paid	(42.0)	(42.0)
Other movements	(3.1)	(4.6)
Change in net debt	3.1	40.8
Opening net debt	279.0	319.8
Closing net debt	275.9	279.0

Figure 1: Capital expenditure

New UK stores	**8%**
UK maintenance	**17%**
International	**11%**
Group systems	**44%**
Logistics	**12%**
Other	**8%**

Table 4: Key balance sheet items

£m	2 September 2017	3 September 2016
Intangible assets	991.9	962.1
Property, plant and equipment	654.9	670.2
Inventory	317.8	326.3
Other assets	108.7	149.6
Trade and other payables	(523.3)	(516.3)
Other liabilities	(398.7)	(394.5)
Net retirement benefit surplus/(obligations)	80.9	(4.1)
Net deferred tax liabilities	(38.7)	(30.4)
Net debt	(275.9)	(279.0)
Reported net assets	917.6	883.9

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 2.6% to £317.8 million. Terminal stock of 2.8% was in line with our historical range of 2.5% to 3.5%.

Dividends
An interim dividend of 1.025 pence per share was paid to shareholders on 5 July 2017 (2016: 1.025 pence) in respect of the 26 weeks ended 4 March 2017 which equated to £12.6 million of shareholders' funds (2016: £12.5 million).

The board is fully behind the Debenhams Redesigned strategy and the long-term benefits it brings. The board is recommending a final dividend in line with last year of 2.4 pence per share which will be paid on 19 January 2018 to shareholders who are on the register on 8 December 2017. The total dividend for the year is 3.425 pence (2016: 3.425 pence), in line with our dividend policy of maintaining a dividend cover of around 2.0x.

Net debt
The Group's net debt position as at 2 September 2017 of £275.9 million improved by £3.1 million from the same point last year (2016: £279.0 million).

The ratio of net debt to EBITDA of 1.3 times compares with 1.2 times at the end of the previous year, on a 53 week basis. The small increase in the ratio is a result of the movement in profits this year.

The Group's Revolving Credit Facility of £320 million is in place until June 2020, with an option to extend until June 2021. In addition, the Group has a £200 million 5.25% Senior Bond in place until July 2021.

Pensions
The Group provides a number of pension arrangements for its employees. These include the Debenhams Retirement Scheme ("DRS") and the Debenhams Executive Pension Plan ("DEPP") (together "the pension schemes") which both closed for future service accrual from 31 October 2006. On an accounting basis, the net surplus on the Group's pension schemes as at 2 September 2017 was £80.9 million (3 September 2016: net deficit of £4.1 million). The surplus was driven by a growth in asset value.

On 6 October 2017, the actuarial valuation of the Group's pension schemes at 31 March 2017 was completed, concluding that DEPP was fully funded on a technical provisions basis and on a technical provisions basis DRS had improved since the previous actuarial valuation but remained in deficit. Therefore the Group agreed a recovery plan for DRS which is intended to restore the scheme to a fully funded position on an ongoing basis. Under that agreement, the Group agreed to contribute £5.0 million per annum to the pension schemes for the period from 1 September 2017 to 31 March 2022.

The agreement replaced an agreement made in 2015 under which 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 the retail price index ("RPI") over the year to the previous December. Additionally during October 2017, 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.

Read more on pages 124-127

OUTLOOK AND GUIDANCE

The Group is providing the following guidance for FY2018, together with updated guidance on the outlook for the exceptional charges relating to the delivery of the strategy.

Group gross margin	(25bps)
Total costs	+1% to 2%
Depreciation & amortisation	c.£115 million
Net finance costs	£11–£13 million
Taxation	c.20%
Capital expenditure	c.£150 million
Net debt	c.£280–£300 million
Exceptional costs	c.£20 million

Impact of currency depreciation on sourcing costs

Gross margin guidance reflects the expected impact of sterling depreciation in relation to the sourcing of own bought goods denominated in US dollars. As previously indicated, our hedging protection smoothed the impact of sterling depreciation in FY2017 and we are currently hedged for FY2018 at an average rate of c.$1.30 : £1, approximately 15% below FY2017. The Group continues to invest in supply chain improvements which are helping to mitigate some of the additional currency-related costs. In relation to those costs we are unable to offset, we intend to maintain our competitive position, reacting to market conditions as appropriate.

Expected impact of exceptional costs in FY2018 and FY2019

The Group gave guidance in April 2017 that exceptional costs over the period of implementing the Debenhams Redesigned strategy would amount to approximately £50 million spread over three years, of which approximately half would be cash costs. In FY2017, the Group has incurred exceptional charges relating to the programme of £36.2 million, of which the cash impact charged in the year was £8.5 million.

Debenhams expects to incur the bulk of the remaining exceptional charge in FY2018, with an additional cash outflow of approximately £15 million in the current financial year. The balance of exceptional costs will be charged in FY2019.

How we will measure progress

The Group has clear growth ambitions in our Destination categories. Targets in the categories of beauty, food, destination and growth in mobile revenues will be measured as part of senior management remuneration. Additionally, the Group will report on progress in some important operational measures that will support the successful delivery of the Debenhams Redesigned strategy, including full price sales growth and customer net promoter score. Finally, the Group will target improved returns on investment and progress in total shareholder return in line with our intention to deliver value to our shareholders.

Uncertain trading environment

We are making good progress with implementing our new strategy, Debenhams Redesigned, and are pleased with the results from our initial trials against a background of rapid change in the business. There is a lot to do but the early signs from our activity to date confirm that we are moving in the right direction.

The environment remains uncertain and we face tough comparatives over peak. Nevertheless, we are well prepared for the important Christmas trading period and our diversified business model means that Debenhams is in good shape to withstand a more volatile market background. We believe our strategy will set Debenhams on course for a successful and profitable future.

Matt Smith
Chief Financial Officer
26 October 2017

Viability statement

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 28 to 30, 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 29 August 2020. This period has been selected because it reflects the pace of change in retail; uncertainty surrounding the UK's decision to exit the European Union; aligns with the Group's plans under its Debenhams Redesigned strategy and its 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 79.

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 115, 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 31 to 36. In addition, the financial statements include notes on finance costs (page 106) and financial risk management including treasury policies on interest rate, liquidity, currency and credit risk pages 117 to 121.

STRATEGIC REPORT

The strategic report was approved by a duly authorised committee of the board of directors on 26 October 2017 and signed on its behalf by:

Matt Smith
Chief Financial Officer
26 October 2017

Chairman's introduction to governance

PROTECTING SUSTAINABLE VALUE CREATION

DEAR SHAREHOLDER

On behalf of the board, I am pleased to present our corporate governance report for the financial year ended 2 September 2017.

Since Sergio's appointment as CEO in October 2016, our focus has been on devising and implementing the Debenhams Redesigned strategy which was outlined to the market in April 2017. We have also been hard at work fixing the basics and strengthening our management team.

We were delighted to welcome Lisa Myers as a non-executive director in September 2016. Lisa brings extensive knowledge of international retail to the board through her distinguished career in fund management and her appointment is supporting the execution of our strategy.

Nicky Kinnaird was appointed as a non-executive director in November 2016 and, due to her experience and understanding in brand development and the global beauty industry, is invaluable to Debenhams as it strives to be the preferred destination for beauty products and services.

Suzanne Harlow stepped down from the board on 20 October 2017. I would like to take this opportunity to thank Suzanne for her significant contribution over the 23 years she has worked for Debenhams.

In October 2017, we announced that David Adams was joining the board as a non-executive director. His knowledge of the consumer and leisure sectors as well as his financial credentials will be a great addition to the board. In January 2018, David will chair our audit committee when Mark Rolfe, our current Chairman, will step down from the board. Mark has been an outstanding chairman of our audit committee and a valued member of the board.

The board is committed to promoting high standards of corporate governance and fully understands that an efficient, challenging and diverse board, in all aspects, is essential to enable Debenhams to successfully deliver its strategy. During the financial year we reviewed our approach to governance, which had been built upon the UK Corporate Governance Code. We now have an enhanced governance framework which determines how the board manages and controls the business and more information about this, together with our compliance statements can be found on pages 39 and 46.

Succession planning and corporate culture have also been a focus for the board during FY2017 (see pages 8 and 20) to ensure we have the right people, throughout our business, to support the future of Debenhams.

Finally, I look forward to meeting shareholders at our next Annual General Meeting which will be held on 11 January 2018 at 2.00pm at our registered office, 10 Brock Street, Regent's Place, London NW1 3FG.

Sir Ian Cheshire
Chairman

Leadership

BOARD STATEMENTS

The Directors consider that this 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.

Further confirmations to support the disclosures provided within this annual report and accounts are provided below.

Requirement	Compliance statement	Where to find further information
Strategic Report	The strategic report was approved by the board of directors on 26 October 2017.	Pages 2 to 37
Compliance with the UK Corporate Governance Code	In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the period ended 2 September 2017 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, copies of which can be obtained from the Financial Reporting Council website (www.frc.org.uk).	Pages 42 to 47
Going concern	Having assessed the principal risks and the other matters discussed in connection with the viability statement, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.	Page 79
Viability statement	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.	Pages 37 and 79
Robust assessment of the principal risks facing the Group	The directors confirm they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its strategy, business model and future performance. The directors also assessed the Group's risk appetite with regard to each risk and considered how to manage and mitigate such risks.	Pages 28 to 30
Annual review of the systems of risk management and internal control	During FY2017, the Audit Committee provided transparency on the Group's systems of risk management and internal control which were confirmed as effective.	Pages 26 to 27
Remuneration report	The directors confirm that the remuneration report for the year ended 2 September 2017 complies with the requirements of the Listing Rules of the 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 April 2016 UK Corporate Governance Code.	Pages 54 to 76
Competition and Markets Authority	The Audit Committee considers that the Company complied with the mandatory audit processes and audit committee responsibility provisions of the Competition and Markets Authority Audit Order for the period ending 2 September 2017.	Page 52
Modern Slavery Act 2015	The directors confirm, for the financial year ended 2 September 2017, that the steps that have been taken in relation to our responsibilities under section 54, part 6 of the Modern Slavery Act 2015 and our activities taken prior to this legislation have ensured and will continue to ensure that slavery and human trafficking is not taking place in Debenhams supply chains or in any part of our business operations.	Page 22 and see website www.sustainability.debenhamsplc.com

Leadership: Board of Directors

A GOOD BLEND OF SKILLS AND EXPERIENCE

1. SIR IAN CHESHIRE

Chairman

Date appointed to the board: Sir Ian joined the board in January 2016, becoming Chairman in April 2016

Tenure on board: 1 year 7 months

Independent: Yes

Committee membership: 1 2

Relevant skills and experience: Sir Ian has vast experience of a range of businesses in both an 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, a non-executive board member of the Cabinet Office, Senior Independent Director of Whitbread plc and Chair of the advisory board of the Cambridge Institute for Sustainability Leadership.

Principal current external appointments: Chairman of Menhaden Capital plc, President of Maisons du Monde and Chairman of Barclays' ring fenced bank, Barclays UK. He is also Government Lead non-executive, President of the Business Disability Forum and a Trustee of the Prince of Wales Charitable Trust.

Board committees key:

1 Nomination Committee
2 Remuneration Committee
3 Audit Committee
○ Chair of Committee

2. SERGIO BUCHER

Chief Executive Officer

Date appointed to the board: October 2016

Tenure on board: 10 months

Relevant skills and experience: Sergio brings extensive experience of international and multi-channel retailing to his role as Chief Executive Officer. Sergio worked for Amazon.com, Inc. where he served as Vice President, Amazon Fashion Europe since 2013. Previously he was General Manager, Retail 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.

Principal current external appointments: None

3. MATT SMITH ACA

Chief Financial Officer

Date appointed to the board: January 2015

Tenure on board: 2 years 8 months

Relevant skills and experience: 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 worked for KPMG in London and Sydney.

Principal current external appointment: Director of blow LTD. and a non-executive director of Northampton Saints Plc and Northampton Rugby Football Club Ltd.

4. TERRY DUDDY

Senior Independent Director

Date appointed to the board: Terry joined the board in April 2015, becoming Senior Independent Director in January 2016

Tenure on board: 2 years 5 months

Independent: Yes

Committee membership: 1 2 3

Relevant skills and experience: Terry was Chief Executive of Home Retail Group from October 2006 until March 2014, having previously served as CEO of Argos since its acquisition by GUS in 1998. He had previously held senior executive roles at Dixons Stores Group, latterly as MD at PC World. In addition to the management of a large public company, Terry brings specific insight into customer behaviour and retail markets.

Principal current external appointments: Non-executive director of Hammerson plc and Majid Al Futtaim Properties LLC and Chair of the Retail Trust.

5. MARTINA KING

Independent non-executive director

Date appointed to the board: August 2009

Tenure on board: 8 years 1 month

Independent: Yes

Committee memberships: 1 2 3

Relevant skills and experience: 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.

Principal current external appointments: Chief Executive Officer of Featurespace Limited.

6. STEPHEN INGHAM

Independent non-executive director

Date appointed to the board: January 2013

Tenure on board: 4 years 7 months

Independent: Yes

Committee membership: 2

Relevant skills and experience: Stephen has been Chief Executive Officer of PageGroup plc since 2006 having worked for that business since 1987 transforming it into an international business. Having served as a CEO of a public company for many years, Stephen has strong entrepreneurial and strategic skills.

Principal current external appointments: Chief Executive Officer of PageGroup plc. Stephen is also a member of Great Ormond Street Hospital's corporate partnership.

7. PETER FITZGERALD

Independent non-executive director

Date appointed to the board: October 2012

Tenure on board: 4 years 10 months

Independent: Yes

Committee membership: 3

Relevant skills and experience: 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.

Principal current external appointments: None

8. NICKY KINNAIRD

Independent non-executive director

Date appointed to the board: November 2016

Tenure on board: 9 months

Independent: Yes

Committee membership: None

Relevant skills and experience: Nicky brings a wealth of experience and understanding in brand development and the global beauty industry. Nicky founded speciality retailer Space NK and, following the sale of the business, consults for an international roster of clients in the beauty, wellness and lifestyle sectors.

Principal current external appointments: Director of Nicky Kinnaird Consulting Limited and Colorscience Inc. Nicky is also co-founder of Ancora Holdings LLC.

9. LISA MYERS

Independent non-executive director

Date appointed to the board: September 2016

Tenure on board: 1 year

Independent: Yes

Committee membership: 3

Relevant skills and experience: Lisa was lead portfolio manager of some of Templeton's flagship global funds and Executive Vice-president at Franklin Templeton, managing or co-managing more than $10 billion of assets. As the coordinator of Templeton's global consumer research, Lisa had direct research responsibility for the retail, textile and apparel and luxury good sectors. Most recently Lisa was Co-Head of Global Partnership Investing at BTG Pactual, Lisa brings an investor's perspective to the board together with a strong focus on revenue and profitability drivers, brand equity and return on invested capital.

Principal current external appointments: Partner at L Catterton, formerly known as Catterton Partners Corporation.

10. MARK ROLFE FCA

Independent non-executive director

Date appointed to the board: October 2010

Tenure on board: 6 years 10 months

Independent: Yes

Committee memberships: 1 2 3

Relevant skills and experience: Mark is a chartered accountant and has considerable financial and accounting experience having spent 20 years 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 Barratt Developments Plc, Hornby plc and The Sage Group plc and as Chairman of Lane Clark & Peacock LLP.

Principal current external appointments: None

PAUL EARDLEY

Company Secretary and General Counsel

Date appointed: 15 October 2007

Corporate governance report

OUR REVISED CORPORATE GOVERNANCE FRAMEWORK SUPPORTS OUR STRATEGY

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the period ended 2 September 2017 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.

Biographical details of the board of directors are on pages 40 and 41. As at 26 October 2017 the board has eleven members: the Chairman, eight independent non-executive directors and two 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.

Sir Ian Cheshire has been Debenhams' Chairman since April 2016.

The Chief Executive Officer

The CEO 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 its 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 CEO also leads an annual strategy event to focus on the Group's overall performance and the development of the business strategy.

Sergio Bucher has been Debenhams' CEO since October 2016.

The Chief Financial Officer

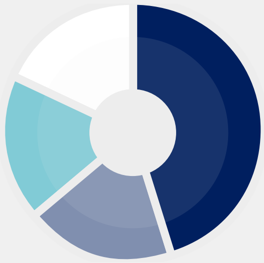
The CFO is responsible for the financial reporting and management of the Group and strategy. In addition to the finance, audit, tax and treasury teams, the CFO is also responsible for property, space planning, legal and secretariat and investor relations.

Matt Smith has been Debenhams' CFO since January 2015.

Chairman	Chief Executive Officer	Chief Financial Officer	Senior Independent Director	Independent non-executive directors
Sir Ian Cheshire	**Sergio Bucher** (appointed to the board: 17 October 2016)	**Matt Smith**	**Terry Duddy**	**David Adams** (appointed to the board: 19 October 2017) **Peter Fitzgerald** **Stephen Ingham** **Martina King** **Nicky Kinnaird** (appointed to the board: 15 November 2016) **Lisa Myers** (appointed to the board: 6 September 2016) **Mark Rolfe** (steps down from the board on 11 January 2018)

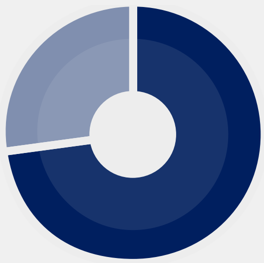
BOARD TENURE AT 26 OCTOBER 2017

0-2 years	5
2-4 years	2
4-6 years	2
6+ years	2



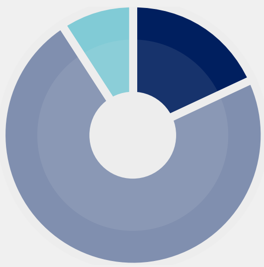
BOARD BALANCE AT 26 OCTOBER 2017

Male	8
Female	3



BOARD COMPOSITION AT 26 OCTOBER 2017

Executive Directors	2
Non-Executive Directors	8
Chairman	1



The Senior Independent Director ("SID")

Any concerns that shareholders may have which are not appropriate for discussion through the normal channels of Chairman, CEO or CFO 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 SID leads the annual appraisal of the Chairman's performance.

Terry Duddy has been the SID since January 2016.

Non-executive directors

As detailed in their biographies on pages 40 and 41 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 2 September 2017, all the non-executive directors were considered by the board to be independent and free from any relationship or circumstances that could affect their independent judgement. David Adams, who was appointed to the board on 19 October 2017 is also considered to be independent.

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

Executive Committee

In order to support the delivery of the strategy, the business has created three new business units around our three Destinations: Fashion and Home; Beauty and Beauty Services, and Food and Events. Ross Clemmow leads the Food and Events unit and Richard Cristofoli the Beauty and Beauty Services unit. A new Executive Committee member responsible for Fashion and Home is to be appointed in due course. The CEO is responsible for that division in the interim period. The roles of the members of the Executive Committee are reflected in the diagram below.

Executive committee

Sergio Bucher
CEO

Matt Smith
CFO

Financial reporting and management, strategy, tax, treasury, internal audit, property, space planning, legal and secretariat, investor relations and procurement.

Ross Clemmow
Managing Director Retail, Digital, Food & Events

Food & Events and UK & ROI stores

Richard Cristofoli
Managing Director Beauty & Marketing

Beauty & Beauty Services, product marketing, advertising, PR, visual and creative and customer strategy and insight.

David Smith
Managing Director, International

Franchises, Magasin du Nord and responsibility for the international business strategy in all channels and markets

Angela Morrison
Technology & Supply Chain Director

Systems, imports and exports, distribution, logistics and sourcing

Sally Hyndman
HR Director

HR, culture, pay and reward, learning and development, recruitment, pensions, internal communications and engagement.

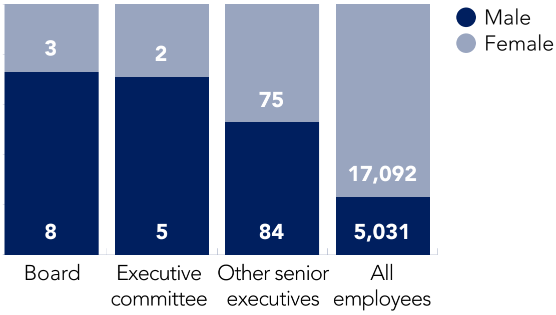
The Company Secretary
The Company Secretary plays a leading role in the good governance of the Company by supporting the Chairman and helping the board and its committees to function efficiently. Together with the Chairman, the Company Secretary keeps under review the governance processes adopted by 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 the Company Secretary since October 2007.

Board diversity
The Company's diversity policy was adopted by the board in FY2014. It is reviewed annually and has since been updated to reflect subsequent best practice recommendations including those within the Hampton-Alexander Review and the Parker Report.

It is the responsibility of the Nomination Committee to implement and monitor the objectives set out in the boards diversity policy and to review the policy annually (last reviewed September 2017). The main objectives of the policy are to ensure that the board is well balanced, comprises directors who are sufficiently experienced and independent in character and who will provide the necessary skillsets to drive the business forward and to bring challenge to the board room.

Debenhams is aware of the added value a diverse board brings to the operation of the Debenhams business and is therefore seeking to achieve a diverse workforce that embraces different skillsets, cultural approaches and different mindsets throughout all areas of the Group. The bar chart above right illustrates this year's gender split at board level, within the Executive Committee, senior management and for the workforce as a whole.

Gender diversity[1]


1 As at the date of this report.

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 attendance, committee composition, length of service, the extent of the directors' 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 of 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 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. 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 induction includes the provision of relevant current and historical information about the Company together with applicable business policies. 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. During FY2017, the directors received updates on their obligations, as well those of the persons closely associated to them, under the EU Market Abuse Regulation.

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

Director	Date of appointment	Length of service as a non-executive director at 2 September 2017
Sir Ian Cheshire – Chairman	14 January 2016	1 year 7 months
Terry Duddy	10 April 2015	2 year 5 months
David Adams	19 October 2017	n/a
Peter Fitzgerald	4 October 2012	4 years 10 months
Stephen Ingham	8 January 2013	4 years 7 months
Martina King	1 August 2009	8 years 1 month
Nicky Kinnaird	5 November 2016	9 months
Lisa Myers	6 September 2016	1 year
Mark Rolfe	1 October 2010	6 years 10 months

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 2017. 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 40 and 41. 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.

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 nine meetings during FY2017 which were fully attended by all the board members, save for the July meeting which Terry Duddy was unable to attend due to a bereavement. In addition to the directors, the operational section of each board meeting was attended by the members of the Executive Committee. Details of the principal items discussed at each meeting are shown in the table on page 47.

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 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. The agenda for each board meeting typically includes operational reports from the members of the Executive Committee and an update on the execution of the strategy, with deep dives on selected projects. Presentations are 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 www.debenhamsplc.com.

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

Nomination Committee	Pages 48 and 49
Audit Committee	Pages 50 to 53
Remuneration Committee	Pages 54 to 76

PERFORMANCE EVALUATION

In accordance with the Code, the board, its committees and each individual director (including the Chairman) has been evaluated by an external facilitator, Lintstock Limited. Details of the review and the respective findings are given below.

The findings of the 2016 internal evaluation were that future agendas and presentations needed to be more strategic and less operational, and that timekeeping required more discipline. These recommendations have been implemented throughout FY2017.

This year's evaluation was externally facilitated by Lintstock who have performed evaluations for us before.

The board review concluded that we have an effective board with the composition of the board and board expertise highly rated. The performance of the committees supporting the board was also highly rated. The importance of further development of board diversity over the next 3-5 years was emphasised. The board was satisfied that it is kept updated on major developments between meetings and that its focus between strategic and operational issues is appropriate. The importance of focussing on execution against strategy was emphasised as was oversight of succession plans for key management positions below 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 page 78 of the directors' report.

SHAREHOLDER ENGAGEMENT

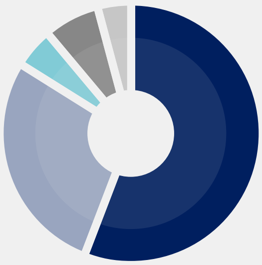
The board is responsible for ensuring that the Company maintains a satisfactory dialogue with shareholders. The Chairman and the Senior Independent Director are always available to major shareholders. Formal trading updates are given to the market on four occasions during the year. Following each of 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 CEO and CFO 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.

JANUARY 2017 AGM – HIGHLIGHTS

- Between 849,007,978 and 864,685,303 votes were cast for each resolution
- The directors who retired and were elected/re-elected to the board received, on average, 99.04% of votes cast in favour
- The resolution to approve the directors' remuneration report for the period ended 3 September 2016 was passed with 95.46% of votes cast in favour

Shareholders by geography

UK	**56%**
USA	**28%**
EU	**5%**
Middle East	**7%**
Rest of World	**4%**



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

The major shareholders of the Company are listed on page 78 of the directors' report.

HOW GOVERNANCE SUPPORTS STRATEGY

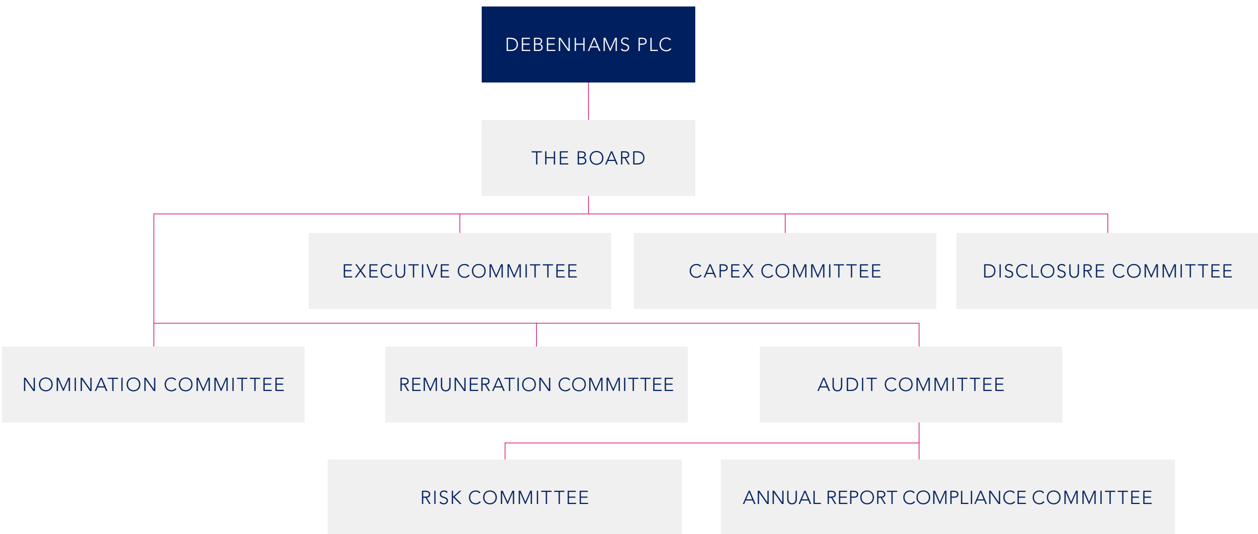
Our revised governance framework (see chart below), which has been adopted by the board, is underpinned by the UK Corporate Governance Code. It is designed to safeguard and enhance long-term shareholder value and to provide a platform to realise the Group's strategy, Debenhams Redesigned.

The board:

- Selects its membership through a comprehensive and considered process, aligned with Company strategy and its diversity policy (see Nomination Committee section 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 Risk Management and Principal Risks and Uncertainties 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 and Remuneration Committees and updates from key management
- Actively monitors management's execution of approved strategic plans against established budgets and timeframes, to ensure their alignment to strategic objectives

The framework is continually reviewed to ensure it remains fit for purpose. During FY2017, the Disclosure Committee was established to aid compliance further to the EU Market Abuse Regulation.

GOVERNANCE FRAMEWORK



BOARD ACTIVITY THROUGH THE YEAR – 2016-2017

SEPT

- Approved the budget
- Autumn/Winter Launch
- B&M roadmap update
- International Overview
- Board Evaluation review

OCT

- Approved full year results, report and accounts and recommended the final dividend
- Approved the corporate risk map
- Presentation on Sourcing
- Presentation on the Christmas campaign

NOV

- Appointment of Nicky Kinnaird

DEC

- Trading update, CEO Overview

JAN

- Presentation on approach to strategic plan
- Presentation on the Supply Chain
- Met with shareholders at the Annual General Meeting

MAR

- Strategy meeting

APR

- Approved first half results and resolved to pay interim dividend
- Review of Strategic Plan
- Reviewed Schedule of Matters Reserved to the Board & Governance Framework

JUN

- Approved the June trading statement
- Reviewed draft budget
- Reviewed Board Diversity Policy

JUL

- HR Overview
- Technology and Supply Chain Overview
- Presentation on the Autumn/Winter launch and product e-marketing

INVESTOR RELATIONS CALENDAR

The key elements of the Group's investor relations calendar in FY2017 are shown in the table below.

September 2016	October 2016	November 2016	December 2016	January 2017	February 2017	April 2017	May 2017	June 2017	July 2017
UK investor meetings	Full year results	UK shareholder roadshow	UK investor meetings	Trading update	European investor meetings	First half results	US shareholder roadshow	Trading update	Broker sales team meeting
	UK shareholder roadshow	Investor conference meetings	Investor conference meetings	Annual General Meeting	UK investor meetings	UK shareholder roadshow	European conference meetings	Investor meetings	Pre-close analyst meetings
	CEO introductory meetings with major shareholders	Broker sales team meetings		UK investor meetings			UK investor meetings	US investor meetings	

Nomination Committee report

MANAGING SUCCESSION

SIR IAN CHESHIRE

Chairman, Nomination Committee

MEMBERSHIP OF THE NOMINATION 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
Sir Ian Cheshire (Committee Chairman)	14 January 2016	2/2
Terry Duddy	10 April 2015	2/2
Martina King	1 August 2009	2/2
Mark Rolfe	1 October 2010	2/2

DEAR SHAREHOLDER

On behalf of the Nomination Committee, I am pleased to present its report for the year ended 2 September 2017.

The key responsibilities of the Committee are:

- Identifying and nominating, for the approval of the board, candidates to fill board vacancies based on merit and objective criteria 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 and the Senior Independent Director
- Reviewing regularly the board structure, size and composition and making recommendations to the board of adjustments that are deemed necessary and in accordance with the Company's policy on diversity
- 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 Director's 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 twice during the year at which it:

- Recommended the appointment of Lisa Myers and Nicky Kinnaird as non-executive directors. Both appointments were made to support the business's aims to grow the international business and to be the preferred destination for beauty products and services. Both appointments were facilitated by external search consultants, Lygon Group which has no connection to the Company. Lygon worked with the Chairman to provide a long list of candidates and then a short list. Candidates met with various members of the board after which the Committee was able to recommend their appointments to the board
- Reviewed the time commitments and length of service of the non-executive directors and recommended to the board the re-appointment of Mark Rolfe for a further year, effective from 1 October 2016
- 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 balance of skills, knowledge and experience required for the board and its committees to operate effectively. Board appointments are, of course, made on merit but the Committee is also mindful of the board's diversity policy.

Following the board changes which took place this year, the percentage of women on the Debenhams plc board at the end of FY2017 was 36%, which is above the current voluntary target set at a third of board members by 2020. Following Suzanne Harlow's departure and the appointment of David Adams, this is now 27%. Debenhams is keen to embrace diversity at all levels and is therefore assessing diversity, in the widest sense, in relation to the recruitment process throughout the business.

ACTIVITIES SINCE YEAR END

- Reviewed the Company's diversity policy following the recommendations made in the Hampton-Alexander Review and the Parker Report
- Recommended to the board the reappointment of Mark Rolfe for the period from 1 October 2017 to the conclusion of the Annual General Meeting.
- Recommended to the board the appointment of David Adams
- Externally evaluated the Nomination Committee's performance with the assistance of Lintstock and the Committee concluded that it is appropriately composed, uses its time effectively and reviews the composition of the board well

All directors will seek election/re-election at the next AGM apart from Mark Rolfe, who will step down from the board and its committees at the Annual General Meeting on 11 January 2018.

Sir Ian Cheshire
Chairman

Audit Committee report

CHAMPIONING THE INTEGRITY OF FINANCIAL REPORTING

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)	3/3
Terry Duddy	10 April 2015	3/3
Peter Fitzgerald	18 October 2012	3/3
Martina King	1 August 2009	3/3
Lisa Myers	6 September 2016	3/3

DEAR SHAREHOLDER,

On behalf of the Audit Committee ("the Committee"), I am pleased to present its report for the period ended 2 September 2017. 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 2017 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 39.

The board has accepted the Committee's recommendations on the form of the viability statement and the assessment period.

We welcomed Lisa Myers as a member of the Committee following her appointment to the board of Debenhams plc on 6 September 2016.

In October 2017, we announced the appointment of David Adams as a non-executive director. David will become chair of the Audit Committee in January 2018 when I will step down. I wish him all the best in the role.

Mark Rolfe
Chairman, Audit Committee

All of the members of the Committee are independent non-executive directors and, in the Board's view, the Committee as a whole has competence relevant to the retail sector and its operations. In accordance with the FRC's Code, 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 CFO, the director of internal audit and risk management and senior representatives of the Company's external auditors, PwC LLP, 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 three times during FY2017, with meetings timed to coincide with the financial and reporting cycles of the Company. Attendance at these meetings is set out on page 50. In addition, the Committee met with the Company's external auditor twice during the year without management being present and once with each of the CFO and the director of internal audit and risk management 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: www.debenhamsplc.com.

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, considering the appropriateness of accounting policies adopted by the Company, and the use of any alternative performance measures
- 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 also received a presentation on the process and stress testing undertaken in relation to the viability statement included in this report
- The Committee considered the clarity and completeness of the disclosures within the financial reports reviewed; and
- Reviewed the requirements of IFRS16 with regard to Debenhams lease portfolio in readiness for the adoption of the accounting standard in 2020

Internal audit and risk management

The Committee received and considered updates from the director of internal audit and risk management at each of its meetings during the year covering amongst other matters:

- The output from the Group-wide risk review process to identify, evaluate and mitigate risks and the Group's changing risk profile
- The adequacy and effectiveness of the internal financial controls
- Updates on any fraud attempts or incidents further to the processes in place throughout the Group which prevent and detect fraud, including concerns raised in confidence by employees via the Company's whistleblowing process which are also reported through to the Committee
- Progress against the approved audit plan, the key findings from reviews undertaken and management's implementation of its recommendations
- The resource requirements for internal audit and risk management

Governance

- Externally facilitated formal evaluations of the Committee together with the internal and external audit functions were conducted by Lintstock Ltd
- The compliance committee, chaired by Matt Smith, CFO, 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 compliance statements in relation to the disclosures within this annual report are provided on page 39

- The Risk Committee, which 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 Committee receives briefings and training by senior management which, this year, included the requirements of the new Public Tax Statement to be published by Debenhams. Previously, training has covered supplier income, leases, share-based payments, revenue recognition and retirement benefits costs

External audit

- The scope of the audit for FY2017 was agreed together with the fees and terms of engagement. Details of the amounts paid to the external auditors for the audit services for FY2017 are given on page 104 in note 6 to the financial statements
- 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. The Company's statement of compliance with these regulations is provided on page 39
- The approach for the auditor tender process scheduled for FY2018 was agreed
- The non-audit work carried out by PwC in accordance with the Company's prevailing External Auditor's Independence Policy was approved and PwCs independence confirmed

SIGNIFICANT AREAS OF FOCUS IN RELATION TO THE FINANCIAL STATEMENTS

The significant areas of focus considered by the Committee in relation to FY2017 are provided in the table below.

The significant issues considered in relation to the Group's financial statements for the period ended 2 September 2017 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 81 to 88.

Matters considered	Actions
Revenue recognition As with most companies, there is 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 103.	During FY2017, 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.
Exceptional items As a result of the strategic reviews, the Group has incurred one-off costs totalling £36.2m (before tax), see note 7 on pages 104 to 105.	The exceptional costs incurred this year related to the strategic review and restructure and the strategic warehouse restructuring. The Committee has considered the quantum of each exceptional cost or charge and has approved the disclosures made.

PERFORMANCE EVALUATION

The Audit Committee performance evaluation was externally facilitated with the assistance of Lintstock. The process also included evaluation of the external auditors and the internal audit function.

The performance of the Committee was rated highly overall with effective monitoring of the management of risk, review of the quality of the group's financial reporting and assessment of the system of internal controls. Training is provided to Committee members alongside the meetings and an updated schedule of training relevant to the external challenges will be created.

The Committee were pleased with the results of the external and the internal audit evaluation. The external auditors were seen to be independent, objective, to understand the business risks and issues and to be firm in their challenges, when appropriate. The effectiveness with which internal audit meets the expectations of the Committee was highly rated.

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 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 and specifically those services which the Company's auditors may never provide. As part of the committee's assessment of the ongoing independence of the auditor, the Committee receives details of any relationship between the Group and PwC that may have a bearing on their independence and seeks confirmation from PwC that they remain independent.

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 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 17% of the total audit fee paid to PwC, see note 6 on page 104.

The audit fees paid by the pension schemes were £41,000.

EXTERNAL AUDITOR APPOINTMENT

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

The Committee has agreed with the Board that the external audit will be put out to tender during FY2018. The tender process is scheduled to commence in Spring 2018 with the successful auditor shadowing PwC during the 2018 year-end audit process and attending Committee meetings prior to their formal appointment. A recommendation will be proposed to shareholders at the Company's 2019 AGM to appoint the new auditor of the Company. PwC will not be invited to participate in the tender due to the prevailing rules on auditor rotation.

The Committee is satisfied that PwC remains independent and is best placed to conduct the Company's audit for FY2018 and therefore recommends that PwC be re-appointed as the Company's auditors.

Mark Rolfe
Chairman, Audit Committee

Chairman's introduction to Remuneration

OUR REMUNERATION PHILOSOPHY SUPPORTS OUR LONG-TERM APPROACH

MARTINA KING
Chairman, Remuneration Committee

STRUCTURE OF THE REMUNERATION REPORT

DEAR SHAREHOLDERS

On behalf of the Remuneration Committee ("the Committee"), I am pleased to present our annual remuneration report for FY2017 along with our new Directors' remuneration policy ("policy").

The trading environment has continued to be tough for Debenhams over the last 12 months and this is reflected in our incentive outcomes with no bonus or PSP payouts in respect of FY2017. The Committee's key focus during the year has been on undertaking a thorough review of our policy to ensure it aligns with our Debenhams' Redesigned strategy. On behalf of the Committee I have consulted extensively with shareholders regarding policy and its application and we are pleased with the level of support received.

May 2017 PSP award

In our FY2016 Directors' remuneration report we communicated that the Performance Share Plan ("PSP") awards due to be made in November 2016 would be deferred until May 2017 to ensure that the performance measures and targets were fully aligned with our Debenhams Redesigned strategy, which we announced in April 2017.

Prior to the grant of the PSP award, I wrote to our main shareholders to consult on our proposed performance measures. The awards granted in May 2017 are based 70% on earnings per share ("EPS") performance and 30% on performance against strategic objectives, in-line with awards granted in prior years. We did, however, change our approach to setting EPS targets, setting absolute EPS targets for FY2019 rather than growth targets to provide a clear focus on achieving earnings goals. We also changed the strategic objectives used to ensure they fully reflected our new strategy. The strategic objectives are: beauty gross transaction value growth, food gross transaction value growth, mobile gross transaction value growth and online fulfilment cost per unit improvement. Further details are provided on pages 66 and 67.

Remuneration policy
In-line with the remuneration reporting regulations, we are required to seek shareholder approval for a revised Directors' remuneration policy at our AGM in January 2018. In light of the appointment of Sergio and the announcement of the Debenhams Redesigned strategy, the Committee took the opportunity to undertake a thorough review of the existing policy.

We considered a range of structures for our remuneration framework going forward, but ultimately concluded that, at present, it is appropriate to retain the same broad framework, being an annual bonus and PSP. As our remuneration policy framework is unchanged, the policy that we are submitting for shareholder approval at the January 2018 AGM is broadly unchanged from our current policy. Reflecting shareholder feedback we have reduced the pension opportunity set out in our policy for any new executive directors to a maximum of 15% of base salary.

To further align executives' interests with those of shareholders, we have increased the shareholding guideline to 200% of salary for the CEO and 150% of salary for the CFO (from 100% of salary for both executives). The executives will generally be expected to retain 50% of any vested shares under the PSP until this guideline is met.

For FY2018 our annual bonus plan will continue to be based 80% on Profit before Tax (" PBT") and 20% on customer service.

To reflect shareholder feedback, and to ensure alignment between the PSP, shareholder value creation and returns generated, we have further changed the performance measures used for the PSP. November 2017 awards will be based 50% on relative Total Shareholder Return ("TSR") against a bespoke group of retail comparators, 25% on EPS performance and 25% on Return on Capital Employed (ROCE). We again consulted with our major shareholders in relation to the changes in performance measures. Further details are provided on page 72.

For FY2018, award opportunities for the CEO will revert to an annual bonus opportunity of 100% of base salary and 150% of base salary PSP award following the higher awards granted in his first year for employment. Award opportunities for the CFO remain unchanged.

The CFO's salary was increased by 1.5% to £418,271 on 1 April 2017 as part of the normal annual review. This was in-line with the increase across the senior management population and below the average increase across the wider workforce. The CEO elected to not receive a salary increase at this time.

Following the year end we have been restructuring the organisation to ensure we have the right framework in place to support the implementation of the Debenhams Redesigned strategy. As part of this a number of the members of the Executive Committee will be taking on additional responsibilities, including the CFO who, going forward will be responsible for strategy. To reflect the size and scope of this additional responsibility the Committee agreed it was appropriate to increase Matt Smith's salary by 5% from 1 November 2017 to £439,200.

The salary review date for the organisation is being moved to November and therefore salaries for executive directors will next be reviewed with effect from 1 November 2018.

FY2017 annual bonus
The annual bonus for FY2017 was based 80% on PBT targets and 20% on a customer measure – Net Promoter Score ("NPS"). The threshold PBT target was not met. The NPS performance significantly exceeded maximum target. Payment under this element, however, was also subject to the threshold PBT target being met. No annual bonus payment will therefore be made to executive directors in respect of FY2017. Further details are provided on pages 64 and 65.

FY2014 PSP award
For the PSP awards granted in November 2014 and May 2015, 70% of the award was subject to EPS performance and 30% to strategic objectives. The targets for awards were not met and therefore those PSP awards will lapse in November 2017 and May 2018. Further details are provided on page 65.

Board changes
Suzanne Harlow stepped down from the Board and left the business on 20 October 2017 following 23 years with the Company. I would like to echo Sir Ian and Sergio's thanks to Suzanne for her significant contribution over her career with us. In order to support the delivery of the Debenhams Redesigned strategy, the structure of the organisation has been changed as a result of which the main board role of the Group Trading Director no longer exists.

Suzanne Harlow's remuneration terms in relation to her departure are in line with her service agreement and the policy as approved by shareholders in December 2014. Further details are provided on page 69.

Our Directors' remuneration policy will be subject to a binding vote and our Directors' remuneration report will be subject to an advisory vote at the AGM on 11 January 2018. We look forward to receiving your support for the policy and report.

Martina King
Chairman, Remuneration Committee

Remuneration policy

This remuneration report for the year ended 2 September 2017 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 UK Corporate Governance Code.

The following sets out our Directors' remuneration policy (the 'policy'). This policy will be put forward for shareholder approval at the AGM on 11 January 2018 and will apply to payments made from this date.

LINK BETWEEN REMUNERATION AND STRATEGY

Our executive remuneration Policy has been designed to support our Group strategy:

- Reward philosophy – Our reward philosophy is that remuneration arrangements should be set at a level that is considered by the Remuneration Committee (the "Committee") to be sufficient to recruit and retain individuals of the calibre required to run the business without paying more than is necessary to do so
- Alignment with our business strategy – Remuneration structures are designed to support the business strategy with the majority of the remuneration package being linked to the delivery of performance, paid in a combination of cash and shares. Short-term and long-term performance measures have been selected to be aligned with the delivery of our business strategy. Market conditions are also taken into consideration when setting pay
- Alignment with shareholders – Variable remuneration opportunity is delivered through the Company's long-term share incentive plans and the cash annual bonus. The Committee operates a shareholding guideline policy for executive directors which aligns the interests of executives with our shareholders and demonstrates executives' ongoing commitment to the business

REMUNERATION POLICY TABLE FOR EXECUTIVE DIRECTORS

The table below sets out a summary of our remuneration Policy for executive directors. Further information regarding the implementation of the policy can be found in the annual report on remuneration commencing on page 64.

No substantive amendments have been made to the Policy from the directors' remuneration policy approved by shareholders at the 2014 AGM. Minor changes have been made to the Policy to reflect the terms of the Performance Share Plan 2016 (approved by shareholders on 14 January 2016), to remove share plans which are no longer in operation, to reduce the maximum pension opportunity for new recruits, to increase in shareholding guidelines, to reflect the revised performance measures for the Performance Share Plan (as outlined in the Chairman's letter) and to clarify the practical operation of the policy.

Element	**Base salary**
Purpose and link to strategy	• Supports the recruitment and retention of executive directors of the required calibre to fulfil the role without paying more than is considered necessary to do so • Rewards executives for the performance of their role
Key features/ operation	• Paid in cash • Normally reviewed annually with effect from 1 November but may be reviewed more or less frequently at the Committee's discretion • In determining base salaries, the Committee considers: – Pay levels at companies of a similar size and complexity and other retail companies – External market conditions – Pay and conditions elsewhere in the Group – The individual's skills, knowledge, experience and performance
What is the maximum potential value?	• Whilst there is no defined maximum salary, any base salary increases will normally be in line with the increases awarded to other employees of the Group • However, increases may be made outside of this policy in exceptional circumstances, such as: – Where a director is appointed on a salary that is at the lower end of the market practice range, larger increases may be awarded as the executive gains experience to move the salary closer to a more typical market level – Where there has been a change in the responsibility and accountability of the role – Where there has been a significant change in market practice Details of current salary levels are set out in the annual report on remuneration
Performance metrics	None

Element	Pension
Purpose and link to strategy	• Provides funds to allow executives to save for retirement • Provides a market competitive retirement benefit thereby recruiting and retaining executives of the required calibre
Key features/ operation	• In determining pension arrangements, the Committee takes into account relevant market practice and practice throughout the Group • Executive directors are generally provided with a cash allowance in lieu of a pension provision or a contribution to a defined contribution pension scheme or similar arrangement • However, the Committee may determine that alternative pension provisions will operate for new appointments to the board if considered appropriate. If an alternative pension arrangement is provided, this will generally be of a similar level to current arrangements
What is the maximum potential value?	• The CEO's annual cash pension allowance is 20% of base salary • The annual pension contribution for the CFO is 15% of base salary • New appointments would be entitled to a maximum pension contribution of 15% of salary
Performance metrics	None

Element	Benefits
Purpose and link to strategy	• Provides a market competitive level of benefits for executive directors, thereby recruiting and retaining executives of the required calibre
Key features/ operation	• Executive directors receive a benefits allowance which can be used to fund a range of benefits (in line with the allowance provided to the wider management population) • Executive directors also benefit from the Company's Directors' and officers' liability and indemnity insurance • Executive directors may participate in any all-employee share plans which may be operated by the Company on the same terms as other employees • Executive directors receive life assurance and an annual health assessment • In accordance with the terms of his appointment, the CEO receives a housing allowance for the first two years of his employment and reasonable re-location expenses were met by the Company • Executive directors may 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 • The Committee may determine that executive directors should receive additional reasonable benefits if appropriate, taking into account typical market practice • Executive directors may be reimbursed for all reasonable expenses and the Company may settle any tax incurred in relation to these • Where an executive director is required to relocate to perform their role, they may be provided with reasonable benefits as determined by the Committee in connection with this relocation (on either a one-off or ongoing basis), including any expatriate benefits such as housing, travel or education allowances
What is the maximum potential value?	• 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 • The overall value of benefits will depend on the individual's circumstances and the cost of providing such benefits by the Company and therefore there is no maximum • The current level of benefit allowance for executive directors is £18,375 (this may be changed during the life of the policy • The executive directors' participation in any all-employee share plans will be in line with relevant statutory limits
Performance metrics	None

Element	Annual bonus
Purpose and link to strategy	• Rewards and incentivises the achievement of annual objectives which are aligned with key financial and strategic goals and supports the enhancement of shareholder value
Key features/ operation	• Unless otherwise determined by the Committee, bonuses are paid in cash following the year end • Bonuses are not pensionable • Malus and clawback provisions apply (see page 59 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
What is the maximum potential value?	• Maximum opportunity of 100% of base salary • The bonus starts accruing from threshold levels of performance
Performance metrics	• The Committee determines appropriate performance metrics to support the annual business strategy, external expectations and the enhancement of shareholder value on an annual basis • The bonus may be based on a mix of profitability, strategic financial, strategic non-financial and individual performance targets • At least 80% of the bonus will be based on financial performance targets • Further information in relation to the performance measures is set out in the annual report on remuneration

Element	Performance Share Plan ("PSP")
Purpose and link to strategy	• Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value • Aligns with shareholder interests through the delivery of shares • Acts as a retention tool
Key features/ operation	• Awards normally vest based on performance assessed over a period not shorter than three years • 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 adjust the final vesting level if it does not consider that it reflects the underlying performance of the Company • Malus and clawback provisions apply (see page 59 for further information) • Awards may incorporate the right to receive (in cash or shares) the value of the dividends that would have been paid on the shares that vest (which may assume the dividends had been reinvested in the Company's shares). However, it is not the current intention of the Committee that dividend equivalents will be paid on shares that vest
What is the maximum potential value?	• The maximum value of shares over which an individual can be granted an award in respect of any one financial year of the Company is normally 200% of base salary, although this limit may be increased to 250% of base salary in exceptional circumstances • Typically 25% of an award vests for threshold levels of performance
Performance metrics	• Awards granted in FY2018 will vest subject to a combination of relative TSR, underlying EPS and ROCE • The Committee retains the discretion to alter the performance measures for future awards if it deems appropriate. However, the Committee will endeavour to consult with the Company's largest shareholders prior to doing so, other than for minor changes • The Committee sets performance targets each year, taking into account the business plan, external expectations and market practice • For further information in relation to the performance measures, weightings and targets for awards, see the annual report on remuneration

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. The shareholding guideline is 200% of base salary for the CEO and 150% of base salary for the CFO. Executives are generally expected to retain 50% of any post-tax shares that vest under any share incentive plans until this shareholding is reached.

NOTES TO THE POLICY TABLE

Malus and clawback

Malus and clawback provisions apply to the annual bonus and PSP. Annual bonus payments may be subject to clawback for a period of three years following the payment of the cash bonus. PSP awards may be subject to clawback for a period of three years following vesting.

The Committee has the discretion to reduce or withhold an award ("malus") or clawback awards in the following circumstances:

- 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 may also apply in other circumstances at the discretion of the Committee.

Annual bonus performance measures

- The Committee sets annual bonus performance targets each year based on the measures that it considers are most appropriate for the business. Annual bonus targets are set with reference to internal forecasts and market expectations. Information in relation to the performance measures used has been set out in the annual report on remuneration
- The Committee considers that the annual bonus targets are market sensitive and therefore these will not be disclosed in advance. Details of performance against targets and any resulting annual bonus payout will normally be included in the annual report on remuneration for the year on which the bonus performance is based

Performance Share Plan performance measures

- For awards to be granted in FY2018, the Committee has chosen to use relative TSR (50%), underlying EPS (25%) and ROCE (25%). The Committee may use different measures or a different balance of measures in future years if it considers that it is appropriate to do so
- EPS and ROCE targets are set with reference to internal forecasts and market expectations. The parameters of the TSR performance measure have been structured based on market typical practice
- The Committee considers that these measures are aligned with our Debenhams Redesigned strategy announced in April 2017
- Details of the specific measures, weightings and targets applying to the PSP awards are disclosed in the annual report on remuneration

Difference in the remuneration policy for all employees

Debenhams employs a large number of people in a variety of roles across a range of geographies. Our reward framework for the business is altered as necessary to suit the needs of the business for different employee groups. Reward packages therefore differ, taking into account a number of appropriate factors including seniority, the individuals' impact on the business and local practice, custom and legislation.

Other information supporting the policy table

- The Committee may amend the terms of awards or the rules of share plans within the scope defined in the rules of the plans
- For share awards, in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event which may, in the Committee's opinion, materially affect the current or future value of awards, the number of awards and the exercise price applicable to those awards may be adjusted
- The Committee may amend the performance conditions applicable to share awards if it considers that the amended conditions are a fairer measure of performance and at least as challenging as the original conditions
- Share awards may be granted in the form of conditional share awards, forfeitable shares, nil or nominal cost options or in such other form that the Committee determines has the same economic effect. Awards may be settled in cash
- The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 9 December 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes, "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted

REMUNERATION OUTCOMES IN DIFFERENT PERFORMANCE SCENARIOS

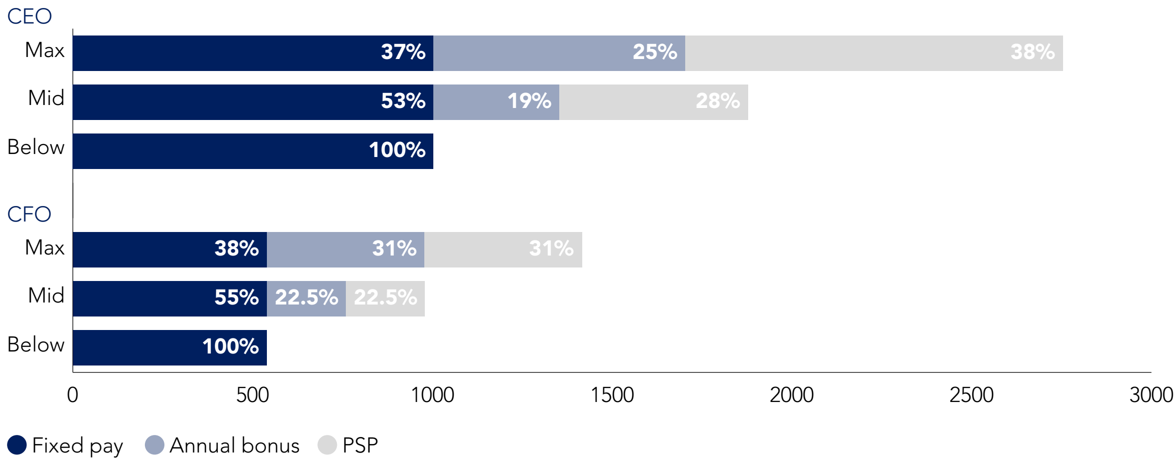
The charts below set out an illustration of the policy for FY2018. The charts provide an illustration of the proportion of total remuneration made up of each component of the policy and the value of each component.

Three scenarios have been illustrated for each executive director:	
Below threshold performance	• Fixed remuneration • No annual bonus payout • No vesting under the PSP
Mid-range performance	• Fixed remuneration • 50% annual bonus payout • 50% vesting under the PSP
Maximum performance	• Fixed remuneration • 100% annual bonus payout • 100% vesting under the PSP

Fixed pay currently comprises the following elements:

Director	Base salary	Benefits	Pension	Total
CEO – Sergio Bucher	£700,000	£163,409	£140,000	£1,003,409
CFO – Matt Smith	£439,200	£33,948	£65,880	£539,028

- Base salary is the base salary in place on appointment for Sergio Bucher and from 1 November 2017 for Matt Smith
- The benefits figure is based on the amount received during 2017 as per the single figure. This reflects the annual benefits allowance and the taxable value of other benefits provided during the year. Pension is based on the cash contribution of 20% of base salary for the CEO and 15% of base salary for the CFO
- The annual bonus is based on the annual policy maximum of 100% of base salary for both executive directors. The PSP is based on 150% of base salary for the CEO and 100% of base salary for the CFO



RECRUITMENT REMUNERATION ARRANGEMENTS

When determining the remuneration package for a newly appointed executive director, the Committee would seek to apply the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent
- The structure of the ongoing remuneration package would normally include some or all of the components set out in the policy table for executive directors
- In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the recruitment, subject to the limit on variable remuneration set out below. The key terms and rationale for any such component would be disclosed as appropriate in that year's annual report on remuneration
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate taking into account all relevant factors including the form of awards, expected value and vesting timeframe of forfeited opportunities. When determining any such "buyout", the principle would be that awards would be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate
- The maximum level of variable remuneration which may be awarded (excluding any "buyout" awards referred to above) in respect of recruitment is 350% of salary, which is in line with the current maximum limit under the annual bonus and PSP
- Where an executive director is required to relocate from their home location to take up their role, the Committee may provide assistance with relocation (either via one-off or ongoing payments or benefits)

In the event that an internal candidate is promoted to the board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

In the event of recruitment the Committee may grant awards to a new executive director relying on the exemption in the Listing Rules which allows for the grant of awards, to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval or under any other appropriate Company incentive plan.

The remuneration package for a newly appointed non-executive director would normally be in line with the structure set out in the policy table for non-executive directors.

Executive director service contracts	
Notice period	• 12 months' notice by the Company or by the executive director • The notice period for any newly appointed executive director would be up to 12 months' on either side
Expiry date	• Sergio Bucher entered into his service contract on 25 May 2016 • Matt Smith entered into his service contract on 25 July 2014 • These are rolling contracts with no expiry date
Termination payments	• Payments in lieu of notice will be based on base salary, contractual benefits and any accrued but untaken holiday • Payments in lieu of notice for Sergio Bucher and Matt Smith may, at the Committee's discretion, be paid in equal monthly instalments which would, at the Committee's discretion, be subject to mitigation or as a lump sum. The Company's policy for new executive directors is that contracts would reflect these principles • The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with the cessation of office or employment

The service agreements are available to shareholders to view on request from the Company Secretary at the Company's registered office.

ARRANGEMENTS FOR DIRECTORS LEAVING DEBENHAMS

Details of the arrangements in relation to fixed remuneration are set out in the section on page 61.

Annual bonus

There is no automatic entitlement to an annual bonus in the year in which the executive director leaves the Group. The Committee may determine that an executive director is eligible to receive a bonus in respect of the year of cessation dependent upon the circumstances of the executive director's departure and individual performance. Any such payment would normally continue to be subject to performance and be pro-rated to take account of the time served during the year.

Performance share plan

If an individual ceases to be employed by a member of the Group or gives or is given notice terminating their employment before the end of the performance period, a participant's award will usually lapse, unless the Committee determines that it will vest, having regard to the performance of the Company and the length of time which has elapsed since the date of grant. The Committee may determine that the award will vest at the time of cessation of employment or at the "normal" vesting date. The number of shares over which an award may vest will be time pro-rated to reflect the proportion of the vesting period that has elapsed on cessation of employment. In the case of nil cost options, the Committee will determine the period during which the participant may exercise his or her options.

TAKEOVER OR MERGER OF THE COMPANY

In the event of a takeover or merger of the Company, outstanding PSP awards will vest to the extent that performance conditions are satisfied. Where awards vest in these circumstances, they may be pro-rated (on a monthly basis) to reflect the proportion of the vesting period that has elapsed, unless the Committee determines that a different proportion of the award should vest, taking into account Company performance and such other factors as it considers relevant.

Upon agreement with the acquiring company, the participant may choose to roll over their awards into awards in the acquiring company.

OTHER CORPORATE EVENTS

If the Company is voluntarily wound up, the Committee may allow awards to vest on the same basis as set out above for a takeover. If the Company is, or is expected to be, affected by a demerger, special dividend or other transaction which would materially affect the value of awards, the Committee may allow some or all of the outstanding awards to vest to the extent that, in the Committee's opinion, the performance conditions applicable to these awards have, or are likely to have, been met.

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.

REMUNERATION POLICY TABLE FOR NON-EXECUTIVE DIRECTORS

Element	Fees
Purpose and link to remuneration strategy	• Fees for non-executive directors are set at an appropriate level to recruit and retain directors of a sufficient calibre without paying more than is necessary to do so
Key features/ operation	• Paid in cash • Fees for non-executive directors are set taking into account the time commitment required to fulfil the role and typical practice at other companies of a similar size and complexity to Debenhams • The fees for the Chairman's role are set taking into account the time commitment of the role, the skills and experience of the individual and typical market practice for other companies of a similar size and complexity • 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 • Additional fees may be paid to reflect additional board or committee responsibilities or an increased time commitment as appropriate • Fees are reviewed at appropriate intervals by the board
What is the maximum potential value?	• Fees paid to non-executive directors and the non-executive Chairman will not exceed the aggregate limit set out in the Company's articles of association Fee levels are set out in the annual report on remuneration

Element	Benefits and expenses
Purpose and link to remuneration strategy	• To provide suitable arrangements to allow non-executive directors to discharge their duties effectively
Key features/ operation	• 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 • The Chairman and non-executive directors are not entitled to participate in any of the Group's incentive plans or pension plans • The Chairman and non-executive directors have the benefit of directors' and officers' liability insurance and provision of indemnity on the same basis as other directors and officers of other Group companies • The board may introduce additional benefits for the Chairman or non-executive directors if it is considered appropriate to do so
What is the maximum potential value?	None

TERMS AND CONDITIONS FOR THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman has a letter of appointment from the Company covering matters such as duties, time commitment, fees and other business interests. The Chairman is appointed for an initial three years which may be extended for further terms of three years by mutual agreement.

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 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 term.

CONSIDERING ALL-EMPLOYEE REMUNERATION ARRANGEMENTS

When determining the remuneration policy and arrangements for the executive directors, the Committee considers pay and employment conditions elsewhere in the Group to ensure that pay structures throughout the Group are appropriately aligned and that levels of remuneration remain appropriate in this context.

When considering salary increases for the executive directors, the Committee considers the general level of salary increase across the Group. Whilst the Committee does not consult directly with employees about executive director pay, it does receive informal feedback on employees' views via the HR Director and the Head of Pay & Reward.

The remuneration arrangements for the members of the Executive Committee who are not executive directors and the Company Secretary fall within the Committee's remit engendering a common approach to the design of reward and determining reward outcomes for the most senior people within the organisation.

CONSIDERING SHAREHOLDER VIEWS

The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements. Over the last few years, the Committee has consulted with shareholders regarding the performance measures for the annual bonus scheme and PSP together with shareholding guidelines. The Committee takes into account the views of shareholders when formulating and implementing the policy.

The annual report on remuneration

This report sets out details of the implementation of the remuneration policy during FY2017 and provides details as to how the Committee intends to implement the policy during FY2018. This part of the report will be subject to an advisory shareholder vote at the Annual General Meeting on 11 January 2018. This report contains unaudited information except where stated that it is audited.

What did executive directors earn in respect of FY2017 (audited) and FY2016 (audited)?

The table below sets out a single figure of remuneration for each executive director for FY2017 and FY2016.

2017

Executive director	Base salary (£)	Benefits (£)	Retirement benefits (£)	Bonus (£)	PSP awards (£)	Compensation (£)	Total (£)
Sergio Bucher – CEO[1]	612,949	163,409[3]	122,590	0	n/a	445,184[4]	1,344,132
Suzanne Harlow – Group Trading Director[5]	429,666[2]	15,634	94,526	0	0	n/a	539,826
Matt Smith – CFO	429,666[2]	33,948[6]	62,200	0	0	n/a	525,814

2016

Executive director	Base salary (£)	Benefits (£)	Retirement benefits (£)	Bonus (£)	PSP awards (£)	Compensation (£)	Total (£)
Sergio Bucher – CEO[1]	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Suzanne Harlow – Group Trading Director[5]	408,537[2]	30,800	79,932	0	n/a	n/a	519,269
Matt Smith – CFO	408,537[2]	32,183	61,280	0	n/a	n/a	502,000

1 Appointed to the board on 17 October 2016 so the 2017 disclosure is not a full year.
2 For the period 24 June 2016 until the date Sergio Bucher joined the board (17 October 2016), Matt Smith and Suzanne Harlow shared the CEO 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. £15,000 was paid to each of them during FY2016 with the balance of £15,000 being paid to each of them during the year ended 2 September 2017. This allowance, which is included in base salary for the purpose of the single figure, did not attract bonus, PSP or pension.
3 As part of the terms of his appointment, for the first two years of his employment Sergio is provided with a housing allowance and the Company agreed to meet reasonable relocation expenses. The amount therefore includes £99,129 in relation to housing allowance and £47,863 in relation to relocation expenses for FY2017.
4 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.
5 Suzanne Harlow stepped down from the board of Debenhams plc on 20 October 2017.
6 During the year Matt Smith elected to receive a company car. As a result of this a total of £17,170 was deducted from his benefits allowance reflecting the cost of providing the car. The above single figure amount includes the P11D value of the car of £30,911.

The following details how the single figure for FY2017 has been calculated:

Base salary – Matt Smith and Suzanne Harlow received a salary increase of 1.5% on 1 April 2017 taking their base salaries to £418,271. Sergio Bucher elected to not receive a base salary increase during FY2017.

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 (£7,924). This amount has not been deducted from the above figures.

Retirement benefits – Sergio Bucher received a cash contribution in lieu of pension of 20% of base salary (£122,590). Matt Smith received a cash contribution in lieu of pension of 15% of base salary (£62,200). 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 £11,172. Suzanne Harlow also received a cash contribution in lieu of pension of 18% of base salary up to 31 March 2017, rising to 23% of base salary, effective from 1 April 2017, based on age and having more than 20 years' pensionable service (£83,354).

Annual bonus for FY2017 – The maximum bonus for the year was 150% of base salary for the CEO and 100% for the CFO and the Group Trading Director. The bonus was based 80% on Group PBT and 20% on a customer focused measure, net promoter score. 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 on the next page:

Measure	Threshold	Target	Maximum	Actual
Pay out (% of max)	10%	50%	100%	0%
PBT	£100m	£109.1m	£120.1m	£95.2m

Measure	Threshold	Target	Maximum	Actual
Payout (% of max)	0%	50%	100%	0%
NPS Moving Annual Target (improvement on prior year)	+0 points	+3 points	+5 points	+23 points

The payout of the portion of the bonus based on NPS was also subject to achieving a minimum level of profit performance. While the NPS performance significantly exceeded the maximum target, the minimum level of profit performance was not achieved and therefore no bonus will be paid to executive directors in respect of FY2017.

PSPs – PSP awards granted in November 2014 and May 2015 were subject to the following performance targets:

Measure		Target	Actual performance
EPS (70%)	EPS growth	3% per annum to 10% p.a. growth	(4.7%) per annum growth
Strategic objectives (30%)	Gross margin	90 bps	(40) bps
	Digital EBITDA Growth margin	25% per annum	11.2% per annum
	UK GTV Growth	3.8% per annum	1.1% per annum
	International EBITDA Growth	16.0% per annum	0.5% per annum

25% of the EPS amount vests for meeting threshold levels of performance and 100% vesting for reaching maximum levels of performance with straight line vesting between threshold and maximum. The strategic objectives were subject to a single performance hurdle.

The EPS performance targets and targets for strategic objectives were not met and the awards will therefore lapse in full on 3 November 2017 and 1 May 2018.

Pensions (audited)

Suzanne Harlow was 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 2 September 2017 (£pa)	Transfer value of accrued pension as at 2 September 2017 (£)	Transfer value of accrued pension as at 3 September 2016 (£)	Increase in accrued pension during the year (£pa)	Increase in accrued pension during the year (net of inflation) (£pa)	Increase/ (decrease) in transfer value during the period (£)
Suzanne Harlow	41,136	1,257,274	1,451,702	960	558	(194,428)

Suzanne Harlow participated in the Debenhams Executive Pension Plan until 2006 when it was closed to future accruals and then became a deferred in service member of this scheme. Her normal retirement date under this plan was 31 July 2026. She was not entitled to any additional benefits if she retired prior to this date; any benefits drawn early would have been actuarially reduced to reflect early retirement. She also received a cash allowance in lieu of pension contribution of 18% of base salary up to 31 March 2017, rising to 23% on 1 April 2017 based on age and having more than 20 years' pensionable service.

Scheme interests awarded during the financial year (audited)

In light of Sergio Bucher's appointment and the strategic review of the business, we announced in our FY2016 remuneration report that the PSP awards that were due to be granted in November 2016 would be deferred to ensure that the performance measures and targets were fully aligned with the new strategic direction for the business. Accordingly, awards with the following performance targets (which were announced to the market at the time of grant) were made on 31 May 2017.

Scheme interests awarded during the financial year (audited) continued

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
Sergio Bucher	0.01 pence option	200% of base salary[2]	2,794,411	£1,400,000	25%	29 August 2020
Suzanne Harlow	0.01 pence option	100% of base salary	834,872	£418,271	25%	29 August 2020
Matt Smith	0.01 pence option	100% of base salary	834,872	£418,271	25%	29 August 2020

1 The face value of shares awarded was calculated using the closing mid-market share price on the date of award (31 May 2017), which was 50.1 pence.
2 Sergio Bucher's award for FY2017 was set at 200% of base salary in connection with his appointment. His award level for FY2018 will revert to 150% of base salary.

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

EPS targets

The May 2017 PSP awards vest based on underlying EPS performance for FY2019. Rather than growth targets, we set absolute EPS targets to ensure a clear focus on achieving this goal. The EPS targets are as follows:

Entry (25% vesting)	Target (50% vesting)	Maximum (100% vesting)
5.6p	6.0p	8.0p

These targets were set taking into account our business plan, market conditions and external expectations of our performance. The Committee believes these targets are appropriate and suitably stretching. Target performance was calibrated and aligned with market consensus for our performance for FY2019 at the time the targets were set. The maximum target was set to be significantly in excess of market expectations and the Committee believes that if this is achieved it will represent exceptional performance in a challenging market.

Strategic objectives

Following the review the strategic objectives were changed compared to the November 2015 awards to ensure the strategic objectives fully reflected the Debenhams Redesigned strategy. The following objectives apply:

Strategic objective	Proposed metric (7.5% of award each)	Rationale
Destination Grow market leading position in premium beauty & beauty services	Beauty gross transaction value growth	Debenhams already holds a market leading position in premium beauty and this remains a significant target for growth. We see the £4 billion beauty services market as a prime opportunity to extend our reach in this category.
Destination Meet me @ Debenhams – step change food and drink offer in store	Food gross transaction value growth	Leisure and hospitality are becoming an intrinsic part of the social shopping experience. We see this category – both the development of own brands and the creation of new strategic relationships – as a key driver of footfall to stores.
Digital Mobile @ Everywhere – re platform and harness the power of mobile to unify across all channels	Mobile gross transaction value growth	Leveraging our digital platform and moving from being functional and reliable to sociable and fun will be critical to connecting with customers and broadening Debenhams reach globally.
Simplify & Focus Accelerated warehouse automation	Online cost per unit improvement	Focus on reducing per unit fulfilment costs as online sales growth remains a key focus for the business.

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. Vesting in respect of these strategic measures is also subject to the company meeting a ROCE underpin whereby ROCE for FY2019 must be greater than 10%.

The financial targets for the strategic measures are considered by the Board to be market sensitive and therefore we are not able to disclose these measures at the current time. We will however disclose the targets in full, along with actual performance against targets, at the time of vesting. The financial strategic targets set are specific and measurable and full vesting will not be achieved unless performance is significantly ahead of our plan. In previous years targets have been set as a single 'cliff edge' target but for the May 2017 award a range has been set with 25% of the relevant measure vesting for hitting target and 100% vesting for hitting maximum.

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. Reflecting shareholder feedback and prevailing market practice, the shareholding guideline has been increased from 100% of salary to 200% of base salary for the CEO and to 150% of base salary for the CFO.

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

Directors' shareholdings and share interests (audited)

The value of the directors' current shareholding shown in the table below has been calculated using the three month average closing share price to 2 September 2017 of 43.55p. This table relates to the shareholding guidelines in place during FY2017 and therefore does not reflect the increase in shareholding guidelines for FY2018.

	Ordinary shares held at 26 October 2017	Ordinary shares held at 2 September 2017	Ordinary shares held at 3 September 2016	Unvested awards subject to performance	Unvested options subject to performance	Vested options not exercised	Shareholding requirement	Current shareholding	Requirement met?
Sergio Bucher – CEO[1]	187,617	187,617	–	2,794,411	–	–	£700,000	£81,707	No
Suzanne Harlow – Group Trading Director	617,287	617,287	617,287	2,327,203[2]	–	169,689	£418,271	£268,828	No
Matt Smith – CFO	97,465	97,465	53,000	2,302,178[2]	–	–	£418,271	£42,446	No

1 Sergio Bucher joined the board on 17 October 2016.
2 Suzanne Harlow was awarded 925,925 shares on 3 November 2014 and Matt Smith was awarded 900,900 shares on 1 May 2015. As noted above, the performance targets for the three years ended 2 September 2017 have not been met and these awards therefore will therefore lapse in FY2018.

Scheme interests (audited)

Performance Share Plan

Director	Date of award	Number of shares held at 3 September 2016	Shares awarded during the year	Shares lapsed during the year	Shares exercised during the year	Number of shares held at 2 September 2017	Market value on date of award	Market value on date of exercise	Earliest date of vesting	Expiry date of vesting period
Sergio Bucher	31 May 2017	–	2,794,411	–	–	2,794,411	50.1p	–	31.5.20	30.11.20
Matt Smith	1 May 2015[1]	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
	31 May 2017	–	834,872	–	–	834,872	50.1p	–	31.5.20	30.11.20
Suzanne Harlow	3 November 2014[1]	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
	31 May 2017	–	834,872	–	–	834,872	50.1p	–	31.05.20	30.11.20

1 The awards granted on 3 November 2014 and 1 May 2015 have not met the applicable performance targets during the 3 year performance period to 2 September 2017 and will therefore lapse in full on 3 November 2017 and 1 May 2018 respectively. Targets are outlined on page 65.
2 Awards granted in FY2016 are subject 70% to EPS growth and 30% subject to strategic objectives. For the EPS element 25% of the award vests for achievement of 3% per annum growth with 100% of the award vesting for achieving 10% per annum EPS growth.
3 Performance targets for awards granted in FY2017 are outlined on page 66.

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

The measures and performance targets for awards granted in November 2014 and May 2015 are disclosed on page 65 of the report. These targets were not met and the awards will lapse.

For PSP awards granted in November 2015 and May 2016, 30% of the shares vest subject to the satisfaction of the four key strategic measures of the Group being: 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 based on performance in FY2016, FY2017 and FY2018.

For awards granted in May 2017, the four strategic measures were as follows: beauty gross transaction value, food gross transaction value, mobile gross transaction value and online cost per unit improvement.

The Committee set stretching targets and these were not disclosed at the time of the award as they were considered to be commercially sensitive. It is still early in the performance cycle but two of the measures are currently ahead of target and two are currently behind. Vesting will be determined based on performance in FY2017, FY2018 and FY2019.

Executive Share Option Plan (ESOP)

Director	Date of award	Number of shares held at 3 September 2016	Shares granted during the year	Shares lapsed during the year	Shares vested during the year	Number of shares held at 2 September 2017	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

Payments to past directors (audited)
As disclosed in last year's report, Michael Sharp continued to receive monthly payments in lieu of notice, based on his final base salary, benefits and pension supplement, during the period 4 September 2017 to 13 April 2017 being the end of the twelve month period following his cessation.

Payments for loss of office (audited)
No payments were made for loss of office during the year.

Leaving arrangements for Suzanne Harlow
Suzanne Harlow stepped down from the board and left the business on 20 October 2017 following 23 years' service. In order to support the delivery of the Debenhams' Redesigned strategy, the structure of the organisation has been changed and the main board role of the Group Trading Director no longer exists.

Suzanne Harlow's remuneration terms in relation to her departure are in line with her service agreement and the remuneration policy as approved by shareholders in December 2014 and are as follows:

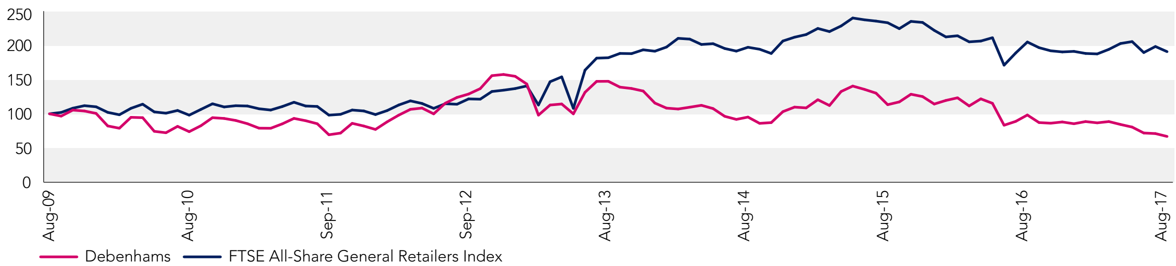
- Suzanne Harlow was made a payment in lieu of notice comprising 12 months' salary and benefits. She also received £30,000 in respect of her statutory rights in connection with her departure
- Outplacement support in the amount of £54,000 (inclusive of VAT), and up to £15,000 (plus VAT) in respect of legal fees incurred in connection with her departure will also be paid
- Suzanne Harlow remained entitled to participate in the annual bonus for FY2017 as she was in employment for the full financial year. As stated on pages 64 and 65, the performance targets for the annual bonus were not met and no payment was made. She will not participate in the annual bonus plan for FY2018
- Suzanne Harlow has been treated as a good leaver for the purpose of the Performance Share Plan. As stated on page 65, the performance targets for awards granted in November 2014 were not met and these awards will lapse in full. PSP awards granted in 2015 and 2017 will continue to vest under the normal timetable subject to the achievement of performance conditions. The awards will be pro-rated to reflect service from the respective grant dates to 20 October 2017. She will not receive a PSP award in November 2017
- Suzanne is also eligible to receive her staff discount for two years from leaving

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 service agreement on 11 December 2013 and it terminated on 20 October 2017
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 resigned as director of Ermes Department Stores Plc and fees in respect of that directorship during the period 4 September 2016 to 10 January 2017 (her resignation date) were paid to and retained by Debenhams Retail plc. Matt Smith was appointed a director of blow LTD. on 12 September 2017 and no fees are payable in respect of that directorship.

Total shareholder return performance graph
The performance graph below shows the Company's total shareholder return against the FTSE All-Share General Retailers Index over the period from 29 August 2009 to 2 September 2017. The FTSE All-Share General Retailers Index has been chosen as 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.



Historical Chief Executive Officer pay

The table below sets out details of the CEO'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 CEO's pay is calculated as per the single figure of remuneration shown on page 64.

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Single figure of total remuneration	£1,477,607	£1,044,515	£1,288,857	£754,396	£990,959	£986,323	£690,530	£898,948[1]
Annual variable element award rates against maximum opportunity	100%	33.3%	40%	0%	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[2]	N/A[3]

1 This figure excludes a cash payment of £445,184 made to Sergio Bucher to compensate him for remuneration foregone at his previous employer. Including this buy-out gives a total single figure for the year of £1,344,132.
2 No PSP award was granted in FY2016.
3 Sergio Bucher was not in the role of CEO during FY2015 and therefore did not receive a PSP award. The performance conditions for PSP awards granted during FY2015 to other participants were not met and therefore 0% of the award will vest.

The CEO for FY2010 and FY2011 was Rob Templeman. Michael Sharp was CEO from the start of FY2012 to 24 June 2016. For the remainder of 2016 and for the period from 4 September 2016 to 16 October 2016, Matt Smith and Suzanne Harlow shared the CEO responsibilities. Their pay for those additional responsibilities has not been included in this analysis as they were acting in a temporary capacity. Sergio Bucher was appointed CEO on 17 October 2016.

Percentage change in remuneration of the CEO

The change in remuneration from FY2016 to FY2017 of the CEO 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.

	CEO	UK employees (average full time equivalent)
Base salary	12.1%	4.73%
Benefits	206%	5.8%
Bonus	0.0%	0.0%

Michael Sharp stepped down from the board in June 2016 and at the point he left the Company his basic salary was £624,255. Sergio Bucher joined the Company in October 2016 with a starting base salary of £700,000.

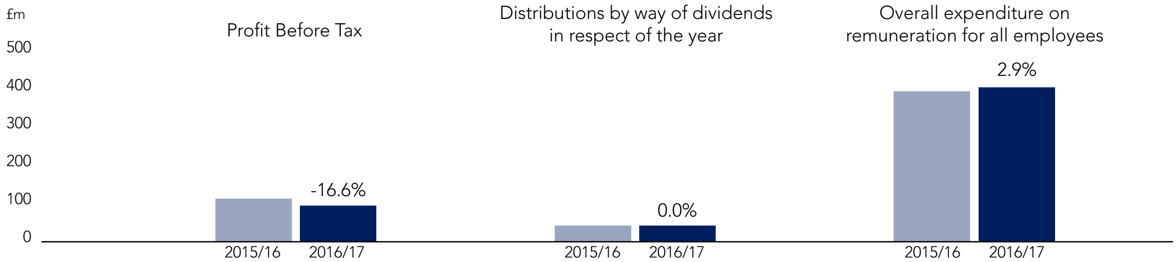
Sergio Bucher waived his right to receive a base salary increase during FY2017.

As part of the terms of Sergio Bucher's appointment, for the first two years of his employment Sergio is provided with a housing allowance and reasonable relocation expenses. The expenses relating to Sergio's relocation have not been included in this analysis.

No bonus was paid to the CEO in respect of FY2016 and FY2017.

Relative importance of spend on pay

The chart below sets out the amounts paid in FY2016 and FY2017 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 1,673,537 shares in the Company. Any shares allocated under the Debenhams 2008 Share Incentive Plan (a plan for employees below board level) 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 FY2017: 2.03% (FY2016: 1.08%) of share capital.

Implementation of policy for FY2018
The following summarises how policy will be implemented for FY2018:

	Opportunity	Performance measures	Changes from FY2017
Salary	CEO – £700,000 CFO – £439,200	n/a	• The salary for the CFO was increased by 1.5% on 1 April 2017. The CEO elected to not receive a pay rise • Following the year end we have been restructuring the organisation to ensure we have the right framework in place to support the implementation of the Debenhams Redesigned strategy. As part of this a number of the members of the Executive Committee will be taking on additional responsibilities, including the CFO who, going forward will be responsible for strategy. To reflect the size and scope of this additional responsibility the Committee agreed it was appropriate to increase Matt Smith's salary by 5% from 1 November 2017 to £439,200 • The annual salary review date for the Company is being amended and therefore salaries will next be reviewed with effect from 1 November 2018
Pension and benefits	CEO – 20% of salary CFO – 15% of salary Benefits as set out in policy		• No changes
Annual bonus	CEO – 100% of salary CFO – 100% of salary	80% PBT 20% customer measure The portion of the annual bonus subject to customer services is also subject to meeting a minimum level of profit performance.	• No changes to performance measures • The CEO's annual bonus opportunity for FY2017 was 150% as agreed on his appointment. This has reverted to 100% for FY2018
PSP	CEO – 150% of salary CFO – 100% of salary	50% relative TSR compared to a bespoke peer group of retail companies 25% EPS 25% ROCE	• Performance measures for awards to be granted in FY2018 have been reviewed to reflect shareholder feedback and to ensure alignment between the PSP and shareholder value creation and returns generated • Details of measures and targets are set out on page 59 • The CEO's annual PSP opportunity for FY2017 was 200% as agreed on his appointment. This has reverted to 150% for FY2018

FY2018 PSP performance measures

PSP awards to be granted in FY2018 will be subject to performance conditions with 50% of the award keyed off relative TSR compared to a bespoke peer group of retail companies, 25% of the award keyed off EPS performance and 25% keyed off ROCE performance.

For the relative TSR measures 25% vests for achieving median performance against the group with 100% vesting for upper quartile performance.

The peer group includes the following companies: AO World, B&M European Value Retail, Card Factory, Dixons Carphone, Dunelm Group, Halfords Group, JD Sports Fashion, Marks & Spencer Group, Mothercare, Next, Pets At Home Group, Sports Direct International, WH Smith.

EPS targets are as follows:

Entry (25% vesting)	Target (50% vesting)	Maximum (100% vesting)
5.8p	6.3p	8.2p

Target performance has been set to be aligned with market consensus for our performance for FY2020. The maximum target has been set to be significantly in excess of market expectations and the Committee believes that if this is achieved it will represent exceptional performance in a challenging market.

ROCE targets are as follows:

Entry (25% vesting)	Target (50% vesting)	Maximum (100% vesting)
10.7%	10.9%	11.8%

In order for the award to vest, the Committee must also be satisfied that the underlying financial performance of the Company over the performance period is sufficient to justify the vesting of the award.

For the purpose of defining ROCE capital employed will include a capitalised value of future store rental payments at an eight times multiple and profitability items on a pre-rental basis.

Element	Key features/operation	Implementation for FY2018
Fees	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	Fees for the year are: Basic fee – £40,000 Senior Independent Director – £10,000 Committee chairmanship fee (Audit and Remuneration) – £10,000 Committee membership fee (per committee) – £2,500 The non-executive Chairman's fee is £200,000
Benefits and expenses	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.

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 13 January 2019
Terry Duddy	10 April 2015	Appointed for a term of three years ending on 9 April 2018
David Adams	19 October 2017	Appointed for a term of three years ending on 18 October 2020
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
Stephen 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
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
Nicky Kinnaird	15 November 2016	Appointed for a term of three years ending on 14 November 2019
Lisa Myers	6 September 2016	Appointed for a term of three years ending on 5 September 2019
Mark Rolfe	1 October 2010	Having served 7 years, his contract has been renewed and expires at the conclusion of the next Annual General Meeting. The end date for his current contract is 11 January 2018

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 FY2017 (audited) and FY2016 (audited)

The table below sets out the fees payable to each director not performing an executive function in respect of FY2017 and FY2016.

		2017			2016		
		Fees	**Benefits**	**Total**	**Fees**	**Benefits**	**Total**
Sir Ian Cheshire	Non-executive Chairman, chairman of Nomination Committee, member of Remuneration Committee	£200,000	–	£200,000	£127,435	–	£127,435
Terry Duddy	Senior Independent Director and member of Remuneration, Audit and Nomination committees	£57,500	–	£57,500	£53,782	–	£53,782
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 the Remuneration & Sustainability[1] Committees, member of Audit and Nomination committees	£62,500	–	£62,500	£59,711	–	£59,711
Mark Rolfe	Chairman of Audit Committee, member of Remuneration and Nomination committees	£55,000	–	£55,000	£55,000	–	£55,000
Lisa Myers[2]	Non-executive Director and Member of Audit Committee	£42,064	–	£42,064	–	–	–
Nicky Kinnaird[3]	Non-executive Director	£31,846	–	£31,846	–	–	–

1 The Sustainability Committee was disbanded on 3 September 2017 and no further fees will be payable from that date.
2 Lisa Myers joined 6 September 2016.
3 Nicky Kinnaird joined 15 November 2016.

Former Director (audited)

		2017			2016		
		Fees	**Benefits**	**Total**	**Fees**	**Benefits**	**Total**
Dennis Millard[1]	Non-independent non-executive director and a member of the Nomination Committee and of the Remuneration Committee	£15,801	–	£15,801	£50,865	–	£50,865

1 Dennis Millard stepped down from the board on 12 January 2017.

The total interests of the Chairman and non-executive directors in the share capital of the Company as at 2 September 2017 are shown below.

Director	Ordinary shares held at 3 September 2016	Ordinary shares held at 2 September 2017	Ordinary shares held at 26 October 2017
Sir Ian Cheshire	575,000	625,000	625,000
Terry Duddy	140,000	140,000	140,000
Peter Fitzgerald	–	–	–
Stephen Ingham	74,557	74,557	74,557
Martina King	10,000	10,000	10,000
Dennis Millard (resigned 14 January 2017)	69,455	69,455[1]	n/a
Mark Rolfe	30,000	30,000	30,000
Lisa Myers (appointed 6 September 2016)	–	–	–
Nicky Kinnaird (appointed 15 November 2016)	–	–	–

1 Balance of shares disclosed is as at date of resignation.

The information in the table above is audited.

Consideration of matters in relation to directors' remuneration

Remuneration Committee members during the year

Martina King is chairman of the Committee and is joined by Sir Ian Cheshire, Terry Duddy, Stephen Ingham, and Mark Rolfe.

Details of the members' background and experience is provided within their biography on pages 40 to 41.

Director	Position	Number of meetings held and attended during the year (of those eligible to attend)
Martina King, Committee Chairman	Independent non-executive director	4/4
Sir Ian Cheshire	Independent non-executive Chairman	4/4
Terry Duddy[1]	Senior Independent non-executive director	3/4
Stephen Ingham	Independent non-executive director	4/4
Mark Rolfe	Independent non-executive director	4/4

1 Terry Duddy was unable to attend the meeting held in July 2017 due to a family bereavement.

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 www.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 recruitment arrangements for Sergio Bucher
- Approved the directors' remuneration report for FY2016
- Reviewed performance against targets for the executive directors' FY2017 bonuses
- Reviewed the operation of the PSP, particularly the performance measures for the 31 May 2017 PSP awards
- Approved a pay increase for the CFO and Group Trading Director. Sergio Bucher elected not to receive a pay rise
- Reviewed the executive remuneration strategy for FY2018 and consulted with shareholders on a new remuneration policy for approval at the AGM to be held in January 2018
- Approved the executive directors' bonus plan for FY2018
- Evaluated the performance of the Committee
- Approved the terms of Suzanne Harlow's severance agreement

Performance evaluation of the Committee

This year's formal evaluation of the Committee was conducted by Lintstock Ltd, and concluded that the quality of the information that the committee receives is high and this enables it to use its time effectively. The experience of the members was rated particularly high in an ever-changing regulatory environment around remuneration.

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 £59,500.

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 employment and personal 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.

The Committee consider that the advice received from the advisors is independent, straightforward, relevant and appropriate and that it has an appropriate level of access to them and has confidence in their advice.

The CEO, the CFO, the HR Director and the Head of Pay & Reward 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 the previous policy and the FY2016 annual remuneration report:

Director	For	Against
2014 directors remuneration policy (2014 AGM)	98.65%	1.35%
2016 annual remuneration report (2017 AGM)	95.46%	4.54%

289,364 and 64,091 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
26 October 2017

Directors' report

As required by the Companies Act 2006, the directors' report of Debenhams plc for the year ended 2 September 2017 is comprised of these pages 77 to 79 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.

Information	Location in Annual Report
Review of the business, principal risks and uncertainties and KPIs	Business model and strategy, key performance indicators, financial review, and principal risks and uncertainties
Strategy	Business model & strategy and CEO's strategic perspective
Business model	Business model and strategy in action
Future business developments	CEO's strategic perspective
Environmental matters (including GHG emissions), employees and social, community and human rights issues (including information about the Company's policies in relation to these matters)	Resources, Relationships & Sustainability
Anti-corruption and Anti-bribery	Resources, Relationships & Sustainability
Employment policy for disabled persons and employee engagement throughout the workforce	Resources, Relationships & Sustainability
Gender diversity	Nomination Committee report

PROFIT AND DIVIDENDS

The profit after tax for the financial year ending 2 September 2017 was £48.8 million (2016: £85.9 million). The directors recommend the payment of a final dividend of 2.4 pence per ordinary share, to be paid on 19 January 2018 to members on the register at the close of business on 8 December 2017. This together with the interim dividend of 1.025 pence per share paid on 7 July 2017 gives a full year dividend of 3.425 pence per share.

DIRECTORS

The following persons were directors of the Company during the period ended 2 September 2017 and unless otherwise stated at the date of this Annual Report:

Sir Ian Cheshire
Sergio Bucher (appointed 17 October 2016)
Matt Smith
Suzanne Harlow (resigned 20 October 2017)
Terry Duddy
David Adams (appointed 19 October 2017)
Peter Fitzgerald
Stephen Ingham
Martina King
Dennis Millard (resigned 12 January 2017)
Mark Rolfe
Lisa Myers (appointed 6 September 2016)
Nicky Kinnaird (appointed 15 November 2016)

The membership of the board and biographical details of the directors are given on pages 40 to 41. 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, apart from Mark Rolfe, offer themselves either for election, in the case of David Adams, or re-election in the case of all other directors. A formal evaluation of the performance of each director and of the board has been carried out and the performance of each of them continues to be effective and to demonstrate commitment to his or her role. There is more information on the evaluation and its outcome within the corporate governance report on page 45.

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, as at 2 September 2017, pursuant to the Disclosure Guidance and Transparency Rules. This information was correct at the date of notification. It should be noted that these holdings may have changed since being 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	221,104,693	18.00%
Sports Direct International plc[1]	129,437,779	10.54%
Brandes Investment Partners LP	123,055,442	10.02%
The Goldman Sachs Group Inc[2]	105,177,527	8.56%
Standard Life Aberdeen	100,446,970	8.18%
Milestone Resources Group Limited	89,183,155	7.26%
Deutsche Bank	61,718,583	5.02%
ING Groep N.V.	40,515,686	3.30%
Norges Bank	36,727,709	3.00%

1 As at 18 August 2017, Sports Direct International plc also holds a Put Option Agreement with Goldman Sachs International referencing 128,927,113 ordinary shares of Debenhams plc (representing 10.5% of the issued share capital of Debenhams). The maturity period for this option contract is October/November 2017.
2 Holding made up of 0.08% stock loan and 7.97% by financial instruments.

The following notification(s) have been received since 2 September 2017 and up to 25 October 2017:

Shareholder	Number of Shares	Percentage of issued share capital
Brandes Investment Partners LP (13.09.2017)	135,077,895	11.00%
Deutsche Bank AG (27.09.2017)	below 5% threshold	n/a
Deutsche Bank AG (28.09.2017)	61,896,000	5.04%
The Goldman Sachs Group Inc (23.10.17)	114,381,401	9.32%
Sports Direct International plc[1]	142,330,490	11.59%

1 As at 25 October 2017, Sports Direct International plc also holds an interest in shares through a Put Option Agreement with Goldman Sachs International in respect of 116,034,402 ordinary shares of Debenhams plc (representing 9.45% of the issued share capital of Debenhams). The maturity period for this option contract is October/November 2017. They also have an interest in 0.16% of the shares through a contract for differences with Monecor (London) Ltd.

Any notifications received during the period 26 October and 8 November, being one month prior to the date of the notice of Annual General Meeting are included in the notes to that notice.

SHARE CAPITAL

As at 2 September 2017, the issued share capital of the Company was 1,227,822,150 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. No shares were transferred out of Treasury during the year.

At the January 2017 Annual General Meeting, shareholders authorised the Company to purchase up to 122,782,215 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 annual authority that the Company seeks 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 2 September 2017, the Debenhams Retail Employee Trust 2004 (the "Trust") holds 1,673,537 ordinary shares in the Company (0.13%). 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.

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 122 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 117 to 121.

EVENTS SINCE YEAR END

- £7.5m investment in blow LTD
- David Adams was appointed as a non-executive director on 19 October 2017
- Suzanne Harlow stepped down from the board on 20 October 2017

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 37.

CORPORATE GOVERNANCE STATEMENT

In accordance with the Financial Conduct Authority's Disclosure Guidance 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 42 to 47 and risk management report on pages 26 to 30 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 11 January 2018. 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 26 October 2017 and signed on its order by:

Paul Eardley
Company Secretary

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the 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.

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

Each of the directors, whose names and functions are listed in the corporate governance section of this report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces

On behalf of the board

Sergio Bucher
Chief Executive Officer
26 October 2017

Independent auditors' report to the members of Debenhams plc (Group)

REPORT ON THE AUDIT OF THE GROUP FINANCIAL STATEMENTS

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 2 September 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Consolidated Balance Sheet as at 2 September 2017; the Consolidated Income Statement and Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

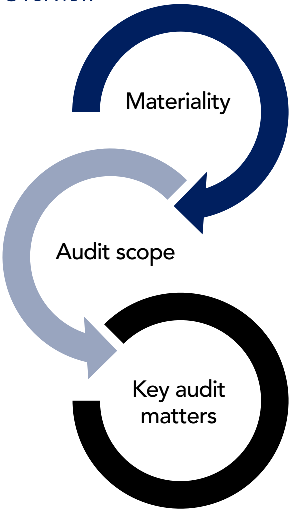
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the group in the period from 4 September 2016 to 2 September 2017.

Our audit approach

Overview



- Overall group materiality: £4.8 million (2016: £5.9 million), based on 5% of profit before tax and exceptional items

- Debenhams plc consists 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 profit before tax and exceptional items

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

Independent auditors' report to the members of Debenhams plc (Group)
continued

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of fraud in revenue recognition in relation to cut-off of wholesale invoicing to franchises. See note 2 to the financial statements for the directors' disclosures of the related revenue recognition accounting policy and page 52 for the views of the Audit Committee. The Group's revenue relates to both retail trading and trading with franchise partners. 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. 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.	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. 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.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation using the retail method and provisioning for out of season inventory. Refer to page 52 (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.	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.

Independent auditors' report to the members of Debenhams plc (Group)
continued

Key audit matter	How our audit addressed the key audit matter
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 and 15 for further details on the impairment assessment. 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 Properties Limited, Debenhams Retail (Ireland) Limited and Magasin du Nord as these are the only entities that have store assets. The Group balance sheet also includes £819.5 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.	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 (2.0%) to 4.0%), are driven by the implementation of the new Debenhams Redesigned strategy. We have agreed the growth rates to management's five year plan and assessed the components of that five year plan. The growth rates used are in line with the five year plan; • The directors' key assumptions for long-term sales growth rates of 1.0%, 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 7.3%), 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 We agreed the impairment charge recognised regarding store assets of £7.2m to management's impairment assessment and challenged these assumptions used. We also reviewed the calculations for the value in use of stores that had not been impaired to ensure that the impairment charge was complete. For marginal stores, not impaired, we challenged management and understood their argument 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.

Key audit matter	How our audit addressed the key audit matter
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 £1,123.4 million and total pension liabilities of £1,042.5 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 employees in the 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.
Exceptional items. **Refer to note 5 to the financial statements for the directors' disclosures on the critical accounting estimates and judgements related to the exceptional items and note 7 for detailed disclosures in relation to these items.** The group has classified £36.2 million as exceptional costs in the current period. The classification of exceptional costs includes judgements on the nature of the cost incurred and the recurrence of those costs in future years. These costs are attributable to the Strategic review and restructuring and Strategic warehouse restructuring. We focused on this area because of the magnitude of the amount of costs being classified as exceptional items in the current period and the element of judgement involved in determining whether an item should be classified as an exceptional item or included within the underlying results. This risk is relevant to Debenhams Retail plc and Debenhams Properties Limited which are the only entities that have incurred exceptional items in the year.	We evaluated the assessment of management covering the nature of the item, cause of occurrence and the scale of the impact of that item on reported performance. We considered and challenged the consistency of the use of exceptional items, both within the single set of accounts and year on year. Our testing noted that management were able to demonstrate the nature of the expenses were non-recurring and related to the roll out of the new strategy. We reviewed the disclosures given in both the notes to the financial statements and in the strategic and directors' reports to ensure the disclosure of exceptional items was sufficient for users of the accounts to understand the nature of and reasons for the costs.

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 structure of the group, the accounting processes and controls, and the industry in which it 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.

Independent auditors' report to the members of Debenhams plc (Group)
continued

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 evaluation of and review of the work performed, 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 in aggregate 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	£4.8 million (2016: £5.9 million).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	We believe that profit before tax and exceptional items is the primary measure used by the shareholders in assessing the performance of the group, and is generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £2.3m to £4.5m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million (2016: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006,(CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 2 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 27 of the Annual Report 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
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated
- The directors' explanation on page 79 of the Annual Report 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and its environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 80, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group obtained in the course of performing our audit
- The section of the Annual Report on page 52 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors

Independent auditors' report to the members of Debenhams plc (Group)
continued

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities set out on page 80, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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.

OTHER REQUIRED REPORTING
Companies Act 2006 exception reporting
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.

Appointment
Following the recommendation of the audit committee, we were appointed by the members of Debenhams plc to audit the financial statements for its first year after incorporation for the year ended 3 September 2005 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 3 September 2005 to 2 September 2017. Before 2005, we were auditors of other entities within the Debenhams plc group. The audit committee have set out details of their planned audit tender timetable on page 53 of the annual report and accounts.

OTHER MATTER
We have reported separately on the company financial statements of Debenhams plc for the year ended 2 September 2017 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
Reading
26 October 2017

Consolidated income statement
For the financial year ended 2 September 2017

	Note	52 weeks ended 2 September 2017			53 weeks ended 3 September 2016		
		Before exceptional items £m	**Exceptional items (note 7) £m**	**Total £m**	Before exceptional items £m	Exceptional items (note 7) £m	Total £m
Revenue	3, 4	**2,335.0**	**–**	**2,335.0**	2,341.7	–	2,341.7
Cost of sales		**(2,046.1)**	**(24.1)**	**(2,070.2)**	(2,039.8)	(8.5)	(2,048.3)
Gross profit		**288.9**	**(24.1)**	**264.8**	301.9	(8.5)	293.4
Distribution costs		**(124.5)**	**(10.6)**	**(135.1)**	(115.4)	(1.8)	(117.2)
Administrative expenses		**(56.9)**	**(1.5)**	**(58.4)**	(55.5)	(2.1)	(57.6)
Operating profit	6	**107.5**	**(36.2)**	**71.3**	131.0	(12.4)	118.6
Finance income	9	**0.1**	**–**	**0.1**	1.4	–	1.4
Finance costs	10	**(12.4)**	**–**	**(12.4)**	(14.2)	–	(14.2)
Profit before taxation		**95.2**	**(36.2)**	**59.0**	118.2	(12.4)	105.8
Taxation	11	**(17.2)**	**7.0**	**(10.2)**	(22.3)	2.4	(19.9)
Profit for the financial year attributable to owners of the parent		**78.0**	**(29.2)**	**48.8**	95.9	(10.0)	85.9

EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

		Pence per share	**Pence per share**	Pence per share	Pence per share
Basic earnings per share	13	6.4	**4.0**	7.8	7.0
Diluted earnings per share	13	6.4	**4.0**	7.8	7.0

Consolidated statement of comprehensive income

For the financial year ended 2 September 2017

	Note	**52 weeks ended 2 September 2017 £m**	53 weeks ended 3 September 2016 £m
Profit for the financial year		**48.8**	85.9
Other comprehensive income/(expense)			
Items that will not be reclassified to the income statement			
Remeasurements of pension schemes	24	**76.7**	(41.1)
Taxation relating to items that will not be reclassified	11	**(18.5)**	8.1
		58.2	(33.0)
Items that may be reclassified to the income statement			
Change in the valuation of available-for-sale investments	16	**(0.1)**	(0.8)
Currency translation differences:			
Retranslation of overseas subsidiaries		**5.9**	7.4
Foreign currency cash flow hedges:			
Fair value gains		**4.6**	41.8
Recycled and adjusted against cost of inventory	22	**(50.4)**	(27.2)
Cash flow hedges reclassified and reported in the income statement	22	**0.2**	0.8
Taxation relating to items that may be reclassified	11	**8.2**	(1.5)
		(31.6)	20.5
Total other comprehensive income/(expense)		**26.6**	(12.5)
Total comprehensive income for the financial year		**75.4**	73.4

Consolidated balance sheet
As at 2 September 2017

	Note	2 September 2017 £m	3 September 2016 £m
Assets			
Non-current assets			
Intangible assets	14	**991.9**	962.1
Property, plant and equipment	15	**654.9**	670.2
Available-for-sale investments	16	**1.2**	1.3
Derivative financial instruments	23	**0.5**	10.7
Trade and other receivables	18	**19.3**	17.4
Retirement benefit surplus	24	**80.9**	6.4
Deferred tax assets	25	**15.3**	20.1
		1,764.0	1,688.2
Current assets			
Inventories	17	**317.8**	326.3
Trade and other receivables	18	**82.9**	81.1
Derivative financial instruments	23	**4.8**	39.1
Cash and cash equivalents	19	**40.0**	56.3
		445.5	502.8
Liabilities			
Current liabilities			
Bank overdraft and borrowings	21	**(116.4)**	(135.6)
Derivative financial instruments	23	**(12.0)**	(7.6)
Trade and other payables	20	**(523.3)**	(516.3)
Current tax liabilities		**(9.8)**	(14.7)
Provisions	27	**(10.2)**	(14.0)
		(671.7)	(688.2)
Net current liabilities		**(226.2)**	(185.4)
Non-current liabilities			
Bank overdraft and borrowings	21	**(199.5)**	(199.7)
Derivative financial instruments	23	**(5.3)**	(3.7)
Deferred tax liabilities	25	**(54.0)**	(50.5)
Other non-current liabilities	26	**(351.7)**	(354.5)
Retirement benefit obligations	24	**–**	(10.5)
Provisions	27	**(9.7)**	–
		(620.2)	(618.9)
Net assets		**917.6**	883.9
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		**(6.2)**	31.2
Other reserves	28	**(3.5)**	(9.3)
Retained earnings		**243.3**	178.0
Total equity		**917.6**	883.9

The financial statements on pages 89 to 135 were approved by the board on 26 October 2017 and were signed on its behalf by:

Matt Smith
Chief Financial Officer

Consolidated statement of changes in equity

For the financial year ended 2 September 2017

	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 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
Profit for the financial year		–	–	–	–	–	48.8	48.8
Other comprehensive (expense)/income for the financial year		–	–	–	(37.4)	5.8	58.2	26.6
Total comprehensive expense)/income for the financial year		–	–	–	(37.4)	5.8	107.0	75.4
Share-based payment charge	29	–	–	–	–	–	0.5	0.5
Taxation recognised directly in equity	11	–	–	–	–	–	0.6	0.6
Dividends paid	12	–	–	–	–	–	(42.0)	(42.0)
Purchase of shares by Debenhams Retail Employment Trust 2004	28	–	–	–	–	–	(0.8)	(0.8)
Total transactions with owners		–	–	–	–	–	(41.7)	(41.7)
Balance at 2 September 2017		**683.0**	**1,200.9**	**(1,199.9)**	**(6.2)**	**(3.5)**	**243.3**	**917.6**

For a description of other reserves see note 28.

Consolidated cash flow statement
For the financial year ended 2 September 2017

	Note	**52 weeks ended 2 September 2017 £m**	53 weeks ended 3 September 2016 £m
Cash flows from operating activities			
Cash generated from operations	31	**200.4**	240.2
Finance income		**0.1**	0.3
Finance costs		**(11.2)**	(15.6)
Tax paid		**(16.3)**	(11.0)
Net cash generated from operating activities		**173.0**	213.9
Cash flows from investing activities			
Purchase of property, plant and equipment		**(72.6)**	(79.3)
Purchase of intangible assets		**(52.2)**	(47.2)
Net cash used in investing activities		**(124.8)**	(126.5)
Cash flows from financing activities			
Repayment of revolving credit facility	21	**(25.0)**	(15.0)
Dividends paid	12	**(42.0)**	(42.0)
Purchase of shares by Debenhams Retail Employment Trust 2004	28	**(0.8)**	–
Finance lease payments		**(1.6)**	(2.9)
Debt issue costs		**–**	(1.3)
Net cash used in financing activities		**(69.4)**	(61.2)
Net (decrease)/increase in cash and cash equivalents		**(21.2)**	26.2
Net cash and cash equivalents at beginning of financial year		**40.8**	14.4
Foreign exchange gains on cash and cash equivalents		**0.1**	0.2
Net cash and cash equivalents at end of financial year	32	**19.7**	40.8

Notes to the financial statements
For the financial year ended 2 September 2017

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, beauty and gifting products and products for use in the home. The Group trades from department stores and online in the UK, the Republic of Ireland and Denmark 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 2 September 2017 is a 52-week year, with the comparative year ended 3 September 2016 being a 53-week year.

The subsidiary undertakings within the Group during the financial year ended 2 September 2017 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 ("IFRS") 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 2 September 2017 and 3 September 2016 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 IFRS, 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).

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures "APMs", which are not defined or specified under the requirements of IFRS and therefore may not be directly comparable with other companies' APMs.

The Group believes that these APMs, which are not considered a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how business performance is planned and reported within the internal management reporting to the board and executive committee. Some of the measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include gross transaction value; like-for-like sales; gross margin; underlying profit before tax before exceptional items; underlying earnings per share before exceptional items; underlying Group earnings before interest, taxation, depreciation, amortisation and exceptional items ("underlying EBITDA"); effective tax rate; net debt and return on capital employed. Each of these APMs and others used by the Group, are set out in the Glossary on pages 152 to 154 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

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. The principal items which are included as exceptional items are costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business. These costs may include restructuring and other associated costs (only where there is a significant or wholesale restructuring programme), impairment charges and onerous lease charges.

Basis of consolidation

The financial statements comprise a consolidation of the accounts of Debenhams plc, its subsidiaries and the Group's share of its interests in associates.

a) 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.

b) Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies.

The Group's share of the results of associates is incorporated into the Group's results using the equity method of accounting. Investments in associates are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in associates include acquired goodwill.

If the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the associate.

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.

Notes to the financial statements
For the financial year ended 2 September 2017
continued

2 ACCOUNTING POLICIES CONTINUED

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.

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.

The Group 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.

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 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 all business combinations.

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 business combination are initially measured at their fair values at the acquisition date. 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.

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 also 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%

Notes to the financial statements
For the financial year ended 2 September 2017
continued

2 ACCOUNTING POLICIES CONTINUED

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 is 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 the assets 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. Available-for-sale investments are recognised 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.

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 forward foreign currency contracts and 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 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.

Notes to the financial statements
For the financial year ended 2 September 2017
continued

2 ACCOUNTING POLICIES CONTINUED
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, terminated 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 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:

- Amendment to IAS 7 "Cash flow statements" disclosure initiative
- Amendment to IAS 12 "Income taxes" on recognition of deferred tax assets for unrealised losses

IFRS 16 "Leases" was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. The standard is yet to be endorsed by the EU. 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 Group has invested in a new property management system to prepare for the adoption of the new standard. The Group is currently assessing the impact of IFRS 16 on its existing lease portfolio of approximately 250 property leases and other contracts. Work performed to date includes consideration of the transition approach and collection of relevant data from different areas of the business. In order to quantify the impact of IFRS 16, judgements are required which include, amongst others, the lease term, including consideration of extension options and the discount rate.

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.

It is not possible to provide an accurate assessment of the effect of this standard until a detailed review has been completed on an individual lease basis. The Group's undiscounted operating lease commitments at 2 September 2017 under the current leasing standard, is disclosed in note 30.

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:

- Annual improvements to IFRS: 2014 – 2016 Cycle
- IFRS 9 "Financial instruments" and amendments to IFRS 9 "Financial instruments" on general hedge accounting
- IFRS 15 "Revenue from contracts with customers" and amendments to IFRS 15 "Revenue from contracts with customers" clarifications
- Amendment to IFRS 2 "Share-based payment" on clarifying share-based payment transactions
- Amendment to IAS 40 "Investment property" transfers of investment property
- IFRIC 22 "Foreign currency transactions and advance consideration"
- IFRIC 23 "Uncertainty over income tax"

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 between 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 2 September 2017			
Gross transaction value	**2,350.0**	**604.1**	**2,954.1**
Concessions, consignments and staff discounts	**(457.1)**	**(162.0)**	**(619.1)**
External revenue	**1,892.9**	**442.1**	**2,335.0**
Operating profit before exceptional items	**74.0**	**33.5**	**107.5**
Exceptional items	**(34.3)**	**(1.9)**	**(36.2)**
Operating profit after exceptional items	**39.7**	**31.6**	**71.3**
Other segment items			
Depreciation (note 15)	**81.0**	**8.5**	**89.5**
Amortisation (note 14)	**19.0**	**1.0**	**20.0**
Impairment of property, plant and equipment (note 15)	**7.2**	**–**	**7.2**
Loss on disposal and write off of property, plant and equipment (note 15)	**1.2**	**–**	**1.2**
Loss on disposal and write off of intangible assets (note 14)	**4.6**	**–**	**4.6**
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 of intangible assets (note 14)	–	2.2	2.2

Notes to the financial statements
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3 SEGMENTAL REPORTING CONTINUED

Segmental analysis of results

Total segmental operating profit may be reconciled to total profit before taxation as follows:

	2 September 2017 £m	3 September 2016 £m
Total operating profit	**71.3**	118.6
Finance income	**0.1**	1.4
Finance costs	**(12.4)**	(14.2)
Total profit before taxation	**59.0**	105.8

Revenues analysed by country, based on the customers' location, are set out below:

	2 September 2017 £m	3 September 2016 £m
United Kingdom	**1,892.9**	1,931.9
Denmark	**205.6**	185.1
Republic of Ireland	**147.5**	136.3
Rest of the world	**89.0**	88.4
Total external revenue	**2,335.0**	2,341.7

Non-current assets, which comprise intangible assets and property and plant and equipment analysed by country, are set out below:

	2 September 2017 £m	3 September 2016 £m
United Kingdom	**1,585.9**	1,582.1
Denmark	**36.0**	28.4
Republic of Ireland	**24.0**	21.5
Rest of the world	**0.9**	0.3
Total non-current assets	**1,646.8**	1,632.3

Additions to intangible assets and property, plant and equipment analysed by operating segment are set out below:

	UK £m	International £m	Total £m
Financial year ended 2 September 2017	**116.1**	**15.6**	**131.7**
Financial year ended 3 September 2016	120.3	9.4	129.7

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.

	2 September 2017 £m	3 September 2016 £m
Gross transaction value	**2,954.1**	2,938.5

A reconciliation of GTV to external revenue is included in note 3.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated Group financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. 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. Actual results may differ from these estimates. The significant judgements applied in the preparation of the consolidated financial statements, along with 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.

Sources of estimation uncertainty

Estimated impairment of goodwill and store assets

The Group tests whether goodwill and store assets have suffered any impairment in accordance with the accounting policies 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 notes 14 and 15 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.

Property provisions

Property provisions comprise onerous lease provisions, relating to leases on properties which the Group plans to exit and dilapidations provisions. Onerous lease provisions are based on the lower of the net cost of fulfilling or exiting the contract. The ultimate costs and timing of cash flows are dependent on exiting the property lease contracts and sub-letting surplus space. Significant assumptions are used in making these calculations, in particular the nature, timing and value of mitigating lease costs including the level of sub-lease income, and changes in these assumptions and future events could cause the value of these provisions to change. Refer to note 27 for further details.

Judgements made in applying accounting policies

Exceptional items

The Group separately reports exceptional items within their relevant income statement line as it believes this helps provide a better indication of the underlying performance of the Group.

Judgement is required in determining whether an item should be classified as an exceptional item or included within underlying results. This assessment covers the nature of the item, cause of occurrence and the scale of the impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria. A breakdown of the exceptional items included in the income statement is disclosed in note 7.

Notes to the financial statements
For the financial year ended 2 September 2017
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6 OPERATING PROFIT

	2 September 2017 £m	3 September 2016 £m
The following items have been included in arriving at operating profit:		
The amounts of inventory written down during the financial year	**9.7**	7.5
Cost of inventory recognised as an expense	**1,151.3**	1,153.7
Depreciation of property, plant and equipment (note 15)	**89.5**	89.4
Amortisation of intangible assets (note 14)	**20.0**	19.2
Impairment of intangible assets (note 14)	**–**	2.2
Impairment of property, plant and equipment (note 15)	**7.2**	–
Loss on disposal and write off of property, plant and equipment (note 15)	**1.2**	0.1
Loss on disposal and write off of intangible assets (note 14)	**4.6**	–
Operating lease rentals	**221.4**	220.7
Foreign exchange gains	**(49.4)**	(24.1)
Auditors' remuneration	**0.5**	0.5

Services provided by the Company's auditors and network firms
During the financial year the Group obtained the services from the Company's auditors and its associates detailed below:

	2 September 2017 £m	3 September 2016 £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**	0.2
Other non-audit services	**0.1**	0.1

Non-audit service fees payable to the Group's auditors during the financial year ended 3 September 2016 included £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 for the 52 weeks ended 2 September 2017 comprise the following:

	Strategic review and restructuring £m	Strategic warehouse restructuring £m	Total £m
Exceptional cost of sales	**21.1**	**3.0**	**24.1**
Exceptional distribution costs	**0.9**	**9.7**	**10.6**
Exceptional administration costs	**1.5**	**–**	**1.5**
Exceptional items before taxation	**23.5**	**12.7**	**36.2**
Taxation on exceptional items	**(4.9)**	**(2.1)**	**(7.0)**
Exceptional items after taxation	**18.6**	**10.6**	**29.2**

During the financial year the Group conducted a strategic review and embarked on a new strategy Debenhams Redesigned together with a planned restructuring of operations encompassing the following areas:

Strategic review and restructuring
As part of the strategic review, the Group revised future projections for all stores to reflect the change of direction. This review identified stores at risk of becoming unprofitable over time and where anticipated future performance will not support the carrying value of store assets. Exceptional store costs of £10.4 million relating to impairment of property, plant and equipment and onerous lease commitments have been recognised during the financial year as a result.

Other exceptional charges of £13.1 million were incurred as a result of transforming the business in line with the new Debenhams Redesigned strategy including redundancies (including some senior management within the trading division and the support centre), professional fees, recruitment costs of key people to help drive the strategy, asset write-offs of legacy IT systems and costs arising from strategic exits from certain international markets.

Costs incurred in relation to the strategic review and restructuring are considered to be exceptional because the Debenhams Redesigned strategy is a significant change of direction for the business and costs are not considered to be normal operating costs. Further details of the Debenhams Redesigned strategic review are set out in the CEO's strategic perspective on pages 6 to 8.

Strategic warehouse restructuring
During the financial year, the Group carried out a strategic review of its warehouse operations which led to a restructuring. As a result, the Group announced the closure of its distribution centre at Northampton and certain regional warehousing facilities and recognised exceptional closure costs of £8.8 million relating to accelerated depreciation of assets, dilapidations, onerous lease commitments and redundancy costs.

Exceptional charges of £3.9 million were incurred during the financial year relating to one-off transition costs including staff time, training and inventory moves totalling £3.5 million and asset write-offs of property, plant and equipment of £0.4 million. Part of this restructuring is warehouse automation which is an ongoing project over the next two years.

Costs incurred in relation to the strategic warehouse restructuring are considered to be exceptional because the project is non-recurring and costs are not considered to be normal operating costs.

Exceptional items for the 53 weeks ended 3 September 2016 comprise the following:

	Irish examinership £m	UK restructuring £m	International website £m	Total £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

Irish examinership
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.

UK restructuring
UK restructuring costs represent the amount incurred for redundancies and fees within the support centre.

International website
International website costs represent the write-off of the old International website intangible asset following the launch of the new International website during the 53 weeks ended 3 September 2016.

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8 EMPLOYEES

	2 September 2017 £m	3 September 2016 £m
Wages and salaries including restructuring costs and other termination benefits	**366.5**	357.4
Social security costs	**23.0**	22.4
Other pension costs (note 24)	**17.5**	17.0
Share-based payments (note 29)	**0.5**	(0.8)
Employment costs	**407.5**	396.0

	Number	Number
Average monthly number of employees (including key management):		
Full time	**8,431**	8,392
Part time	**18,651**	19,501
Total	**27,082**	27,893

Information concerning directors' remuneration, shares and share interests is included in the directors' remuneration report on pages 54 to 76, which forms part of these financial statements.

Key management compensation

	2 September 2017 £m	3 September 2016 £m
Short-term employee benefits	**4.4**	3.5
Post-employment benefits	**0.5**	0.5
Other long-term benefits and termination benefits	**1.0**	1.2
Share-based payments	**0.2**	(0.6)
	6.1	4.6

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 16 members (2016: 15 members).

9 FINANCE INCOME

	2 September 2017 £m	3 September 2016 £m
Interest on bank deposits	**0.1**	0.3
Net interest on net defined benefit pension schemes' liability/asset (note 24)	**–**	1.1
	0.1	1.4

10 FINANCE COSTS

	2 September 2017 £m	3 September 2016 £m
Interest payable on bank loans and overdrafts	**2.8**	3.3
Interest payable on senior notes	**10.4**	10.6
Cash flow hedges reclassified and reported in the income statement	**0.2**	0.8
Amortisation of issue costs on loans and senior notes (note 21)	**1.3**	1.3
Interest payable on finance leases	**0.2**	0.1
Capitalised finance costs – qualifying assets (note 14, 15)	**(2.5)**	(1.9)
	12.4	14.2

11 TAXATION

Analysis of taxation charge to the income statement for the financial year:

	2 September 2017 £m	3 September 2016 £m
Current taxation		
Current taxation charge on profit for the financial year	**12.6**	19.7
Adjustments in respect of prior years	**0.2**	(0.6)
Current taxation charge	**12.8**	19.1
Deferred taxation		
Origination and reversal of temporary differences	**1.8**	3.2
Pension cost relief in excess of pension charge	**(0.3)**	(0.1)
Adjustments in respect of prior years	**(3.1)**	–
Effect of changes in current tax rate on the net deferred tax asset recognised at the beginning of the financial year	**(1.0)**	(2.3)
Deferred taxation (credit)/charge (note 25)	**(2.6)**	0.8
Taxation charge for the financial year	**10.2**	19.9

The effective tax rate for the financial year is lower at 17.3%, (excluding exceptional items 18.1%), (2016: 18.8% (excluding exceptional items 18.9%)) than the rate of corporation tax in the UK of 19.6% (2016: 20.0%). The differences are explained below:

	2 September 2017 £m	3 September 2016 £m
Profit before taxation	**59.0**	105.8
Profit on ordinary activities at standard rate of corporation tax in the UK of 19.6% (2016: 20.0%)	**11.6**	21.2
Effects of:		
Permanent differences	**(0.2)**	3.0
Overseas tax rates	**1.9**	(1.0)
Utilisation of tax losses	**–**	(1.3)
Non-qualifying depreciation and lease transactions	**1.1**	1.5
Effect on deferred taxation of the change in current tax rate	**(1.3)**	(2.9)
Adjustments in respect of prior financial years	**(2.9)**	(0.6)
Taxation charge for the financial year	**10.2**	19.9

The Finance Act 2016 ("the 2016 Act"), which was enacted on 15 September 2016, included legislation to reduce the main rate of corporation tax to 17.0% from 1 April 2020.

The effect of the reduction in the corporation tax rate enacted in the 2016 Act has been to reduce the net deferred tax liability recognised at the previous year end, 3 September 2016, by approximately £0.9 million. This £0.9 million decrease has been recognised in line with the treatment of the assets and liabilities giving rise to the net deferred tax liability.

Notes to the financial statements
For the financial year ended 2 September 2017 continued

11 TAXATION CONTINUED

In addition to the amount charged to the income statement, taxation movements recognised in other comprehensive income were:

	2 September 2017 £m	3 September 2016 £m
Taxation relating to items that will not be reclassified to the income statement		
Current taxation		
Pension schemes	**(1.5)**	(2.3)
Deferred taxation		
Remeasurements of pension schemes	**20.0**	(5.8)
Total taxation relating to items that will not be reclassified to the income statement	**18.5**	(8.1)
Taxation relating to items that may be reclassified to the income statement		
Current taxation	**0.3**	–
Deferred taxation		
Currency translation differences	**(0.3)**	(0.6)
Gains on cash flow hedges	**0.8**	1.8
Cash flow hedges reclassified and reported in the income statement	**–**	0.1
Recycled and adjusted against cost of inventory	**(9.0)**	0.2
Total taxation relating to items that may be reclassified to the income statement	**(8.2)**	1.5
Total taxation charge/(credit) in other comprehensive income	**10.3**	(6.6)

Taxation movements recognised directly in equity were:

	2 September 2017 £m	3 September 2016 £m
Taxation recognised directly in equity		
Deferred taxation		
Share-based payments	**0.6**	–
Total taxation recognised directly in equity	**0.6**	–

12 DIVIDENDS

	2 September 2017 £m	3 September 2016 £m
Final paid 2.4 pence (2016: 2.4 pence) per £0.0001 share		
Settled in cash	**29.4**	29.5
Interim paid 1.025 pence (2016: 1.025 pence) per £0.0001 share		
Settled in cash	**12.6**	12.5
	42.0	42.0

A final dividend of 2.4 pence per share (2016: 2.4 pence per share) was paid during the financial year in respect of the financial year ended 3 September 2016, together with an interim dividend of 1.025 pence per share (2016: 1.025 pence per share) in respect of the financial year ended 2 September 2017. The directors are recommending a final dividend in respect of the financial year ended 2 September 2017 of 2.4 pence per share (2016: 2.4 pence per share), which will absorb an estimated £29.5 million (2016: £29.4 million) of shareholders' equity. It will be paid on 19 January 2018 to shareholders who are on the register of members at close of business on 8 December 2017. 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 share, 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

	2 September 2017		3 September 2016	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Profit for the financial year after taxation	**48.8**	**48.8**	85.9	85.9
Exceptional items after taxation (note 7)	**29.2**	**29.2**	10.0	10.0
Profit for the financial year after taxation – before exceptional items	**78.0**	**78.0**	95.9	95.9

	Number m	**Number m**	Number m	Number m
Weighted average number of shares	**1,227.8**	**1,227.8**	1,227.6	1,227.6
Shares held by ESOP (weighted)	**–**	**–**	(0.2)	(0.2)
Shares issuable (weighted)	**–**	**1.2**	–	0.5
Weighted average number of shares used in calculating earnings per share	**1,227.8**	**1,229.0**	1,227.4	1,227.9

	Pence per share	**Pence per share**	Pence per share	Pence per share
Earnings per share	**4.0**	**4.0**	7.0	7.0
Earnings per share – before exceptional items	**6.4**	**6.4**	7.8	7.8

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14 INTANGIBLE ASSETS

	Goodwill £m	Acquired licences and trademarks £m	Internally generated software £m	Purchased software £m	Total £m
Cost					
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
Additions	–	–	42.8	10.5	53.3
Exchange rate movement	0.6	–	1.1	0.1	1.8
Disposals and write-offs	–	–	(12.0)	(3.2)	(15.2)
At 2 September 2017	**819.5**	**7.2**	**226.0**	**48.0**	**1,100.7**
Accumulated amortisation and impairment					
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
Charge for the financial year	–	0.7	15.7	3.6	20.0
Exchange rate movement	–	–	0.7	–	0.7
Disposals and write-offs	–	–	(8.0)	(2.6)	(10.6)
At 2 September 2017	**–**	**5.8**	**90.4**	**12.6**	**108.8**
Net book value					
At 2 September 2017	**819.5**	**1.4**	**135.6**	**35.4**	**991.9**
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

Assets in the course of construction at net book value, included primarily within internally generated software, was:

	2 September 2017 £m	3 September 2016 £m
Assets in the course of construction	**84.8**	61.8

Amortisation and impairment of intangible assets

Amortisation of the Group's intangible assets has been charged to the income statement as follows:

	2 September 2017 £m	3 September 2016 £m
Included within:		
Cost of sales	**13.5**	16.8
Distribution costs	**2.0**	0.7
Administrative expenses	**4.5**	3.9
	20.0	21.4

Amortisation and impairment includes an impairment loss of £nil (2016: £2.2 million) which 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:

	2 September 2017 £m	3 September 2016 £m
Cost	**8.2**	7.1
Accumulated amortisation	**(2.7)**	(1.4)
Net book value	**5.5**	5.7

Contractual commitments at 2 September 2017 were £nil (2016: £6.3 million).

Capitalised finance costs

Finance costs capitalised on qualifying assets included in additions amounted to £2.1 million (2016: £1.2 million). Accumulated finance costs capitalised included in the cost of intangible assets (net of disposals) amounted to £3.7 million (2016: £1.6 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.2% (2016: 4.5%).

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 UK and other.

	UK £m	Other £m	Total £m
Goodwill			
At 2 September 2017	**793.5**	**26.0**	**819.5**
At 3 September 2016	793.5	25.4	818.9

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 the Group's three-year internal forecasts which incorporate the impact of the strategic review, the results of which have been approved by the board. The forecasts are extrapolated to five years based on management's expectations. Internal forecasts are built up using management's previous experience and incorporates management's view of current economic conditions and trading expectations. Management determined sales growth to be a key assumption. The annual sales growth ranges from (2.0)% to 4.0% during the five-year period. Cash flows beyond the five-year period are extrapolated based on the assumption of 1.0% (2016: 2.0%) growth after year five. 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 7.3% (2016: 7.1%) and reflects the specific risks in the retail business. The pre-tax discount rate is 8.4% (2016: 8.3%).

Management determined the gross margin for each CGU based on performance of individual stores and its expectations for the market. 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 2 September 2017 no impairment of goodwill has been required (2016: £nil).

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15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings				
	Freehold £m	Long leasehold £m	Short leasehold fixtures and fittings £m	Vehicles, fixtures and equipment £m	Total £m
Cost					
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
Additions	–	–	3.1	75.3	78.4
Exchange rate movements	–	–	2.2	9.4	11.6
Disposals and write-offs	–	–	–	(22.8)	(22.8)
At 2 September 2017	**1.6**	**7.7**	**388.4**	**1,121.3**	**1,519.0**
Accumulated depreciation and impairment					
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
Charge for the financial year	–	0.1	15.3	74.1	89.5
Impairment loss (note 7)	–	–	2.2	5.0	7.2
Exchange rate movements	–	–	0.8	6.6	7.4
Disposals and write-offs	–	–	–	(21.6)	(21.6)
At 2 September 2017	**0.2**	**1.6**	**186.7**	**675.6**	**864.1**
Net book value					
At 2 September 2017	**1.4**	**6.1**	**201.7**	**445.7**	**654.9**
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

Assets in the course of construction, included primarily in fixtures and fittings within "Vehicles, fixtures and equipment" above at net book value was:

	2 September 2017 £m	3 September 2016 £m
Assets in the course of construction	**34.2**	24.0

Property, plant and equipment includes the following assets held under finance leases included primarily in "Vehicles, fixtures and equipment":

	2 September 2017 £m	3 September 2016 £m
Cost	**8.0**	8.0
Accumulated depreciation	**(6.3)**	(5.2)
Net book value	**1.7**	2.8

Contractual commitments at 2 September 2017 were £0.5 million (2016: £0.2 million).

Capitalised finance costs

Finance costs capitalised on qualifying assets included in additions amounted to £0.4 million (2016: £0.7 million). Accumulated finance costs capitalised included in the cost of property, plant and equipment (net of disposals) amounted to £3.4 million (2016: £3.0 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.2% (2016: 4.5%).

Impairment test for store assets

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 based on those detailed for the goodwill impairment model in note 14 as applicable to stores.

During the year, the Group has recognised an impairment charge of £7.2 million as a result of store impairment testing. This impairment charge has been recognised within exceptional items within cost of sales (see note 7).

The Group has performed a sensitivity analysis on the impairment tests for its store portfolio using various reasonably possible scenarios. An increase of one percentage point in the post-tax discount rate would have resulted in an increase to the impairment charge of £0.2 million. A decrease of one percentage point in the growth rate after year three would have resulted in an increase to the impairment charge of £0.3 million.

16 AVAILABLE-FOR-SALE INVESTMENTS

	Total £m
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
Decrease in the market value charged to the statement of comprehensive income	(0.1)
At 2 September 2017	**1.2**

The Group holds 10% (2016: 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 2 September 2017 was £1.2 million (2016: £1.3 million). Ermes is a company that is registered and trades in Cyprus.

17 INVENTORIES

	2 September 2017 £m	3 September 2016 £m
Items held for resale	**317.8**	326.3

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18 TRADE AND OTHER RECEIVABLES

	2 September 2017 £m	3 September 2016 £m
Non-current		
Trade and other receivables	**19.8**	17.4
Allowance for doubtful debts	**(0.5)**	–
	19.3	17.4

Other receivables include contractual lease deposits of £18.7 million (2016: £16.8 million).

	2 September 2017 £m	3 September 2016 £m
Current		
Trade receivables	**28.6**	27.9
Allowance for doubtful debts	**(1.1)**	(0.9)
	27.5	27.0
Other receivables	**2.1**	3.5
Prepayments and accrued income	**53.3**	50.6
	82.9	81.1

At the year end, £24.6 million (2016: £24.6 million) of the trade receivables were denominated in sterling, £0.5 million (2016: £0.5 million) in Euros and £3.5 million (2016: £2.8 million) in Danish krone.

The movement in the allowance for doubtful debts is analysed as follows:

	Total £m
At 29 August 2015	(0.4)
Increase in provision	(0.5)
At 3 September 2016	(0.9)
Increase in provision	(0.7)
At 2 September 2017	**(1.6)**

Trade receivables which are past their due date but not impaired amount to £2.7 million (2016: £6.6 million). Trade receivables which are past their due date are provided based on estimated irrecoverable amounts from the sale of goods. At 2 September 2017, £1.6 million (2016: £0.9 million) of trade receivables were past their due date and impaired. Included in prepayments and accrued income is £4.2 million (2016: £4.8 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

	2 September 2017 £m	3 September 2016 £m
Cash at bank and in hand	**40.0**	56.3

20 TRADE AND OTHER PAYABLES

	2 September 2017 £m	3 September 2016 £m
Trade payables	**331.3**	338.3
Other payables	**82.4**	79.8
Taxation and social security	**24.2**	26.5
Accruals	**82.1**	68.6
Deferred income	**3.3**	3.1
	523.3	516.3

21 BANK OVERDRAFT AND BORROWINGS

	2 September 2017 £m	3 September 2016 £m
Current		
Bank overdraft	**20.3**	15.5
Revolving credit facility[1]	**93.1**	117.4
Senior notes[2]	**1.4**	1.5
Lease obligations	**1.6**	1.2
Total current borrowings	**116.4**	135.6
Non-current		
Senior notes[2]	**197.9**	197.3
Lease obligations	**1.6**	2.4
Total non-current borrowings	**199.5**	199.7
Total current and non-current borrowings	**315.9**	335.3

1 Revolving credit facility is stated net of unamortised issue costs of £1.9 million (2016: £2.6 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 £1.4 million (2016: £1.5 million) and are stated net of unamortised issue costs of £2.1 million (2016: £2.7 million). Interest on the senior notes is payable semi-annually.

At 2 September 2017, the Group's drawings under credit facilities outstanding comprised revolving credit facility drawings of £95.0 million (2016: £120.0 million). 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 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 £0.7 million for the year ended 2 September 2017 (2016: £0.8 million). The amortisation charge relating to the issue costs of the senior notes was £0.6 million for the year ended 2 September 2017 (2016: £0.5 million).

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21 BANK OVERDRAFT AND BORROWINGS CONTINUED

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:

	2 September 2017 £m	3 September 2016 £m
Not later than one year	1.7	1.3
Later than one year but not later than five years	1.6	2.6
	3.3	3.9
Interest element of future instalments	(0.1)	(0.3)
Present value of finance lease obligations	3.2	3.6

The present value of finance lease obligations may be analysed as:

	2 September 2017 £m	3 September 2016 £m
Not later than one year	1.6	1.2
Later than one year but not later than five years	1.6	2.4
	3.2	3.6

Maturity of borrowings

The maturity of the Group's undiscounted borrowings is:

	2 September 2017 £m	3 September 2016 £m
Amounts falling due:		
In one year or less or on demand	116.4	135.6
In more than one year but not more than two years	1.6	1.1
In more than two years but not more than five years	197.9	198.6
	315.9	335.3

Interest rates

The effective interest rates at the balance sheet dates were:

	2 September 2017 %	3 September 2016 %
Bank overdraft	1.63	1.88
Revolving credit facility	1.74	1.77
Senior notes	5.25	5.25
Lease obligations	2.25	2.30

Borrowing facilities

The Group has the following undrawn committed facilities available at 2 September 2017, in respect of which all conditions precedent had been met as at that date:

	2 September 2017 £m	3 September 2016 £m
Expiring between two and five years	225.0	200.0

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 currency risk arising from the Group's operations and interest rate risks associated with the Group's financing. The derivatives used are mainly forward currency contracts and interest rate swaps. The Group did not have any interest rate swaps in place at 2 September 2017.

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 is transferred to Group treasury. Group treasury invests surplus cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

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22 FINANCIAL RISK MANAGEMENT CONTINUED

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**
At 2 September 2017			
Non-derivative financial liabilities			
Borrowings excluding finance lease liabilities	**(115.3)**	**–**	**(200.0)**
Interest payments due on borrowings	**(10.5)**	**(10.5)**	**(21.0)**
Finance lease liabilities	**(1.7)**	**(1.6)**	**–**
Trade and other payables	**(451.5)**	**–**	**–**
Derivative financial assets and liabilities			
Forward foreign currency contracts			
Gross settled derivative contracts – receipts	**402.4**	**190.1**	**–**
Gross settled derivative contracts – payments	**(409.7)**	**(194.8)**	**–**
Total	**(586.3)**	**(16.8)**	**(221.0)**

	Less than one year £m	One to two years £m	Two to 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)

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 2 September 2017 to be £95.4 million (2016: £155.3 million) being the Group's total financial assets.

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 (2016: 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 and previous financial years, the Group closed out certain forward foreign currency contracts and reset the contracts to current market rates. As a result of these transactions, cash amounting to £10.1 million (2016: £11.2 million) was received. Gains on forward foreign currency contracts reset to current market rates are recycled from the hedging reserve as the contracts reach expiry in accordance with the Group's cash flow hedging policy.

A gain of £50.4 million (2016: £27.2 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 2 September 2017 was £565.7 million (2016: £547.5 million).

The net fair value losses on open forward foreign currency contracts held in the hedging reserve at 2 September 2017 were £5.5 million (2016: gains of £38.3 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 2 September 2017, Debenhams plc has in issue £200.0 million (2016: £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 with fixed rate debt and the use of interest rate swaps. Interest rate swaps 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 62.8% (2016: 94.4%).

Interest rate swaps

The Group's interest rate swaps switch interest from floating rates to fixed rates. At 2 September 2017 the Group had no interest rate swaps in place. The notional principal amount of interest rate swaps at 3 September 2016 was £120.0 million. The net gains and losses on these swaps, which were deferred in equity, reversed through interest in the income statement over the life of the swaps. During the financial year a loss of £0.2 million (2016: £0.8 million) was reclassified and reported in the income statement in respect of interest rate swaps.

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22 FINANCIAL RISK MANAGEMENT CONTINUED

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:

	2 September 2017			3 September 2016		
	Fixed £m	**Floating £m**	**Total £m**	Fixed £m	Floating £m	Total £m
Sterling[1]	**(203.2)**	**(115.3)**	**(318.5)**	(323.6)	(15.5)	(339.1)

1 Unamortised debt issue costs of £4.0 million (2016: £5.3 million) are excluded from the borrowings above.

Fixed sterling borrowings comprise the hedged portion of the debt facility of £nil (2016: £120.0 million), senior notes of £200.0 million (2016: £200.0 million) and finance lease liabilities of £3.2 million (2016: £3.6 million) at 2 September 2017. The weighted average interest rate on the fixed rate borrowings as at 2 September 2017 was 4.1% (2016: 4.2%), with the weighted average time for which rates are fixed being 3.8 years (2016: 3.1 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:

	2 September 2017				3 September 2016			
	Fixed £m	**Floating £m**	**Non-interest bearing £m**	**Total £m**	Fixed £m	Floating £m	Non-interest bearing £m	Total £m
Financial assets								
Sterling	**–**	**0.1**	**24.3**	**24.4**	–	3.4	29.5	32.9
Euro	**–**	**–**	**6.4**	**6.4**	–	0.3	4.6	4.9
US dollar	**–**	**0.5**	**1.6**	**2.1**	–	10.7	2.2	12.9
Danish krone	**–**	**0.9**	**3.0**	**3.9**	–	2.8	–	2.8
Chinese yuan	**0.2**	**–**	**0.1**	**0.3**	–	1.5	–	1.5
Other	**0.8**	**0.9**	**1.2**	**2.9**	–	–	1.3	1.3
Total financial assets	**1.0**	**2.4**	**36.6**	**40.0**	–	18.7	37.6	56.3

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 increase/decrease by £0.1 million (2016: £0.1 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. 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 forward foreign currency contracts has been determined based on discounted market forward currency exchange rates at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book value. 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 foreign exchange risk and interest rate risk by determining the effect on profit and equity of a range of possible changes in foreign exchange rates and interest rates. The range of sensitivities chosen, being a 10% movement in sterling when compared to the US dollar, Euro, Chinese yuan and Danish krone or 1% movement in the interest rate, 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 foreign exchange rates in relation to all the Group's financial instruments.

	2 September 2017		3 September 2016	
	Income statement gain/(loss) £m	**Equity gain/(loss) £m**	Income statement gain/(loss) £m	Equity gain/(loss) £m
10% weakening in sterling compared to US dollar	**(0.1)**	**27.5**	–	29.6
10% weakening in sterling compared to Euro	**–**	**(10.6)**	–	(11.5)
10% weakening in sterling compared to Chinese yuan	**–**	**2.9**	–	4.2
10% weakening in sterling compared to Danish krone	**1.7**	**–**	1.4	–

A 10% 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.

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.

	2 September 2017		3 September 2016	
	Income statement loss £m	**Equity gain £m**	Income statement loss £m	Equity gain £m
1% increase in interest rate	**(1.1)**	**–**	(0.2)	0.2

A 1% decrease in interest rate would result in an equal and opposite change in the income statement.

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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:

	2 September 2017		3 September 2016	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current				
Interest rate swaps – cash flow hedges	**–**	**–**	–	(0.2)
Forward foreign currency contracts – cash flow hedges	**4.7**	**(12.0)**	37.8	(6.9)
Forward foreign currency contracts – held for trading	**0.1**	**–**	1.3	(0.5)
	4.8	**(12.0)**	39.1	(7.6)
Non-current				
Available-for-sale financial assets	**1.2**	**–**	1.3	–
Forward foreign currency contracts – cash flow hedges	**0.5**	**(5.3)**	10.7	(3.7)
	1.7	**(5.3)**	12.0	(3.7)

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 £199.3 million (2016: £198.8 million) and the fair value of this debt was £205.4 million (2016: £210.2 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

None of the Group's financial assets and liabilities are classed as Level 3 within the fair value hierarchy.

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 2 September 2017			
Assets			
Available-for-sale financial investments	**1.2**	**–**	**1.2**
Derivative financial instruments:			
Forward foreign currency contracts held as cash flow hedges	**–**	**5.2**	**5.2**
Other forward foreign currency contracts	**–**	**0.1**	**0.1**
Total assets	**1.2**	**5.3**	**6.5**
Liabilities			
Derivative financial instruments:			
Forward foreign currency contracts held as cash flow hedges	**–**	**(17.3)**	**(17.3)**
Total liabilities	**–**	**(17.3)**	**(17.3)**

	Level 1 £m	Level 2 £m	Total £m
At 3 September 2016			
Assets			
Available-for-sale financial investments	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)

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.

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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 £16.0 million (2016: £15.5 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 scheme 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.

At 2 September 2017, the most recent completed actuarial valuation of the Company'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 "Employee benefits" revised valuation at 2 September 2017.

On 6 October 2017, the actuarial valuation of the Group's pension schemes at 31 March 2017 was completed, concluding that DEPP was fully funded on a technical provisions basis and on a technical provisions basis DRS had improved since the previous actuarial valuation, but remained in deficit. Therefore the Group agreed a recovery plan for DRS which was intended to restore the scheme to a fully funded position on an ongoing basis. Under that agreement, the Group agreed to contribute £5.0 million per annum to the pension schemes for the period from 1 September 2017 to 31 March 2022. The agreement replaced an agreement made in 2015 under which 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 October 2017, 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 2 September 2017, most of the schemes' assets were invested in a hedging component or a growth component.

The weighted average duration of the defined benefit obligation is 22 years (2016: 22 years).

The contributions expected to be paid during the financial year ending 1 September 2018 amount to £6.4 million.

The major assumptions used by the actuary were:

	2 September 2017 per annum %	3 September 2016 per annum %
Inflation assumption	**3.2**	2.9
General salary and wage increase	**3.2**	2.9
Rate of increase in pension payments and deferred payments	**3.2**	2.9
Pension increase rate	**3.1**	2.8
Discount rate	**2.4**	2.1

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:

	2 September 2017			3 September 2016		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Assets						
Hedging component	**188.5**	**–**	**188.5**	215.5	–	215.5
Growth component	**671.3**	**237.8**	**909.1**	614.2	190.0	804.2
Cash and other assets	**25.8**	**–**	**25.8**	37.9	–	37.9
Total market value of assets	**885.6**	**237.8**	**1,123.4**	867.6	190.0	1,057.6
Present value of scheme liabilities			**(1,042.5)**			(1,061.7)
Net surplus/(deficit) in schemes			**80.9**			(4.1)
Analysed as:						
DEPP scheme surplus			**22.3**			6.4
DRS scheme surplus/(deficit)			**58.6**			(10.5)

At 2 September 2017, 78.8% (2016: 82.0%) 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 Trust Deeds and Rules provide the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind up. Furthermore, in the ordinary course of business the Trustees have no right to unilaterally wind up, or otherwise augment the benefits due to members of the schemes. Based on these rights any net surplus in the schemes is recognised in full.

The current life expectancies of a pensioner retiring aged 65 underlying the mortality tables for each of the schemes above are:

	2 September 2017		3 September 2016	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Retirement Scheme				
Member currently aged 65	**22.2**	**24.5**	22.1	24.4
Member aged 65 in 15 years	**23.6**	**25.9**	23.5	25.8

	2 September 2017		3 September 2016	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Executive Pension Plan				
Member currently aged 65	**24.2**	**26.4**	24.1	26.3
Member aged 65 in 15 years	**25.6**	**27.8**	25.5	27.7

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24 RETIREMENT BENEFIT SCHEMES CONTINUED

Changes in the present value of the defined benefit obligations are:

	2 September 2017 £m	3 September 2016 £m
Present value of obligations at start of the financial year	**1,061.7**	769.6
Current service cost (including expenses)	**1.5**	1.5
Interest cost on the defined benefit liability	**21.4**	28.7
Benefit payments from plan assets	**(40.2)**	(30.6)
Remeasurements:		
(Gains)/losses from changes in financial assumptions	**(0.8)**	312.4
Experience gains	**(1.1)**	(19.9)
Present value of obligations at end of the financial year	**1,042.5**	1,061.7

Changes in the fair value of plan assets are:

	2 September 2017 £m	3 September 2016 £m
Fair value of pension scheme assets at start of the financial year	**1,057.6**	795.8
Interest income on plan assets	**21.4**	29.8
Benefit payments from plan assets	**(40.2)**	(30.6)
Company contributions	**9.8**	11.2
Remeasurements:		
Return on plan assets, excluding amounts included in finance costs	**74.8**	251.4
Fair value of pension scheme assets at end of the financial year	**1,123.4**	1,057.6

Movement in the net surplus/(deficit) during the financial year is:

	2 September 2017 £m	3 September 2016 £m
Net (deficit)/surplus in the schemes at start of the financial year	**(4.1)**	26.2
Movement in the financial year:		
Company contributions	**9.8**	11.2
Current service cost (including expenses)	**(1.5)**	(1.5)
Net interest on net defined benefit asset/liability	**–**	1.1
Remeasurements of pension schemes	**76.7**	(41.1)
Net surplus/(deficit) in the schemes at end of the financial year	**80.9**	(4.1)

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.

	2 September 2017 £m	3 September 2016 £m
Increase in schemes' liabilities arising from a 0.5% increase in inflation	**113.2**	117.8
Increase in schemes' liabilities arising from a 0.5% reduction in the discount rate	**123.3**	128.4
Increase in schemes' liabilities arising from a one year increase in life expectancy	**27.3**	28.4

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 sensitivities relate purely to liabilities. Inflation and discount rate movements may be mitigated by a similar offsetting movement in the schemes' assets.

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.

25 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19.0% for the UK differences (2016: 20.0%). Local tax rates have been used for overseas differences.

	2 September 2017 £m	3 September 2016 £m
Non-current		
Deferred tax assets	**15.3**	20.1
Deferred tax liabilities	**(54.0)**	(50.5)
	(38.7)	(30.4)

Deferred tax expected to be reversed within 12 months of the balance sheet date:

	2 September 2017 £m	3 September 2016 £m
Deferred tax assets	**4.4**	5.3
Deferred tax liabilities	**(6.0)**	(17.1)
	(1.6)	(11.8)

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.

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25 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

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 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 tax 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
Charged to the income statement	(1.2)	(1.6)	(0.3)	(0.3)	–	(3.4)
Transfer from deferred tax liabilities	–	–	(7.8)	–	(1.9)	(9.7)
Prior year adjustment to the income statement	0.2	–	–	–	–	0.2
Result of change in the rate of corporation tax charged to the income statement	(0.8)	–	–	(0.3)	–	(1.1)
Credited to the statement of comprehensive income	–	–	8.2	–	–	8.2
Exchange differences credited to the statement of comprehensive income	–	0.2	–	0.2	–	0.4
Taxation recognised directly in equity	–	–	–	0.6	–	0.6
At 2 September 2017	**10.1**	**0.4**	**1.5**	**3.3**	**–**	**15.3**

Liabilities	Accelerated tax depreciation £m	Fair value gains £m	Retirement benefit surplus £m	Total £m
At 29 August 2015	(45.2)	(4.4)	(5.2)	(54.8)
Credited to the income statement	0.5	0.2	–	0.7
Transfer to deferred tax assets	–	0.2	2.6	2.8
Prior year adjustment to the income statement	(0.1)	–	0.1	–
Result of change in the rate of corporation tax credited to the income statement	3.4	–	–	3.4
(Charged)/credited to the statement of comprehensive income	–	(3.8)	1.4	(2.4)
Exchange differences charged to the statement of comprehensive income	(0.2)	–	–	(0.2)
At 3 September 2016	(41.6)	(7.8)	(1.1)	(50.5)
Credited to the income statement	1.6	–	0.3	1.9
Transfer to deferred tax assets	–	7.8	1.9	9.7
Prior year adjustment to the income statement	2.9	–	–	2.9
Result of change in the rate of corporation tax credited to the income statement	2.1	–	–	2.1
Charged to the statement of comprehensive income	–	–	(20.0)	(20.0)
Exchange differences charged to the statement of comprehensive income	(0.1)	–	–	(0.1)
At 2 September 2017	**(35.1)**	**–**	**(18.9)**	**(54.0)**

Within other provisions is a deferred tax asset of £0.6 million (2016: £3.3 million) in relation to overseas operations which has been recognised.

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries of £37.4 million (2016: £40.9 million) on the basis that the timing of any distribution out of these earnings can be controlled by the Group.

26 OTHER NON-CURRENT LIABILITIES

	2 September 2017 £m	3 September 2016 £m
Property lease incentives	**351.7**	354.5

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	Property £m	Restructuring £m	Total £m
At 3 September 2016	6.1	1.2	6.7	14.0
Charged to the income statement	18.4	10.2	5.2	33.8
Utilised during the financial year	(18.5)	(1.2)	(8.2)	(27.9)
At 2 September 2017	**6.0**	**10.2**	**3.7**	**19.9**

Analysis of total provisions:

	2 September 2017 £m	3 September 2016 £m
Non-current	**9.7**	–
Current	**10.2**	14.0
Total	**19.9**	14.0

Promotional activities provision

Provisions for promotional activities represent deferred income relating to the internal beauty 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.

Property provisions

Property provisions comprise onerous lease provisions and dilapidations provisions.

The Group has recognised a net onerous property provision charge in the year of £5.9 million (2016: £nil) which has been recognised as an exceptional item within strategic review and restructuring and strategic warehouse restructuring (note 7).

Onerous lease provisions are based on the lower of the net cost of fulfilling or exiting the contract. The cost of exiting lease contracts is estimated as the present value of expected surrender premiums or deficits from subletting at market rents, assuming that the Group can sublet properties at market rents, based on discounting at the Group's risk-free rate of 1.8%. Onerous lease provisions will be utilised over the relevant lease terms, predominantly within the next ten years.

Dilapidations provisions relate to dilapidations on properties in the UK and the Republic of Ireland based on the best estimate of the Group's future liability and are expected to be utilised over the next five years.

Restructuring provision

The restructuring provision relates to redundancy and other restructuring costs in the UK and the Republic of Ireland. The £5.2 million charge for the financial year principally relates to the support centre and closure of the Group's distribution centre at Northampton. The provision is expected to be utilised over the next five years.

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28 SHARE CAPITAL AND RESERVES

	2 September 2017		3 September 2016	
	£	**Number**	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	**128,686**	**1,286,862,247**	128,685	1,286,852,540
Allotted under share option schemes	**–**	**1,134**	1	9,707
At end of year	**128,686**	**1,286,863,381**	128,686	1,286,862,247

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:

	2 September 2017 Ordinary shares Number	3 September 2016 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**1,673,537**	273,537

The market value of the shares on 2 September 2017 was £0.7 million for the DRET (2016: £0.2 million). DRET purchased 1,400,000 shares on 3 November 2016 at a cost of 54.9 pence per share. The cost of the shares held at the year end was £1.0 million (2016: £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 forward foreign currency contracts and interest rate swaps 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 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)
Currency translation differences	5.9	–	5.9
Change in the fair value of available-for-sale investments	–	(0.1)	(0.1)
At 2 September 2017	**(0.5)**	**(3.0)**	**(3.5)**

29 SHARE-BASED PAYMENTS

The total charge/(credit) to operating profit relates to the following equity-settled schemes:

	2 September 2017 £m	3 September 2016 £m
Performance Share Plan ("PSP")	–	(0.8)
Share Incentive Plan ("SIP")	0.5	–
Charge/(credit) for the financial year	**0.5**	(0.8)

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.

			ESOP	
	PSP Number	SIP Number	Number	WAEP Pence
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
Granted	11,284,301	3,714,684	–	N/A
Exercised	(1,134)	–	–	N/A
Lapsed	(277,954)	–	–	N/A
Forfeited	(1,011,657)	–	–	N/A
Outstanding at 2 September 2017	**23,380,505**	**3,864,684**	**643,650**	**85.5**
Exercisable				
At 2 September 2017	**–**	**–**	**643,650**	**85.5**
At 3 September 2016	–	–	643,650	85.5
Weighted average remaining contractual life (years)				
At 2 September 2017	**–**	**–**	**2.25**	
At 3 September 2016	–	–	3.25	

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 2014, 1 May 2015, 3 November 2015, 3 May 2016 and 13 May 2016

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%.

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29 SHARE-BASED PAYMENTS CONTINUED

a) Performance Share Plan continued

i) Awards granted on 1 November 2014, 1 May 2015, 3 November 2015, 3 May 2016 and 13 May 2016 continued

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 gross transaction value 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.

At 2 September 2017, the awards granted on 1 November 2014 and 1 May 2015 had not met their performance conditions and the awards will therefore lapse in full on 1 November 2017 and 1 May 2018 respectively.

ii) Awards granted on 31 May 2017

The vesting of the shares granted under these awards is dependent upon a combination of EPS targets and strategic performance measures with strategic performance measures being subject to meeting a ROCE underpin.

70% of the awards are based upon the EPS value for the financial year ending 31 August 2019. Where the EPS value is 5.6 pence, 25% of the shares awarded vest. Where the EPS value is 6.0 pence, 50% of the shares awarded vest. Where the EPS value is 8.0 pence, the award vests in full. Between these values the awards vest on a straight-line basis.

The remaining 30% of the awards are dependent upon beauty gross transaction value growth, food gross transaction value growth, mobile gross transaction value growth and online cost per unit improvement. Each strategic measure is subject to a performance test at the end of the performance period which will result in vesting on a straight-line basis between the entry point, the target point and the maximum point. If the Group's ROCE at the end of the applicable performance period is not greater than a target percentage, 30% of the awards subject to the strategic measures will not vest.

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	31 May 2017
Number of shares under award	11,284,301
Expected term (years)	3.0
Share price at grant (pence)	50.1
Exercise price (pence)	–
Risk-free rate	0.0%
Expected volatility	100.0%
Expected dividend yield	6.8%
Fair value of award (pence)	40.9

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.

i) 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.

ii) Options granted on 5 December 2016 and 2 May 2017

Options granted on 5 December 2016 over 451,263 and 180,505 shares have 12- and 24-month vesting periods respectively based on the employee's continued employment within the business and were granted with no exercise price.

Options granted on 2 May 2017 over 3,082,916 shares have a 30-month vesting period based on the employee's continued employment within the business and were granted with no exercise price.

In accordance with IFRS 2 "Share-based payments", the vesting conditions attached to the SIPs 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 May 2017	5 December 2016	5 December 2016
Number of shares under award	3,082,916	451,263	180,505
Expected term (years)	2.5	1.0	2.0
Share price at grant (pence)	51.3	55.4	55.4
Exercise price (pence)	–	–	–
Risk-free rate	0.0%	0.0%	0.0%
Expected volatility	0.0%	0.0%	0.0%
Expected dividend yield	4.4%	6.1%	6.1%
Fair value of award (pence)	46.8	49.0	49.0

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.

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.

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30 OPERATING LEASE COMMITMENTS

	2 September 2017		3 September 2016	
	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	**223.9**	**1.3**	216.9	1.5
Later than one year and not later than five years	**905.8**	**1.3**	868.0	1.5
Later than five years and not later than ten years	**1,056.3**	**–**	1,020.1	–
Later than ten years and not later than 20 years	**1,463.1**	**–**	1,500.3	–
Later than 20 years	**896.1**	**–**	974.4	–
	4,545.2	**2.6**	4,579.7	3.0

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

	2 September 2017 £m	3 September 2016 £m
Profit before taxation	**59.0**	105.8
Depreciation (note 15)	**89.5**	89.4
Amortisation (note 14)	**20.0**	19.2
Impairment of intangible assets (note 14)	**–**	2.2
Impairment of property, plant and equipment (note 15)	**7.2**	–
Loss on disposal and write off of intangible assets	**4.6**	–
Loss on disposal and write off of property, plant and equipment	**1.2**	0.1
Share-based payment charge/(credit) (note 29)	**0.5**	(0.8)
Fair value gains on derivative instruments	**6.4**	(7.0)
Net movements in provisions (note 27)	**5.9**	7.6
Finance income	**(0.1)**	(1.4)
Finance costs	**12.4**	14.2
Net movement in close out of forward foreign currency contracts (note 22)	**(1.6)**	11.2
Pension current service cost	**1.5**	1.5
Cash contributions to pension schemes (note 24)	**(9.8)**	(11.2)
Net movement in other long-term receivables	**(0.1)**	(0.1)
Net movement in other non-current liabilities	**(2.8)**	13.7
Changes in working capital		
Decrease in inventories	**8.8**	5.0
Increase in trade and other receivables	**(1.4)**	(1.9)
Decrease in trade and other payables	**(0.8)**	(7.3)
Cash generated from operations	**200.4**	240.2

Cash payments in relation to exceptional items were as follows:

	2 September 2017 £m	3 September 2016 £m
Exceptional items for the year ended 2 September 2017	**8.5**	–
Exceptional items for the year ended 3 September 2016	**7.4**	3.3
Total cash payments in relation to exceptional items	**15.9**	3.3

32 ANALYSIS OF CHANGES IN NET DEBT

	3 September 2016 £m	Cash flow £m	Foreign exchange gains £m	Other non-cash movements £m	2 September 2017 £m
Analysis of net debt					
Cash and cash equivalents	56.3	(16.4)	0.1	–	**40.0**
Bank overdrafts	(15.5)	(4.8)	–	–	**(20.3)**
Net cash and cash equivalents	40.8	(21.2)	0.1	–	**19.7**
Debt due within one year	(118.9)	25.0	–	(0.6)	**(94.5)**
Debt due after one year	(197.3)	–	–	(0.6)	**(197.9)**
Finance lease obligations due within one year	(1.2)	1.6	–	(2.0)	**(1.6)**
Finance lease obligations due after one year	(2.4)	–	–	0.8	**(1.6)**
	(279.0)	5.4	0.1	(2.4)	**(275.9)**

Other non-cash movements comprise:

	2 September 2017 £m	3 September 2016 £m
Amortisation of issue costs relating to revolving credit facilities	**0.7**	0.8
Amortisation of issue costs relating to senior notes	**0.6**	0.5
Non-cash movements associated with finance lease obligations	**1.2**	3.3
Non-cash movements associated with senior notes	**(0.1)**	(0.2)
Other non-cash transactions	**2.4**	4.4

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.

34 POST BALANCE SHEET EVENT

On 5 September 2017, the Group acquired a minority stake in blow LTD. for a cash consideration of £7.5 million. blow LTD. provides beauty services and is registered in the UK.

Five year record income statements

	52 weeks 2017 £m	53 weeks 2016 £m	52 weeks 2015 £m	52 weeks 2014 £m	52 weeks 2013 £m
Gross transaction value	**2,954.1**	2,938.5	2,860.1	2,823.9	2,776.8
Revenue	**2,335.0**	2,341.7	2,322.7	2,312.7	2,282.2
Cost of sales	**(2,046.1)**	(2,039.8)	(2,023.5)	(2,033.4)	(1,982.6)
Gross profit	**288.9**	301.9	299.2	279.3	299.6
Distribution costs	**(124.5)**	(115.4)	(111.1)	(98.5)	(97.5)
Administrative expenses	**(56.9)**	(55.5)	(54.0)	(52.2)	(46.7)
Operating profit before exceptional items	**107.5**	131.0	134.1	128.6	155.4
Exceptional items	**(36.2)**	(12.4)	–	–	–
Operating profit	**71.3**	118.6	134.1	128.6	155.4
Net recurring finance costs	**(12.3)**	(12.8)	(20.6)	(18.3)	(16.4)
Non-recurring finance costs	**–**	–	–	(4.5)	–
Profit before taxation	**59.0**	105.8	113.5	105.8	139.0
Taxation	**(10.2)**	(19.9)	(20.0)	(18.6)	(23.1)
Profit for the financial year attributable to owners of the parent	**48.8**	85.9	93.5	87.2	115.9

Five year record balance sheets

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Assets					
Non-current assets					
Intangible assets	**991.9**	962.1	931.5	892.8	876.5
Property, plant and equipment	**654.9**	670.2	675.3	689.2	692.1
Financial assets	**1.7**	12.0	14.2	6.6	3.0
Trade and other receivables	**19.3**	17.4	14.9	15.6	16.8
Retirement benefit surplus	**80.9**	6.4	26.2	6.9	4.6
Deferred tax assets	**15.3**	20.1	20.8	51.0	69.3
Total non-current assets	**1,764.0**	1,688.2	1,682.9	1,662.1	1,662.3
Net current liabilities	**(226.2)**	(185.4)	(236.0)	(271.7)	(271.4)
Non-current liabilities	**(620.2)**	(618.9)	(593.6)	(623.0)	(646.5)
Net assets	**917.6**	883.9	853.3	767.4	744.4
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	**(8.7)**	22.9	2.4	(16.3)	(3.5)
Retained earnings	**243.3**	178.0	167.9	100.7	64.9
Total equity	**917.6**	883.9	853.3	767.4	744.4

Independent auditors' report to the members of Debenhams plc (Company)

REPORT ON THE AUDIT OF THE COMPANY FINANCIAL STATEMENTS

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 2 September 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Company Balance Sheet as at 2 September 2017; the Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

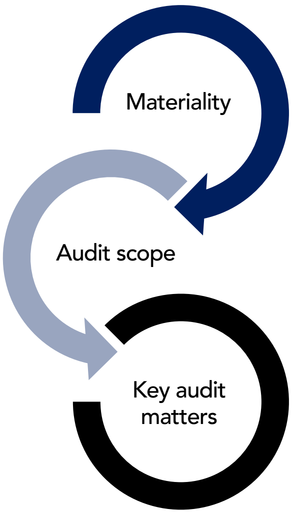
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the group and its subsidiaries in the period from 4 September 2016 to 2 September 2017.

Our audit approach

Overview



- Overall materiality: £4.8 million (2016: £5.9 million), based on 5% of profit before tax and exceptional items

- The company consists of investments held in group companies, borrowing and intercompany balances

- Assessment of carrying value of the investments

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed 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 company's principal activity is that of a holding company as stated in note 1 of the group financial statements and is structured as one operating segment.

Our audit approach was based on the materiality of the company covering 100% of the company's ledger and related disclosure notes.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of investments held in subsidiaries. **See note 1 to the financial statements for the directors' disclosures of the related impairment policy.** 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 subsidiaries and in turn impact the value of investments held in the subsidiaries.	We tested that the impairment models used by management 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 (2.0%) to 4.0%), are driven by the implementation of the new Debenhams Redesigned strategy. We have agreed the growth rates to management's five year plan and assessed the components of that five year plan. The growth rates used are in line with the five year plan; • The directors' key assumptions for long-term sales growth rates of 1.0%, 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 7.3%), 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 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. We note that the calculations are most sensitive to changes in short-term growth rates, however, consider there to be sufficient headroom to support the carrying value of the investments. We found, based on our audit work, that the key assumptions used by management were supportable.

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 structure of the company, the accounting processes and controls, and the industry in which it operates.

Independent auditors' report to the members of Debenhams plc (Company)
continued

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 in aggregate on the financial statements as a whole.

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

Overall materiality	£4.8 million (2016: £5.9 million).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	Whilst the company is a holding company and therefore an asset measure would be a generally accepted auditing benchmark, we have restricted the level of materiality applied to be the same level as applied to the group financial statements and therefore used group profit before tax and exceptional items as the benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million (2016: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 2 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company
We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated
- The directors' explanation on page 79 of the Annual Report as to how they have assessed the prospects of the company, 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 company 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the company and statement in relation to the longer-term viability of the company. 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 80, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit
- The section of the Annual Report on page 52 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Independent auditors' report to the members of Debenhams plc (Company)
continued

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 80, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the members of Debenhams plc to audit the financial statements for its first year after incorporation for the year ended 3 September 2005 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 3 September 2005 to 2 September 2017. Before 2005, we were auditors of other entities within the Debenhams plc group. The audit committee have set out details of their planned audit tender timetable on page 53 of the annual report and accounts.

OTHER MATTER

We have reported separately on the group financial statements of Debenhams plc for the year ended 2 September 2017.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
26 October 2017

Company balance sheet
Company number 5448421
As at 2 September 2017

	Note	**2 September 2017 £m**	3 September 2016 £m
Fixed assets			
Investments	4	**2,248.0**	2,248.0
Trade and other receivables	5	**0.6**	0.6
		2,248.6	2,248.6
Current assets			
Trade and other receivables	5	**165.2**	152.2
		165.2	152.2
Current liabilities			
Creditors: amounts falling due within one year	6	**(1,116.0)**	(1,036.5)
Derivative financial instruments	7	**–**	(0.2)
		(1,116.0)	(1,036.7)
Net current liabilities		**(950.8)**	(884.5)
Total assets less current liabilities		**1,297.8**	1,364.1
Non-current liabilities			
Creditors: amounts falling due after more than one year	8	**(197.9)**	(197.3)
		(197.9)	(197.3)
Net assets		**1,099.9**	1,166.8
Equity			
Called up share capital	10	**0.1**	0.1
Share premium account		**682.9**	682.9
Hedging reserve		**–**	(0.1)
Retained earnings (including loss for the year of £24.7 million (2016: £21.9 million))		**416.9**	483.9
Total shareholders' funds		**1,099.9**	1,166.8

The financial statements on pages 143 to 150 were approved by the board on 26 October 2017 and were signed on its behalf by:

Matt Smith
Chief Financial Officer

Company statement of changes in equity

For the financial year ended 2 September 2017

	Note	Called up share capital £m	Share premium account £m	Hedging reserve £m	Retained earnings £m	Total equity £m
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
Loss for the financial year		**–**	**–**	**–**	**(24.7)**	**(24.7)**
Other comprehensive income for the financial year		**–**	**–**	**0.1**	**–**	**0.1**
Total comprehensive income/(expense) for the financial year		**–**	**–**	**0.1**	**(24.7)**	**(24.6)**
Share-based payment charge		**–**	**–**	**–**	**0.5**	**0.5**
Dividends paid	**3**	**–**	**–**	**–**	**(42.0)**	**(42.0)**
Purchase of shares by Debenhams Retail Employment Trust 2004		**–**	**–**	**–**	**(0.8)**	**(0.8)**
Total transactions with owners		**–**	**–**	**–**	**(42.3)**	**(42.3)**
Balance at 2 September 2017		**0.1**	**682.9**	**–**	**416.9**	**1,099.9**

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 2 September 2017

1 ACCOUNTING POLICIES

Basis of preparation

These financial statements are for the 52 weeks ended 2 September 2017. The comparative financial year is the 53 weeks ended 3 September 2016.

The financial statements have been prepared in accordance FRS 101 "Reduced disclosure framework" (FRS 101). The accounting policies as described below have been consistently applied to all financial years presented. The financial statements have been prepared on a going concern basis under the historical cost convention (as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through profit and loss) and in accordance with the Companies Act 2006. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

FRS 101 enables the financial statements of the parent company to be prepared in accordance with EU-adopted IFRS but with certain disclosure exemptions. The main areas of reduced disclosure are in respect of equity-settled share-based payments, financial instruments, the cash flow statement and related party transactions with Group companies. When required, equivalent disclosures are given in the consolidated financial statements of Debenhams plc.

As permitted by section 408 of the Companies Act 2006, the income statement for the Company has not been presented.

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.

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.

Notes to the Company financial statements
For the financial year ended 2 September 2017
continued

1 ACCOUNTING POLICIES CONTINUED

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.

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

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 54 to 76, which forms part of these financial statements.

Auditors' remuneration relating to the audit of the Company financial statements of £0.1 million (2016: £0.1 million) is borne by another Group undertaking.

3 DIVIDENDS

	2 September 2017 £m	3 September 2016 £m
Final paid 2.4 pence (2016: 2.4 pence) per £0.0001 share		
Settled in cash	**29.4**	29.5
Interim paid 1.025 pence (2016: 1.025 pence) per £0.0001 share		
Settled in cash	**12.6**	12.5
	42.0	42.0

A final dividend of 2.4 pence per share (2016: 2.4 pence per share) was paid during the year in respect of the financial year ended 3 September 2016, together with an interim dividend of 1.025 pence per share (2016: 1.025 pence per share) in respect of the financial year ended 2 September 2017. The directors are recommending a final dividend in respect of the financial year ended 2 September 2017 of 2.4 pence per share (2016: 2.4 pence per share), which will absorb an estimated £29.5 million (2016: £29.4 million) of shareholders' funds. It will be paid on 19 January 2018 to shareholders who are on the register of members at close of business on 8 December 2017. 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 3 September 2016 and 2 September 2017	**3,375.9**
Provision for impairment	
At 3 September 2016 and 2 September 2017	**1,127.9**
Net book value	
At 3 September 2016 and 2 September 2017	**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 (2016: £nil). The discount rate used in the calculation to arrive at the valuation was 7.3% (2016: 7.1%) 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 8.4% (2016: 8.3%).

Notes to the Company financial statements
For the financial year ended 2 September 2017 continued

4 INVESTMENTS CONTINUED

At 2 September 2017, 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
Debenhams Retail plc[1]	100%	UK
Debenhams Group Holdings Limited[1, 7]	100%	UK
Debenhams Retail (Ireland) Limited[2]	100%	Republic of Ireland
Aktieselskabet Th. Wessel & Vett. Magasin du Nord[3]	100%	Denmark
Debenhams Properties Limited[1]	100%	UK
Debenhams Hong Kong Limited[4]	100%	Hong Kong
Debenhams Business Consulting (Shanghai) Company Limited[5]	100%	China
Baroness Group Holdings Limited[6, 7]	100%	Jersey
BF III Limited[1, 7]	100%	UK
BF Properties (No. 2) Ltd[1]	100%	UK
BF Properties (No. 3) Ltd[1]	100%	UK
Debenhams Finance Holdings Limited[1, 7]	100%	UK
Baroness Retail Limited[1]	100%	UK
Jerimain Investments Limited[1, 7]	100%	UK
Debenhams Pension Trust Limited[1]	100%	UK
Debenhams (No. 2) Pension Trust Limited[1]	100%	UK
Debenhams Card Handling Services Limited[1]	100%	UK
Debenhams Direct Limited[1]	100%	UK
Debenhams Principles Limited[1]	100%	UK
debenhams.com ltd[1]	100%	UK

1 Registered address is 10 Brock Street, Regent's Place, London, NW1 3FG.
2 Registered address is Ireland Region Office, 54-62 Henry Street, Dublin 1, Ireland.
3 Registered address is Kongens Nytorv 13, 1095 Copenhagen K,, Denmark.
4 Registered address is 6th Floor, Wincome Centre, 39 Des Voeux Road, Central, Hong Kong.
5 Registered address is Unit 2, 18/F Tower B Central Towers, 567 Lan Gao Road, Putuo, Shanghai, China.
6 Registered address is Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST.
7 Denotes investments held by the Company. All other investments are held by subsidiary undertakings.

5 TRADE AND OTHER RECEIVABLES

	2 September 2017 £m	3 September 2016 £m
Non-current		
Other receivables	**0.6**	0.6

	2 September 2017 £m	3 September 2016 £m
Current		
Amounts owed by Group undertakings	**163.4**	147.6
Other receivables	**–**	0.3
Prepayments and accrued income	**1.8**	4.3
	165.2	152.2

Amounts owed by Group undertakings are unsecured, repayable on demand and carry an average rate of interest of 2.0% (2016: 2.3%).

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2 September 2017 £m	3 September 2016 £m
Bank loans and overdrafts (note 9)	**94.5**	118.9
Amounts owed to Group undertakings	**1,020.7**	917.3
Other payables	**0.5**	–
Accruals and deferred income	**0.3**	0.3
	1,116.0	1,036.5

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 2.0% (2016: 2.3%) or are interest free.

7 DERIVATIVE FINANCIAL INSTRUMENTS

	2 September 2017 £m	3 September 2016 £m
Current liabilities		
Interest rate swaps – cash flow hedges	**–**	(0.2)

Information relating to the derivatives held by the Company is shown in note 23 to the Debenhams Group financial statements.

8 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2 September 2017 £m	3 September 2016 £m
Bank and other borrowings (note 9)	**197.9**	197.3

9 BORROWINGS

	2 September 2017 £m	3 September 2016 £m
Creditors: amounts falling due within one year		
Revolving credit facility	**95.0**	120.0
Less: revolving credit facility issue costs	**(1.9)**	(2.6)
Senior notes accrued interest	**1.4**	1.5
	94.5	118.9
Creditors: amounts falling due in more than one year		
Senior notes	**200.0**	200.0
Less: senior notes issue costs	**(2.1)**	(2.7)
	197.9	197.3

Maturity of debt

	2 September 2017 £m	3 September 2016 £m
Amounts falling due:		
In one year or less or on demand	**95.0**	120.0
In more than two years but not more than five years	**200.0**	200.0
	295.0	320.0

Information relating to the borrowings of the Company is shown in note 21 to the Debenhams Group financial statements.

At 2 September 2017, the Company's drawings under credit facilities outstanding comprised revolving credit facility drawings of £95.0 million (2016: £120.0 million). 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.

Notes to the Company financial statements
For the financial year ended 2 September 2017
continued

9 BORROWINGS CONTINUED
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 £0.7 million for the year ended 2 September 2017 (2016: £0.8 million). The amortisation charge relating to the issue costs of the senior notes was £0.6 million for the year ended 2 September 2017 (2016: £0.5 million).

10 CALLED UP SHARE CAPITAL

	2 September 2017		3 September 2016	
	£	**Number**	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	**128,686**	**1,286,862,247**	128,685	1,286,852,540
Allotted under share option schemes	**–**	**1,134**	1	9,707
At end of year	**128,686**	**1,286,863,381**	128,686	1,286,862,247

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:

	2 September 2017 Ordinary shares Number	3 September 2016 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**1,673,537**	273,537

The market value of the shares at 2 September 2017 was £0.7 million for the DRET (2016: £0.2 million). DRET purchased 1,400,000 shares on 3 November 2016 at a cost of 54.9 pence per share. The cost of the shares held at the year end was £1.0 million (2016: £0.2 million).

Share option schemes
At 2 September 2017, the Group had three (2016: three) schemes in operation: the Performance Share Plan ("PSP"), the Executive Share Option Plan ("ESOP") and the Share Incentive Plan ("SIP") (2016: the PSP, the ESOP and the SIP).

For further information on these schemes please see note 29 to the Debenhams Group financial statements.

11 OPERATING LEASE COMMITMENTS

	2 September 2017 Land and buildings £m	3 September 2016 Land and buildings £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**20.8**	19.1
Later than one year and not later than five years	**83.5**	76.8
Later than five years and not later than ten years	**101.9**	94.6
Later than ten years and not later than 20 years	**79.5**	91.2
	285.7	281.7

The Company leases department stores under non-cancellable operating leases. These leases have various terms including in some cases contingent turnover rent clauses. A subsidiary undertaking continues to occupy and trade from these properties under a letting arrangement with the Company.

12 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
Beverley
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
Foyleside
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
Stevenage
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
Wolverhampton
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
Australia
Melbourne
Bahrain
Manama
Bulgaria
Sofia – Bulgaria Mall
Cyprus
Apollon
Central
Engomi
Korivos
Nicosia
Olympia
Zenon
Egypt
Alexandria
Cairo, Festival City
Estonia
Tallinn
Gibraltar
Indonesia
Jakarta – Senayan City
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
Mall of Qatar
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

Stores as at Report Date.

Glossary and References

ALTERNATIVE PERFORMANCE MEASURES

In reporting financial information, the Group presents alternative performance measures, "APMs", which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional useful information on the underlying trends, performance and position of the Group and are consistent with how business performance is measured internally. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs including those in the Group's industry. The key APMs that the Group uses are outlined below.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures			
Gross transaction value (GTV)	No direct equivalent	Refer to definition	Gross transaction value is calculated as sales (excluding VAT) on a gross basis before adjusting for concessions, consignments and staff discounts. Management believe that gross transaction value represents a good guide to the overall activity of the Group. The calculation of this measure is outlined in note 3.
Like-for-like sales movement	No direct equivalent	Refer to definition	Like-for-like sales movement relates to sales from stores which have been open for more than 12 months plus digital sales. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures. A reconciliation of these percentages is shown below:
Digital like-for-like sales movement	No direct equivalent	Refer to definition	Digital like-for-like sales movement measures the movement in online GTV. This measure is used in tracking Group digital sales performance.
Online mobile mix	No direct equivalent	Refer to definition	Online mobile mix is calculated as GTV generated from smartphone and tablet devices as a percentage of total online GTV and is used to track Group digital sales performance.

Like-for-like sales movement reconciliation:

UK stores	(1.5%)
UK digital	+1.4%
International	(0.1%)
Like-for-like-sales – constant currency[1]	(0.2%)
Exchange rate impact	+2.3%
Like-for-like sales movement – reported	+2.1%)

1 Constant exchange rates are the average actual periodic exchange rates for the previous financial period and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic exchange rates for that financial period.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures continued			
Full price sell-through	No direct equivalent	Refer to definition	Full price sell-through is the number of units sold in store or online at the original selling price, as a percentage of the total units sold. This measure is used in tracking Group sales performance and in managing inventory turn.
Gross margin	Not defined within IFRS.	Refer to definition	Gross margin is calculated as GTV less the value of cost of goods sold, as a percentage of GTV. The gross profit used in this calculation is based on an internal measure of margin and is a key internal management metric for assessing division performance.
Underlying Group EBITDA	Not defined within IFRS.	Refer to definition	Underlying Group EBITDA is calculated as profit before interest, tax, depreciation, amortisation and profit/loss on disposal of assets, asset write offs and exceptional items. Underlying Group EBITDA is used as an operating performance measure and is used in calculating financial leverage targets (net debt to underlying Group EBITDA). A reconciliation of underlying Group EBITDA to operating profit before exceptional items is shown below:
Underlying profit before tax	Profit before tax	Exceptional items (see note 7)	Profit before the impact of exceptional items and tax. The Group considers this to be an important measure of Group performance and is consistent with how business performance is reported to and assessed by the board and executive committee.
Underlying earnings per share	Earnings per share	Exceptional items (see note 7)	Profit after tax attributable to the owners of the parent and before the impact of exceptional items, divided by the weighted average number of ordinary shares in issue during the financial year. A reconciliation of earnings per share before the impact of exceptional items is provided in note 13.
Underlying diluted earnings per share	Diluted earnings per share	Exceptional items (see note 7)	Profit after tax attributable to the owners of the parent and before the impact of exceptional items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options. A reconciliation of diluted earnings per share before the impact of exceptional items is provided in note 13.

Reconciliation (Underlying Group EBITDA):

	£m
Operating profit before exceptional items	107.5
Add: non-exceptional depreciation and amortisation	109.3
Add: non-exceptional loss on disposal of assets and asset write offs	0.2
Underlying Group EBITDA	217.0

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures continued			
52 weeks ended 2 September 2017	No direct equivalent	Refer to definition	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 2 September 2017 is a 52 week year, with the comparative year ended 3 September 2016 being a 53 week year. In order to provide a meaningful comparison with this year's 52 week period, all financial movements in commentary relative to the prior year are provided on a 52 week basis and exclude the 53rd week, unless otherwise noted. The Group considers that presentation of comparatives on this basis enables stakeholders to more appropriately compare the performance of the business year on year.
Balance sheet measures			
Net debt	None	Refer to definition	Net debt comprises cash and cash equivalents and total borrowings (bank, bond and finance lease liabilities) net of unamortised fees. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies. A reconciliation of net debt is provided in note 32.
Tax measures			
Effective tax rate before exceptional items	Effective tax rate	Exceptional items and their tax impact (see note 7)	The effective tax rate before exceptional items is calculated as the total tax charge for the year excluding the tax impact of exceptional items divided by profit before tax before exceptional items. This provides an indication of the ongoing tax rate across the Group. The tax effect of exceptional items is provided in note 7.
Other measures			
Capital employed	Net assets	Refer to definition	Capital employed is calculated as the net total of assets and liabilities reported in the financial statements excluding net debt and including a capitalised value of future store rental payments at an eight times multiple. This measure is used in the calculation of return on capital employed.
Underlying return on capital employed	Not defined within IFRS	Refer to definition	Return on capital employed ("ROCE") is calculated as profit before rent expenses, interest, tax and before exceptional items divided by the average of opening and closing capital employed (excluding rent) then adjusted for the capitalised value of future store rental payments at an eight times multiple. This measure is used within the Group's remuneration targets and measures the profitability of the Group relative to the size of the assets used to generate returns.
Net promoter score	Not defined in IFRS	Refer to definition	The Group's net promoter score measures the willingness of customers to recommend the Group's products or services to others. This measure is used for remuneration incentive purposes.

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.

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.

Exceptional items in FY2017
Costs associated with a) the Strategic review and restructure and b) the Strategic warehouse restructuring.

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.

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 digital sales to addresses outside of the UK.

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 digital and in-store ordering as well as those which include more than one channel in a single shopping journey such as click & collect.

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.

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.

Additional information

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Company number: 5448421

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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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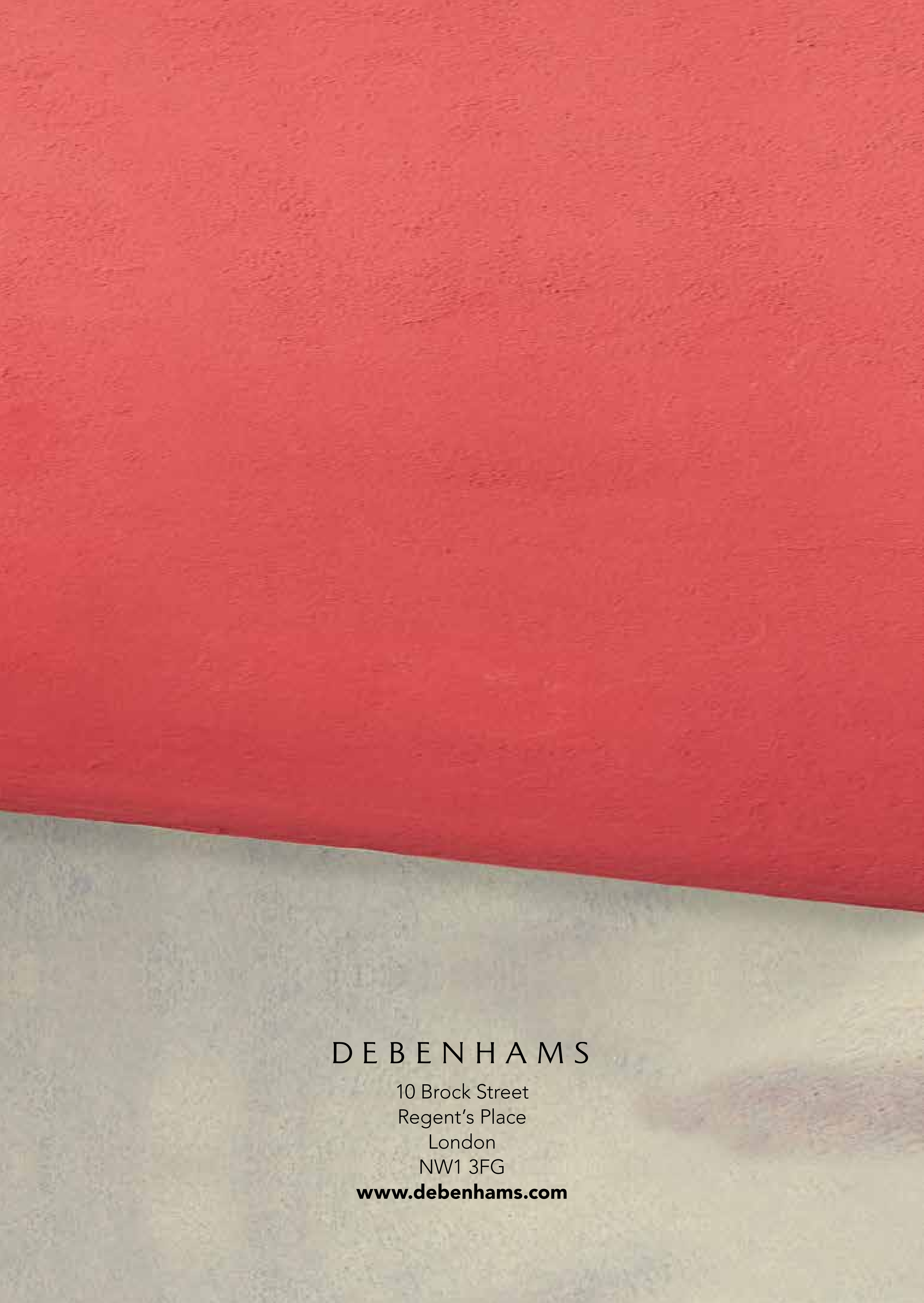

DEBENHAMS

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