

# DEBENHAMS

*This announcement contains inside information*

20 April 2017

## DEBENHAMS PLC

### Interim Results and Strategy Review

Debenhams plc today is pleased to announce a new strategy, Debenhams Redesigned, together with interim results that are in line with expectations for the 26 weeks to 4 March 2017.

#### Financial and Operational Headlines of the half year

- Group gross transaction value (“GTV”) up 2.9% to £1,676.5m (H1 2016: £1,628.7m), with UK LFL up 0.5%, reflecting further progress in growing non-clothing categories and strong online momentum
- Group gross margin rate down 30 bps, with further 50 bps markdown improvement on last year offset by sales mix dilution. Full price sales mix grew 2%
- Group EBITDA down 2.5% to £149.1m (H1 2016: £153.0m), with UK EBITDA down 6.0% and International EBITDA up 13.1%
- UK online performance driven by mobile orders up 64%
- Underlying international performance remains mixed. Magasin du Nord in Denmark saw a tougher trading environment whilst our business in ROI has benefited from restructuring under examinership
- Group profit before tax in line with market expectations, down 6.4% to £87.8m (H1 2016: £93.8m). Earnings per share of 5.8p (H1 2016: 6.2p)
- Net debt reduced to £216.9m (H1 2016: £224.2m) delivering net debt/EBITDA at 0.9x. Continued cash generation supports maintained interim dividend per share of 1.025p.

#### Highlights of Strategy Review

- New strategy, Debenhams Redesigned, to deliver **Growth** by becoming a Destination, Digital and Different; and to drive **Efficiency** by simplifying and focusing our business.
- Objective to define clearly what Debenhams stands for and simplify the way we operate to benefit customers today and therefore shareholders in the future.
- Aim to drive frequency of visit both on and offline as well as leveraging existing assets, including good stores in strong locations; leading market positions in key product categories; and profitable and growing international business.
- Leisure is increasing share of consumer spending. For Debenhams customers, the leisure experience is an important part of shopping and mobile interaction growing fast. Opportunity for Debenhams to lead in what we define as “Social Shopping”.
- Delivering **Growth** by becoming:
  - Destination for “Social Shopping”, offering exciting new products, services and experiences, as well as building on category strengths;
  - Digital-driven with mobile unifying channels and interaction with customers, broadening our reach both in UK and internationally; and
  - Different in how we create and manage brands, supported by a more innovative culture.

- Driving **Efficiency** by:
  - removing barriers to shopping both online and instore;
  - simplifying and focusing store estate and operating model; and
  - making more effective use of people, inventory and infrastructure.
- “Fix the Basics” Plan already under way to:
  - switch c2,000 more staff to customer-facing roles;
  - declutter store environment with c10% reduction in stock options;
  - replenish stock faster;
  - begin consultation on the closure of one central distribution centre and around 10 smaller regional warehousing facilities;
  - test new concepts and formats for stronger and more relevant brand and category presentation; and
  - evaluate store and brand portfolio: review up to 10 UK stores for closure over the next 5 years, and exit some brands and non-core international markets.
- Additional investment required to upgrade mobile systems, supply chain and invest in evolving store estate. Annual capex of c£150m between FY2018 and FY2020 vs current annual capex of £130m. Expected total exceptional costs over FY2017-FY2020 of c£50m, of which approximately half will be cash.

*Sergio Bucher, Chief Executive of Debenhams, said:*

“Our customers are changing the way they shop and we are changing too. Shopping with Debenhams should be effortless, reliable and fun whichever channel our customers use. We will be a destination for “Social Shopping” with mobile the unifying platform for interacting with our customers. If we deliver differentiated and distinctive brands, services and experiences both online and in stores, our customers will visit us more frequently and, having simplified our operations to make us more efficient, we will be able to serve them better and make better use of our resources.

“I’d like to thank the executive team and all our colleagues, who made sure that we were able to deliver a great experience for our customers over the peak trading period, and who are now working hard to implement our new strategy. This will set Debenhams on course for a successful and profitable future.”

## **Presentation**

A meeting for analysts and investors will be held at 9.00am today at Deutsche Bank Winchester House, 75 London Wall, London, EC2N 2DB.

The presentation will also be webcast live at <http://edge.media-server.com/m/p/7uwqso4m>

## **Enquiries:**

### ***Analysts and investors***

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## **STRATEGY REVIEW**

Our customers, competition and technology are changing and Debenhams needs to change too. By putting our customers first and simplifying the way we operate we can refocus our attention on what makes a difference to our customers today and therefore delivers value for our shareholders in the future.

We have completed a comprehensive review of our strategy and operations. We have conducted quantitative research with 16,000 shoppers (both Debenhams customers and non-customers) and undertaken qualitative research on our proposition, stores, products and brands. We have undertaken a detailed, bottom-up analysis of profitability by category, by brand and by store.

Following this analysis we are clear that Debenhams has many strengths we can leverage, as well as things that we need to fix. Our 19 million UK customers acknowledge our great beauty halls and well-located stores; our significantly improved online service; our choice of products and brands; and our value for money. However, they tell us we sometimes make it hard work for them to shop with us and we need to serve them better.

### ***Changing customers and growth in leisure***

We have a plan to transform the shopping experience at Debenhams. Shopping for fashion and beauty is about buying something that will make our customers look good and feel great, but it is also about enjoying the whole process.

Our customer research shows that two-thirds of the women surveyed regard leisure to be as important or more important than convenience when shopping. The same is true of more than half of the men. Debenhams scores highly for both, but over-indexes in leisure. The trend towards growth in leisure spending is well established. The trend towards online growth in discretionary retail sales is also well established. Shopping via mobile phones is currently driving all the growth in retail sales.

Mobile phones are being used in all channels, not just online, as they become an integral part of everyday life. Our survey data shows that the most frequent use of smartphones is to engage (write reviews, seek opinions, comment on social media) or check logistics (store location, product availability).

### ***Opportunity for Debenhams in "Social Shopping"***

Looking at the way our customers are shopping for fashion and beauty and interacting via their mobile phones, we see an opportunity for Debenhams to be the leader in what we define as the new "Social Shopping": shopping as a fun leisure activity enjoyed with friends and family and shared via social media.

We will give our customers more reasons to come to Debenhams, whether they are at home, on the train or in the high street, and build a stronger relationship with them, centred around mobile interaction. We score well on many metrics compared with competitors but can do better to encourage frequency of visit.

We will create an environment both online and offline that is engaging and inspiring, with great service, and a shopping journey that is convenient and reliable so they will want to come back to us more often.

We want them to share the experience, whether by visiting stores with friends and family to shop, use our services, eat and drink or attend events - or via social media.

The mobile phone is front and centre of how our customers interact with each other and it is the enabler for Social Shopping. We will invest in an upgraded mobile platform that will help us unite channels and connect better with our customer.

## **DEBENHAMS REDESIGNED: 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 3 years and beyond and create value for our shareholders.

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.

### ***Growth by becoming more of a Destination***

- **Beauty and Beauty Services:** We are already the market leader in premium make-up and the No 2 in premium beauty overall. We have the ambition to build a £1 billion business in this category, becoming the preferred destination in all channels. In addition, we will grow our share in the £4bn beauty services market, which is highly fragmented, but where we have the opportunity to build a differentiated proposition.
- **Fashion via Accessories:** We see the opportunity to improve our customer consideration in a broader range of categories. With an inspiring environment, much better service and great products we will accelerate our performance in accessories, in particular footwear and lingerie.
- **Meet me @Debenhams:** We will create exciting store environments where customers can spend time with family and friends - exploring our products and services; enjoying VIP access to in-store events; and sampling a step-changed food and drink offer, both our own and with new and exciting partners.

### ***Growth by being Digital-Driven***

- Digital is the engine of growth in the UK and a significant opportunity overseas. In order to give us the capability to deliver our strategy, we intend to invest in upgrading our technology platform. We will unify our business via mobile, “**mobile @everywhere**”, to connect with our customers via the device they always have with them.
- **Innovative new services:** Click & Collect has become an important part of our business, with over 30% of online transactions picked up in store. We see an opportunity to evolve this experience from being functional and reliable to make it also engaging and sociable, linking it with other services, such as personal shopping, to reinforce our ambition in Social Shopping.
- **Broaden our reach:** Digital distribution allows us to reach a different customer demographic, for example, that might not otherwise shop with us. We have had good success in selling via other online partners both in the UK and internationally. There are obvious opportunities to increase our digital distribution both through our own infrastructure and via strategic partnerships. For example we are launching on Amazon.de next month.

## *Growth by being Different*

- We will reinvent **Designers@Debenhams**, making the proposition more relevant and by managing the brand portfolio more robustly. We will invest in full price marketing to support our ambition to build brands with their own brand equity and also with international appeal.
- **Brand creation and distribution:** We want to create and distribute our brands in a different way. In the future we will build brand ranges for our online customers first. We will then edit our store ranges based on insight from customer segmentation and online catchment profiles.
- **Innovation and culture:** Our culture has been process driven and head-office led, resulting in risk-averse decision making and stifling innovation. We have already changed our head office to a support centre, to encourage a different mind-set with a focus on our customers and encouraging creativity.

## *Simplify and Focus to drive Efficiency*

- **Store estate strategy:** We have no tail of loss-makers in our 176 store estate, and many are highly profitable, but we want to ensure they are fit for the future. Based on future projections and having set a clear strategy for each location, we will review up to 10 stores for closure over five years should these stores not meet our required return thresholds. We will invest in our stores in major shopping destinations where we see the greatest opportunity to earn a good return and we will refresh and remerchandise the rest.
- **Operating model:** 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 are half way through replacing our legacy systems and we will need to complete this programme to give us the capabilities we require to deliver our strategy. We are investing in automation within our warehouses.
- **Better use of resources:** We will aim to make more effective use of our people, 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 will manage our stock more efficiently this will help to improve full price sales and stock turn.

## *International plans to be detailed later in the year*

We will discuss our plans for our International business in more detail at our preliminary results in October. All of the elements of our approach in Debenhams Redesigned will be applied as appropriate to our international business. We are developing a plan of which the key components are: Simplify (review for closure low profit, low-scale partners), Leverage & Grow (our existing successful partnerships), and Amplify (new markets, online growth in marketplaces and wholesale).

Magasin du Nord, our largest international business, has an opportunity to extend beyond its domestic borders through an expanded digital offer.

## *Short term self-help through Fix the Basics plan*

In January we embarked on a "Fix the Basics" plan to identify and implement self-help opportunities. This programme is already delivering change, and a number of initiatives are under way, for example:

- We are switching c2,000 store colleagues from back-of-house activities to customer-facing roles;
- We are including improvement in net promoter scores as part of our colleague incentives;
- We are decluttering stores by reducing options and changing the flow of product;
- We will speed up replenishment times from an average eight days to two days; and

- As a result of more efficient stock flows combined with the transition to a single warehouse management system, consultation has begun on the closure of one central distribution centre and around 10 smaller regional warehousing facilities.

In addition we have a number of trials already under way with further initiatives landing this Autumn/Winter:

- In two lingerie departments we are piloting a 30% reduction in options supporting significantly improved visual merchandising, with a view to trialling in more stores this autumn;
- We will remerchandise two stores across a number of brands, including Designer departments;
- We will trial some Click, Collect & Play departments, linking with personal shopping services, this autumn; and
- We will identify stores with potential to convert them to Outlets

### ***Impact and timeframe of change***

We will report back at our preliminary results in October with progress on these trials and on further new initiatives, together with more detail on our store estate and international plans.

The timeframe for delivery of the majority of the strategy is expected to be over the next three years. The key components of the strategy that will have cost and capex implications are as follows:

- **Supply chain:** we are consulting on the closure of one of our three central distribution centres, and around 10 smaller regional warehouses. We will continue with our automation programme, which is expected to complete in FY2020.
- **Digital:** in order to deliver the capability to execute our Social Shopping strategy in full, we will move to a new mobile platform that will unify our channels and our interaction with customers.
- **Store estate:** Over the next five years we will review for closure up to 10 UK stores should they not meet our return objectives and will also exit some non-core international markets. We intend to test the conversion of some smaller UK stores into Outlets, and will invest in upgrading those stores in major shopping destinations and remerchandising the remainder of the store estate.

In summary, the impact of the plan on costs and capital expenditure between FY2017 and FY2020 is as follows:

- Total capital expenditure of c£150 million per annum in the three years to FY2020, represents an incremental spend of £100m, compared with our original plan to spend approximately £350 million in total over the period.
- The investment will be used primarily to accelerate some of our automation plans; upgrade our digital platform to a fully flexible mobile-led system; and disciplined investment in our evolving store estate.
- Total expected exceptional costs of c£50 million during the three years to FY2020, with approximately half being cash costs.

## **OPERATIONAL AND FINANCIAL REVIEW**

We delivered a strong trading performance over peak in the UK and a mixed performance in International on a constant currency basis. We highlight below a brief summary of a solid operational performance in the first half of the year, the financial review, followed by the trading outlook.

### **OPERATIONAL HIGHLIGHTS OF THE HALF YEAR**

- In line with our stated aim to grow our non-clothing mix, we delivered strong progress in Beauty and Gifting categories, especially over peak trading. Our non-clothing sales mix represented 56% of GTV in H1 2017, up 1% year-on-year.
- Full price sales mix grew 2% and, as planned, stock levels continued to reduce, down 4.2% like-for-like in H1 2017. Terminal stocks were in line with expectations at 2.8%. As a result we saw markdowns improve for the sixth season in a row, leading to a gross margin improvement of 50bps, alongside an improvement in intake margin of 10bps. Sales mix dilution from growth in Beauty, Gift and Concessions was 90bps, so that overall gross margin was down 30bps in the first half.
- We delivered strong momentum in online sales with year on year growth strengthening over peak trading. Online sales grew 14.6% for the half year, with the UK up 12%, driven by mobile orders up 64%. We delivered a particularly strong performance in Beauty, and growth in concessions as more of our partners were able to meet our premium delivery promises. Premium delivery options grew by 64%.
- As planned, we completed 75% of our space optimisation programme in time for peak trading. This has been supported by the introduction of over 300 new offers across brands, products and services, including 48 new third party casual dining offers. The existing programme is on track to be completed by Autumn/Winter 2017. We also completed the modernisation of our Lakeside and Chelmsford stores.
- On a local currency basis, international performance was mixed: economic headwinds continue to weigh on Middle Eastern markets which held back franchise performance. Magasin du Nord in Denmark saw a tougher trading environment although online growth remained strong. Performance in the Republic of Ireland has benefited from the restructuring achieved under examinership.
- In connection with the sourcing of own bought goods denominated in US dollars, we are fully hedged for FY2017 at an average dollar rate c5% lower than FY2016. We are currently hedged for the majority of FY2018 at an average rate c.13% below FY2017. We continue to invest in supply chain improvements which should help 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.

## FINANCIAL SUMMARY

	26 weeks to 4 March 2017	26 weeks to 27 February 2016	% change
Gross transaction value <sup>1,2</sup>			
UK	£1,344.7m	£1,336.5m	+0.6%
International	£331.8m	£292.2m	+13.6%
Group	£1,676.5m	£1,628.7m	+2.9%
Statutory revenue <sup>1,2</sup>			
UK	£1,106.3m	£1,109.7m	(0.3%)
International	£244.8m	£217.5m	+12.6%
Group	£1,351.1m	£1,327.2m	+1.8%
Group like-for-like sales movement <sup>3</sup>			+3.0%
Group gross margin movement <sup>4</sup>			(30bps)
EBITDA <sup>1,5</sup>			
UK	£118.0m	£125.5m	(6.0%)
International	£31.1m	£27.5m	+13.1%
Group	£149.1m	£153.0m	(2.5%)
Operating profit <sup>1</sup>			
UK	£67.5m	£76.1m	(11.3%)
International	£26.4m	£23.5m	+12.3%
Group	£93.9m	£99.6m	(5.7%)
Profit before tax	£87.8m	£93.8m	(6.4%)
Basic earnings per share	5.8p	6.2p	(6.5%)
Dividend per share	1.025p	1.025p	-
	<b>4 March 2017</b>	<b>27 February 2016</b>	
Net debt	£216.9m	£224.2m	
Net debt : EBITDA (last 12 months)	0.9x	0.9x	

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 property, plant and equipment).



## SEGMENTAL PERFORMANCE

### UK

Gross transaction value (GTV) for the UK segment increased by 0.6% to £1,344.7 million and reported revenue reduced by (0.3%) to £1,106.3 million. The GTV growth was a result of continued online sales growth which contributed to a strong Christmas period. As we have seen in previous years the sales growth slowed in the latter period of the half as a result of the beauty and gifting categories representing a lower proportion of sales.

As expected, growth in beauty, gifting and concession sales has led to a sales mix dilution in gross margin rate, partly offset by a further reduction in markdown.

EBITDA decreased by (6.0%) to £118.0 million driven by the change in the gross margin rate and the net impact of store cost increases in rent and National Living Wage. Operating profit for the year decreased by (11.3%) to £67.5 million.

### International

In the International segment gross transaction value of £331.8 million was 13.6% higher than last year and reported revenue increased by 12.6% to £244.8 million. Both metrics have been supported by stronger Euro and Danish Kroner exchange rates, boosting Group LFL by 2.9%. On a constant currency basis, International gross transaction value reduced by (2.1%).

International operating profit increased by 12.3% to £26.4 million as a result of the translation benefits on profit generated in Magasin du Nord and savings achieved through the Irish examinership process.

## GROUP SALES AND PROFITS

### Sales and revenue

Group gross transaction value increased by 2.9% to £1,676.5 million whilst Group revenue increased by 1.8% to £1,351.1 million. Group like-for-like sales increased by 0.1% on a constant currency basis and 3.0% on a reported basis.

The constant currency like-for-like sales growth reflects the mix from stores to online, with online sales growth of 14.6%, representing 16.8% of group gross transaction value (2016: 15.1%). The components of the gross transaction value increase of 2.9% and like-for-like sales growth of 3.0% are shown below

UK stores	(1.3%)
UK online	+1.7%
International	<u>(0.3%)</u>
Like-for-like sales – constant currency	+0.1%
Exchange rate impact	<u>+2.9%</u>
Like-for-like sales - reported	+3.0%
New UK space	(0.1%)
Franchise/Wholesale	<u>-</u>
GTV movement	<u>+2.9%</u>

Group own bought mix decreased from 76.3% in 2016 to 74.5% mainly as a result of the movement in the UK mix, with the sales growth from concessions increasing at a faster rate.

### ***Operating profit***

As expected, growth in 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. The programme of markdown reduction has continued through a combination of tighter stock control and a reduced depth of promotions. As a result, the gross margin rate has reduced overall by (30bps).

Costs increased by 3.6% driven by the impact of foreign exchange rates and the growth of online, although efficiencies are being realised in this channel. On a constant currency basis, total costs increased by 1.3%.

Depreciation and amortisation (including losses on disposals) increased by 3.4% to £55.2 million, reflecting investment in capital expenditure over the last few years.

As a result of the above, Group operating profit of £93.9 million was (5.7%) below last year for the 26 weeks to 4 March 2017.

### ***Net finance costs***

Net finance costs increased by 5.2% to £6.1 million reflecting a foreign exchange cost of £0.1 million (2016: £1.2 million benefit) from the translation of Euro balances over the half year. This has been offset by lower average debt levels throughout the half.

### ***Profit before tax***

Reported profit before tax decreased by 6.4% to £87.8 million (2016: £93.8 million).

### ***Taxation***

Taxation decreased from £17.4 million in the first half of last year to £16.2 million, mainly due to the effect of the lower reported profit before tax combined with this year's staged reduction in the main rate of UK corporation tax. This represents an effective tax rate of 18.5% based on the full year forecast (H1 2016: 18.6%).

### ***Profit after tax***

Profit after tax decreased by 6.3% to £71.6 million.

### ***Earnings per share***

Both basic and diluted earnings per share were 5.8 pence. The basic weighted average number of shares in issue reduced slightly from 1,227.2 million last year to 1,227.1 million and diluted weighted average number of shares reduced slightly from 1,230.2 million to 1,227.3 million.

## CASH FLOW, USES OF CASH AND MOVEMENT IN NET DEBT

Debenhams is cash generative and has clear priorities for the uses of cash. The first priority is to invest in our strategy; second, we pay our shareholders a dividend; third, we have a medium-term target for net debt to EBITDA of 0.5 times.

Operating cash flow before financing and taxation was £108.7 million compared with £133.5 million last year. Last year's working capital position benefited from a number of timing benefits that have not arisen this year.

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

£m	26 weeks to 4 March 2017	26 weeks to 27 February 2016
EBITDA	149.1	153.0
Working capital	7.1	34.0
Cash generated from operations	156.2	187.0
Capital expenditure	(47.5)	(53.5)
Operating cash flow before financing & taxation	108.7	133.5
Taxation	(8.7)	(1.5)
Financing	(6.7)	(6.2)
Dividends paid	(29.4)	(29.5)
Other movements	(1.8)	(0.7)
Change in net debt	62.1	95.6
Opening net debt	279.0	319.8
Closing net debt	216.9	224.2
Net debt : EBITDA (last 12 months)	x0.9	x0.9

### Capital expenditure

Capital expenditure was £47.5 million during the half compared to the spend of £53.5 million in the same period last year. The decrease is primarily due to the cost of the new store openings in the first half of last year, offset by an increased investment in systems for the period. Guidance for capital expenditure for the year remains in the region of £130 million.

### Inventory

Stock levels were managed tightly during the first half, reflecting the continued plan to reduce the depth of markdown requirement. Total stock value decreased by 3.4% to £318.0 million (like-for-like reduction 4.2%). Terminal stock of 2.8% was in line with our historical range of 2.5% to 3.5%.

### Dividends

Total cash paid in dividends of £29.4 million related to the 2016 final dividend of 2.4 pence per share that was paid to shareholders on 24 January 2017.

The directors have resolved to pay an interim dividend in respect of the 26 weeks ended 4 March 2017 of 1.025 pence per share (27 February 2016: 1.025 pence) which will absorb an estimated £12.6 million of shareholders' funds (27 February 2016: £12.5 million). It will be paid on 7 July 2017 to shareholders who are on the register of members at close of business on 2 June 2017.

## **Net debt**

The Group's net debt position as at 4 March 2017 of £216.9 million was £7.3 million lower than the same point in the prior year (2016: £224.2 million), as a result of a reduction in working capital, increased taxation payments offset by a reduction in capital investment.

The ratio of net debt to EBITDA of 0.9 times is in line with the previous year.

The Group's Revolving Credit Facility ('RCF') of £320 million is in place until June 2020, with an option to extend until June 2021. In addition, the Group also 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 and the Debenhams Executive Pension Plan (together "the Group's pension schemes") which both closed for future service accrual from 31 October 2006.

Under IAS 19 "Employee benefits" revised, the net surplus on the Group's pension schemes as at 4 March 2017 was £46.8 million (27 February 2016: surplus of £51.8 million).

During June 2015, a triennial valuation was completed and a new agreement was concluded under which the Group agreed to contribute £9.5 million per annum to the pension schemes for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. The Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

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

## **GUIDANCE FOR 2017**

Guidance for 2017, shown below, remains broadly unchanged except for an update on full year gross margin, which we expect to be approximately (25bps) for the full year, and cost guidance which is tightened to +3% to +4% on a reported currency basis, or +1% to +2% on a constant currency basis.

Group gross margin	c.(25bps)
Total cost growth	+3% to +4%*
Depreciation & amortisation	c.£110 million
Net finance costs	£13-£15 million
Taxation	c.20%
Capital expenditure	c.£130 million
Net debt	c.£260 million

\*+1% to +2% on constant currency basis

## **OUTLOOK**

We have delivered a solid performance in the first half of the year, and have delivered results in line with market expectations. Our diversified business model means that Debenhams is in good shape to withstand a market background that remains uncertain.

We believe our new strategy will set Debenhams on course for a successful and profitable future.

## **NOTES TO EDITORS**

Debenhams is a leading international, multi-channel brand with a proud British heritage which trades from 247 stores across 27 countries. Debenhams gives its customers around the world a unique, differentiated and exclusive mix of own brands, international brands and concessions.

In the UK, Debenhams has a top five market share in womenswear and menswear and a top ten share in childrenswear. It is a market leader in premium health and beauty.

Debenhams has been investing in British design for over 20 years through its exclusive Designers at Debenhams portfolio of brands. Current designers include Abigail Ahern, Jasper Conran, Giles Deacon, FrostFrench, Patrick Grant, Henry Holland, Ben de Lisi, Julien Macdonald, Savannah Miller, Jenny Packham, Preen, Aliza Reger, John Rocha, Ashley Thomas and Matthew Williamson.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks and uncertainties which could impact on the Group's long-term performance have been reviewed and remain those detailed on pages 22 to 25 of the Group's Annual Report and Accounts for 2016.

These key risks are:

- Economic environment
- Currency and hedging
- Systems availability and cyber security
- Competition for customers
- Business transformation and strategy
- Supply chain and key suppliers
- Legal and regulatory
- Key personnel

The triggering of Article 50 in March 2017, formally confirming the UK's intention to exit from EU membership, may lead to increasing economic and political uncertainty as negotiations progress. Similarly, the effect of a snap general election could also create increasing economic and political uncertainty in the short term. Debenhams will continue to monitor the situation, assess potential impacts and manage exposures according to its current risk appetite.

## **GOING CONCERN**

After making enquiries, the directors of Debenhams plc consider that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the Group's financial statements.

## **BOARD OF DIRECTORS**

Sergio Bucher was appointed Chief Executive Officer and succeeded Michael Sharp on 17 October 2016. Lisa Myers was appointed as a non-executive director on 6 September 2016, and Nicky Kinnaird was appointed as a non-executive director on 15 November 2016. Dennis Millard stepped down as a non-executive director on 12 January 2017. The board of directors as at 20 April 2017 is as follows: Sir Ian Cheshire (Chairman), Sergio Bucher (Chief Executive), Matt Smith (Chief Financial Officer), Suzanne Harlow (Group Trading Director), Terry Duddy (senior independent director), Peter Fitzgerald (independent non-executive director), Stephen Ingham (independent non-executive director), Martina King (independent non-executive director), Mark Rolfe (independent non-executive director), Lisa Myers (independent non-executive director) and Nicky Kinnaird (independent non-executive director).

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors confirm that to the best of their knowledge:

- the condensed consolidated interim financial statements for the 26 weeks ended 4 March 2017 have been prepared in accordance with IAS 34 as adopted by the European Union and includes information required by DTR 4.2.4R (provides a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation);
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events and their impact during the first 26 weeks and description of principal risks and uncertainties for the remaining 26 weeks of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

The directors of Debenhams plc are listed above.

By order of the Board

Sergio Bucher  
Chief Executive  
20 April 2017

Matt Smith  
Chief Financial Officer

Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect Debenhams' current expectations concerning future events and actual results may differ materially from current expectations or historical results. Neither the content of the Company's website nor the content of any website accessible from hyperlinks on the Company's website (or any other website) is (or is deemed to be) incorporated into or forms (or is deemed to form) part of this announcement.

# Independent review report to Debenhams plc

## Report on the interim condensed consolidated financial statements

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### Our conclusion

We have reviewed Debenhams plc's interim condensed consolidated financial statements (the "interim financial statements") in the half year results of Debenhams plc for the 26 week period ended 4 March 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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### What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 4 March 2017;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half year results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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## Responsibilities for the interim financial statements and the review

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### Our responsibilities and those of the directors

The half year results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year results in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half year results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

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### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
20 April 2017

- a) The maintenance and integrity of the Debenhams plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Consolidated Income Statement

For the 26 weeks ended 4 March 2017

	Note	Unaudited 26 weeks to 4 March 2017	Unaudited 26 weeks to 27 February 2016	Audited 53 weeks to 3 September 2016		
		Total £m	Total £m	Before exceptional items £m	Exceptional items (note 5) £m	Total £m
<b>Revenue</b>	2, 3	<b>1,351.1</b>	1,327.2	2,341.7	-	2,341.7
Cost of sales		<b>(1,158.5)</b>	(1,134.8)	(2,039.8)	(8.5)	(2,048.3)
<b>Gross profit</b>		<b>192.6</b>	192.4	301.9	(8.5)	293.4
Distribution costs		<b>(68.7)</b>	(63.1)	(115.4)	(1.8)	(117.2)
Administrative expenses		<b>(30.0)</b>	(29.7)	(55.5)	(2.1)	(57.6)
<b>Operating profit</b>	4	<b>93.9</b>	99.6	131.0	(12.4)	118.6
Finance income	7	<b>0.1</b>	2.0	1.4	-	1.4
Finance costs	8	<b>(6.2)</b>	(7.8)	(14.2)	-	(14.2)
<b>Profit before taxation</b>		<b>87.8</b>	93.8	118.2	(12.4)	105.8
Taxation	9	<b>(16.2)</b>	(17.4)	(22.3)	2.4	(19.9)
<b>Profit for the financial period attributable to owners of the parent</b>		<b>71.6</b>	76.4	95.9	(10.0)	85.9
<b>Earnings per share attributable to the owners of the parent</b>						
		Pence per share	Pence per share	Pence per share		Pence per share
Basic earnings per share	10	<b>5.8</b>	6.2	7.8		7.0
Diluted earnings per share	10	<b>5.8</b>	6.2	7.8		7.0

The notes on pages 21-29 form an integral part of this condensed consolidated interim financial information.



## Consolidated Statement of Comprehensive Income

For the 26 weeks ended 4 March 2017

	Note	Unaudited 26 weeks to 4 March 2017 £m	Unaudited 26 weeks to 27 February 2016 £m	Audited 53 weeks to 3 September 2016 £m
<b>Profit for the financial period</b>		<b>71.6</b>	76.4	85.9
<b>Other comprehensive income/(expense)</b>				
<b>Items that will not be reclassified to the income statement</b>				
Remeasurements of pension schemes	15	<b>46.1</b>	20.3	(41.1)
Taxation relating to items that will not be reclassified		<b>(10.0)</b>	(4.9)	8.1
		<b>36.1</b>	15.4	(33.0)
<b>Items that may be reclassified to the income statement</b>				
Change in value of available-for-sale investments		<b>(0.1)</b>	(0.2)	(0.8)
Currency translation differences:				
- retranslation of overseas subsidiaries		<b>1.0</b>	4.5	7.4
Foreign currency cash flow hedges:				
- fair value gains		<b>25.0</b>	38.6	41.8
- recycled and adjusted against cost of inventory		<b>(30.0)</b>	(12.6)	(27.2)
Cash flow hedges reclassified and reported in the income statement		<b>0.2</b>	0.4	0.8
Taxation relating to items that may be reclassified		<b>(0.2)</b>	(6.4)	(1.5)
		<b>(4.1)</b>	24.3	20.5
<b>Total other comprehensive income/(expense)</b>		<b>32.0</b>	39.7	(12.5)
<b>Total comprehensive income for the financial period</b>		<b>103.6</b>	116.1	73.4

The notes on pages 21-29 form an integral part of this condensed consolidated interim financial information.

# Consolidated Balance Sheet

As at 4 March 2017

	Note	Unaudited 4 March 2017 £m	Unaudited 27 February 2016 £m	Audited 3 September 2016 £m
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets	12	978.3	940.5	962.1
Property, plant and equipment	12	646.6	667.9	670.2
Available-for-sale investments	14	1.2	1.9	1.3
Derivative financial instruments	14	8.8	12.3	10.7
Trade and other receivables		18.4	15.8	17.4
Retirement benefit surplus	15	46.8	51.8	6.4
Deferred tax assets		16.8	12.3	20.1
		<b>1,716.9</b>	<b>1,702.5</b>	<b>1,688.2</b>
<b>Current assets</b>				
Inventories		318.0	329.1	326.3
Trade and other receivables		78.4	75.6	81.1
Derivative financial instruments	14	40.8	33.6	39.1
Cash and cash equivalents	19	40.0	35.8	56.3
		<b>477.2</b>	<b>474.1</b>	<b>502.8</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdraft and borrowings	13, 19	(57.2)	(63.0)	(135.6)
Derivative financial instruments	14	(7.3)	(3.8)	(7.6)
Trade and other payables		(533.0)	(531.7)	(516.3)
Current tax liabilities		(24.0)	(23.1)	(14.7)
Provisions		(7.5)	(6.3)	(14.0)
		<b>(629.0)</b>	<b>(627.9)</b>	<b>(688.2)</b>
<b>Net current liabilities</b>		<b>(151.8)</b>	<b>(153.8)</b>	<b>(185.4)</b>
<b>Non-current liabilities</b>				
Bank overdraft and borrowings	13, 19	(199.7)	(197.0)	(199.7)
Derivative financial instruments	14	(0.9)	(1.9)	(3.7)
Deferred tax liabilities		(55.5)	(59.2)	(50.5)
Other non-current liabilities	16	(351.9)	(349.9)	(354.5)
Retirement benefit obligations	15	-	-	(10.5)
		<b>(608.0)</b>	<b>(608.0)</b>	<b>(618.9)</b>
<b>Net assets</b>		<b>957.1</b>	<b>940.7</b>	<b>883.9</b>
<b>Equity</b>				
Share capital	17	0.1	0.1	0.1
Share premium account		682.9	682.9	682.9
Merger reserve		1,200.9	1,200.9	1,200.9
Reverse acquisition reserve		(1,199.9)	(1,199.9)	(1,199.9)
Hedging reserve		26.2	37.9	31.2
Other reserves		(8.4)	(12.2)	(9.3)
Retained earnings		255.3	231.0	178.0
<b>Total equity</b>		<b>957.1</b>	<b>940.7</b>	<b>883.9</b>

The notes on pages 21-29 form an integral part of this condensed consolidated interim financial information.

## Consolidated Statement of Changes in Equity

For the 26 weeks ended 4 March 2017

	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 3 September 2016	683.0	1,200.9	(1,199.9)	31.2	(9.3)	178.0	883.9
Profit for the financial period	-	-	-	-	-	71.6	71.6
Other comprehensive (expense)/income for the financial period	-	-	-	(5.0)	0.9	36.1	32.0
<b>Total comprehensive (expense)/income for the financial period</b>	-	-	-	<b>(5.0)</b>	<b>0.9</b>	<b>107.7</b>	<b>103.6</b>
Share-based payment credit	-	-	-	-	-	(0.2)	(0.2)
Dividends paid	-	-	-	-	-	(29.4)	(29.4)
Purchase of shares by Debenhams Retail Employee Trust 2004	-	-	-	-	-	(0.8)	(0.8)
<b>Total transactions with owners</b>	-	-	-	-	-	<b>(30.4)</b>	<b>(30.4)</b>
<b>Balance at 4 March 2017</b>	<b>683.0</b>	<b>1,200.9</b>	<b>(1,199.9)</b>	<b>26.2</b>	<b>(8.4)</b>	<b>255.3</b>	<b>957.1</b>

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 period	-	-	-	-	-	76.4	76.4
Other comprehensive income for the financial period	-	-	-	20.0	4.3	15.4	39.7
Total comprehensive income for the financial period	-	-	-	20.0	4.3	91.8	116.1
Share-based payment charge	-	-	-	-	-	0.8	0.8
Dividends paid	-	-	-	-	-	(29.5)	(29.5)
Total transactions with owners	-	-	-	-	-	(28.7)	(28.7)
Balance at 27 February 2016	683.0	1,200.9	(1,199.9)	37.9	(12.2)	231.0	940.7

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	-	-	-	-	-	(0.8)	(0.8)
Dividends paid	-	-	-	-	-	(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

The notes on pages 21-29 form an integral part of this condensed consolidated interim financial information.

## Consolidated Cash Flow Statement

For the 26 weeks ended 4 March 2017

	Note	Unaudited 26 weeks to 4 March 2017 £m	Unaudited 26 weeks to 27 February 2016 £m	Audited 53 weeks to 3 September 2016 £m
<b>Cash flows from operating activities</b>				
Cash generated from operations	18	156.2	187.0	240.2
Finance income		-	1.7	0.3
Finance costs		(6.7)	(7.9)	(15.6)
Tax paid		(8.7)	(1.5)	(11.0)
<b>Net cash generated from operating activities</b>		<b>140.8</b>	179.3	213.9
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(22.9)	(35.8)	(79.3)
Purchase of intangible assets		(24.6)	(17.7)	(47.2)
<b>Net cash used in investing activities</b>		<b>(47.5)</b>	(53.5)	(126.5)
<b>Cash flows from financing activities</b>				
Repayment of revolving credit facility		(75.0)	(104.0)	(15.0)
Dividends paid		(29.4)	(29.5)	(42.0)
Purchase of shares by Debenhams Retail Employee Trust 2004		(0.8)	-	-
Finance lease payments		(0.6)	(1.9)	(2.9)
Debt issue costs		-	(1.1)	(1.3)
<b>Net cash used in financing activities</b>		<b>(105.8)</b>	(136.5)	(61.2)
<b>Net (decrease)/increase in cash and cash equivalents</b>	19	<b>(12.5)</b>	(10.7)	26.2
Net cash and cash equivalents at beginning of financial period		40.8	14.4	14.4
Foreign exchange (losses)/gains on cash and cash equivalents		-	(0.3)	0.2
<b>Net cash and cash equivalents at end of financial period</b>	19	<b>28.3</b>	3.4	40.8

The notes on pages 21-29 form an integral part of this condensed consolidated interim financial information.

## Notes to the financial statements

### 1 Basis of preparation

This interim report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 “Interim Financial Reporting” as adopted by the European Union. The condensed consolidated financial statements for the 26 weeks ended 4 March 2017 should be read in conjunction with the annual financial statements for the 53 weeks ended 3 September 2016 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) including International Accounting Standards (“IAS”) and IFRS Interpretations Committee (“IFRS IC”) interpretations as adopted by the European Union.

The Group's principal accounting policies used in preparing this information are as stated in the financial statements for the 53 weeks ended 3 September 2016, which are available on our website [www.debenhamsplc.com](http://www.debenhamsplc.com). The report of the auditors for the financial statements for the 53 weeks ended 3 September 2016 was unqualified, did not contain an emphasis of matter paragraph and did not include a statement under Section 498 of the Companies Act 2006. The full financial statements for those 53 weeks have been filed with the Registrar of Companies.

The Group's interim condensed consolidated financial information is not audited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The comparative figures for the 53 weeks ended 3 September 2016 and the 26 weeks ended 27 February 2016 are consistent with the Group's 2016 annual report and financial statements and interim financial statements respectively.

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 quantitative impact of IFRS 16 on the Group's net assets and results is being assessed and it is not yet practicable to quantify the effect on these consolidated financial statements. 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. Other standards and interpretations in issue, but not yet effective, are not expected to have a material effect on the Group's net assets or results.

The critical accounting estimates and judgements made by management in applying the Group's accounting policies are consistent with those detailed on page 94 of the annual report and financial statements for the 53 weeks ended 3 September 2016 except for taxes on income in the interim periods which are accrued using the tax rate that would be applicable to the expected total annual profit or loss. The principal risks and uncertainties are set out on page 13 of this interim report.

### 2 Gross transaction value

Revenue from concession and consignment sales is required to be shown on a net basis, being the commission receivable rather than the gross value achievable 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.

	26 weeks to 4 March 2017 £m	26 weeks to 27 February 2016 £m	53 weeks to 3 September 2016 £m
<b>Gross transaction value</b>	<b>1,676.5</b>	1,628.7	2,938.5

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

### 3 Segmental information

IFRS 8 “Operating segments” requires disclosure of the operating segments which are reported to the Chief Operating Decision Maker (“CODM”). The CODM has been identified as the Executive Committee, which includes the executive directors and other key management. It is the Executive Committee that has responsibility for planning and controlling the activities of the Group.

The Group's reportable segments have been identified as UK and International representing the geographical areas in which the Group operates. The UK segment consists of the UK store and online retail business. The International segment consists of subsidiaries in the Republic of Ireland and Denmark, together with international franchise and online operations. Transactions within segments have been eliminated from the information presented below.

The segments are reported to the CODM to operating profit level, using the same accounting policies as applied to the Group accounts. Current assets, current liabilities and non-current liabilities are not reported to or reviewed by the CODM on the basis of operating segment as these are reviewed on a Group-wide basis and therefore these amounts are not presented below.

<b>Segmental analysis of results</b>	<b>UK £m</b>	<b>International £m</b>	<b>Total £m</b>
<b>26 weeks ended 4 March 2017</b>			
<b>Gross transaction value</b>	<b>1,344.7</b>	<b>331.8</b>	<b>1,676.5</b>
Concessions, consignments and staff discounts	<b>(238.4)</b>	<b>(87.0)</b>	<b>(325.4)</b>
<b>External revenue</b>	<b>1,106.3</b>	<b>244.8</b>	<b>1,351.1</b>
<b>Operating profit</b>	<b>67.5</b>	<b>26.4</b>	<b>93.9</b>
<b>26 weeks ended 27 February 2016</b>			
Gross transaction value	1,336.5	292.2	1,628.7
Concessions, consignments and staff discounts	(226.8)	(74.7)	(301.5)
External revenue	1,109.7	217.5	1,327.2
Operating profit	76.1	23.5	99.6
<b>53 weeks ended 3 September 2016</b>			
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

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

	<b>26 weeks to 4 March 2017 £m</b>	26 weeks to 27 February 2016 £m	53 weeks to 3 September 2016 £m
Total operating profit	<b>93.9</b>	99.6	118.6
Finance income	<b>0.1</b>	2.0	1.4
Finance costs	<b>(6.2)</b>	(7.8)	(14.2)
<b>Total profit before taxation</b>	<b>87.8</b>	93.8	105.8

#### 4 Operating profit

The following items have been included in arriving at operating profit:

	<b>26 weeks to 4 March 2017 £m</b>	26 weeks to 27 February 2016 £m	53 weeks to 3 September 2016 £m
Amounts of inventory written down during the financial period	<b>5.3</b>	4.7	7.5
Cost of inventory recognised as an expense	<b>680.3</b>	676.2	1,153.7
Depreciation and amortisation	<b>55.0</b>	53.3	108.6
Impairment of intangible assets (note 12)	-	-	2.2
Loss on disposal of property, plant and equipment	<b>0.2</b>	0.1	0.1
Operating lease rentals	<b>112.3</b>	107.9	220.7
Foreign exchange gains	<b>(23.8)</b>	(11.1)	(24.1)

## 5 Exceptional items

There were no exceptional items in the 26 weeks ended 4 March 2017 or 26 weeks ended 27 February 2016.

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

	Irish examinership <sup>1</sup> £m	UK restructuring <sup>2</sup> £m	International website <sup>3</sup> £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

1) The Irish business 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. The Irish business has been restructured resulting in costs directly related to examinership. These costs included legal and professional fees, a limited number of redundancy costs and warehouse dilapidation costs offset by a £2.3 million reduction in the balance of accounts payable at the end of examinership.

2) UK restructuring costs represented the amount incurred for redundancies and fees within head office.

3) This is the write off of the old International website intangible asset following the launch of the new International website in the 2016 financial year.

## 6 Employment costs

	26 weeks to 4 March 2017 £m	26 weeks to 27 February 2016 £m	53 weeks to 3 September 2016 £m
Wages and salaries including restructuring costs and other termination benefits	188.5	186.5	357.4
Social security cost	11.5	11.5	22.4
Other pension costs	8.5	8.3	17.0
Share-based payments	(0.2)	0.8	(0.8)
	208.3	207.1	396.0

## 7 Finance income

	26 weeks to 4 March 2017 £m	26 weeks to 27 February 2016 £m	53 weeks to 3 September 2016 £m
Interest on bank deposits	0.1	1.4	0.3
Net interest on net defined benefit pension schemes' liability/asset	-	0.6	1.1
	0.1	2.0	1.4

## 8 Finance costs

	26 weeks to 4 March 2017 £m	26 weeks to 27 February 2016 £m	53 weeks to 3 September 2016 £m
Interest payable on bank loans and overdrafts	1.4	2.1	3.3
Interest payable on senior notes	5.2	5.2	10.6
Cash flow hedges reclassified and reported in the income statement	0.2	0.4	0.8
Amortisation of issue costs on loans and senior notes	0.6	0.7	1.3
Interest payable on finance leases	0.1	-	0.1
Other financing costs	-	0.3	-
Capitalised finance costs – qualifying assets	(1.3)	(0.9)	(1.9)
	<b>6.2</b>	<b>7.8</b>	<b>14.2</b>

## 9 Taxation

The taxation charge for the 26 weeks ended 4 March 2017 is based on an estimated effective tax rate for the full year of 18.5% (53 weeks ended 3 September 2016: 18.8%), which is lower than the blended standard rate of corporation tax (19.6%). The difference is due to the reduction in the future corporation tax rate to 17.0% (implemented in Finance Act 2016) and other movements in deferred tax balances.

## 10 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 period, excluding any shares purchased by the Company and held as treasury shares.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares, those share options granted to employees where the exercise price is less than the market price of the Company's ordinary shares during the financial period.

Basic and diluted earnings per share	26 weeks to 4 March 2017		26 weeks to 27 February 2016		53 weeks to 3 September 2016	
	Basic £m	Diluted £m	Basic £m	Diluted £m	Basic £m	Diluted £m
<b>Profit for the financial period after taxation</b>	<b>71.6</b>	<b>71.6</b>	76.4	76.4	85.9	85.9
<b>Exceptional items after taxation (note 5)</b>	-	-	-	-	10.0	10.0
<b>Profit for the financial period after taxation – before exceptional items</b>	<b>71.6</b>	<b>71.6</b>	76.4	76.4	95.9	95.9
	Number m	Number m	Number m	Number m	Number m	Number m
Weighted average number of shares	1,227.8	1,227.8	1,227.4	1,227.4	1,227.6	1,227.6
Shares held by ESOP (weighted)	(0.7)	(0.7)	(0.2)	(0.2)	(0.2)	(0.2)
Shares issuable (weighted)	-	0.2	-	3.0	-	0.5
<b>Weighted average number of shares used in calculating earnings per share</b>	<b>1,227.1</b>	<b>1,227.3</b>	1,227.2	1,230.2	1,227.4	1,227.9
	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
<b>Earnings per share</b>	<b>5.8</b>	<b>5.8</b>	6.2	6.2	7.0	7.0
<b>Earnings per share - before exceptional items</b>	<b>5.8</b>	<b>5.8</b>	6.2	6.2	7.8	7.8



## 11 Dividends

The Company paid a final dividend in respect of the 53 weeks ended 3 September 2016 of 2.4 pence per share on 24 January 2017. The directors have resolved to pay an interim dividend in respect of the 26 weeks ended 4 March 2017 of 1.025 pence per share (27 February 2016: 1.025 pence) which will absorb an estimated £12.6 million of shareholders' funds (27 February 2016: £12.5 million). It will be paid on 7 July 2017 to shareholders who are on the register of members at close of business on 2 June 2017.

## 12 Intangible assets and property, plant and equipment

	4 March 2017 £m	27 February 2016 £m	3 September 2016 £m
Opening net book amount	1,632.3	1,606.8	1,606.8
Additions:			
- Intangible assets	26.5	17.6	50.9
- Property, plant and equipment	20.0	34.4	78.8
Foreign currency revaluation	1.3	3.0	6.7
Disposals	(0.2)	(0.1)	(0.1)
Depreciation and amortisation	(55.0)	(53.3)	(108.6)
Impairment loss	-	-	(2.2)
<b>Closing net book amount</b>	<b>1,624.9</b>	<b>1,608.4</b>	<b>1,632.3</b>

Capital commitments contracted but not provided for by the Group amounted to £4.3 million (3 September 2016: £6.5 million; 27 February 2016: £11.6 million).

## 13 Bank overdraft and borrowings

On 26 February 2016 the Group refinanced its £350.0 million revolving credit facility, reducing 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.

## 14 Financial risk factors and financial instruments

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 and other price risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and they should be read in conjunction with the Group's annual financial statements as at 3 September 2016. There have been no changes in risk management procedures and policies since the year end.

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.

At the end of the reporting period, the Group held the following financial instruments at fair value:

	Level 1 £m	Level 2 £m	Total £m
<b>At 4 March 2017</b>			
<b>Assets</b>			
Available-for-sale financial investments	1.2	-	1.2
Derivative financial instruments:			
- Forward foreign currency contracts held as cash flow hedges	-	41.5	41.5
- Other forward foreign currency contracts	-	8.1	8.1
<b>Total assets</b>	<b>1.2</b>	<b>49.6</b>	<b>50.8</b>
<b>Liabilities</b>			
Derivative financial instruments:			
- Forward foreign currency contracts held as cash flow hedges	-	(8.2)	(8.2)
<b>Total liabilities</b>	<b>-</b>	<b>(8.2)</b>	<b>(8.2)</b>

	Level 1 £m	Level 2 £m	Total £m
<b>At 27 February 2016</b>			
<b>Assets</b>			
Available-for-sale financial investments	1.9	-	1.9
Derivative financial instruments:			
- Forward foreign currency contracts held as cash flow hedges	-	37.0	37.0
- Other forward foreign currency contracts	-	8.9	8.9
<b>Total assets</b>	<b>1.9</b>	<b>45.9</b>	<b>47.8</b>
<b>Liabilities</b>			
Derivative financial instruments:			
- Interest rate swaps held as cash flow hedges	-	(0.6)	(0.6)
- Forward foreign currency contracts held as cash flow hedges	-	(4.7)	(4.7)
- Other forward foreign currency contracts	-	(0.4)	(0.4)
<b>Total liabilities</b>	<b>-</b>	<b>(5.7)</b>	<b>(5.7)</b>
<b>At 3 September 2016</b>			
<b>Assets</b>			
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
<b>Total assets</b>	<b>1.3</b>	<b>49.8</b>	<b>51.1</b>
<b>Liabilities</b>			
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)
<b>Total liabilities</b>	<b>-</b>	<b>(11.3)</b>	<b>(11.3)</b>

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no transfers of assets or liabilities between levels of the fair value hierarchy in the current period (26 weeks ended 27 February 2016: no transfers). None of the Group's financial assets and liabilities are classed as level 3 within the fair value hierarchy.

During the financial year ended 3 September 2016 the Group closed out certain forward foreign currency contracts and reset the contracts to current market rates. As a result of this transaction, cash amounting to £11.2 million was received. The gains on those forward foreign currency contracts are being recycled from the hedging reserve as the contracts reach expiry. The Group's accounting policy for forward foreign currency contracts that qualify as cash flow hedges is shown on pages 90 and 91 of the Group's 2016 annual report and financial statements.

Available-for-sale financial investments relate to the Group's holding at 4 March 2017 of 10% (27 February 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 fair value of Ermes is based on the market price at the balance sheet date. At 4 March 2017, if the market value of equity investments had been 10% higher/lower, when all other variables were held constant:

- Net profit would have been unaffected as the equity investments were classified as available-for-sale investments
- Other reserves would increase/decrease by £0.1 million (27 February 2016: £0.2 million) for the Group as a result of the changes in the fair value of available-for-sale investments

The above movement in rates is considered to represent reasonable possible changes. Other larger or smaller changes are also possible.

The fair values of any interest rate swaps are calculated as the present value of the estimated future cash flows. The fair value of forward foreign currency contracts has been determined based on discounted market forward currency exchange rates at the balance sheet date.

There were no material differences between the carrying value of cash and cash flow equivalents, trade and other receivables, trade and other payables, current borrowings and lease obligations and their fair values at the balance sheet date. At 4 March 2017 the carrying value of the Group's senior notes debt was £199.0 million (27 February 2016: £198.3 million) and the fair value of this debt was £213.0 million (27 February 2016: £197.4 million).

## 15 Retirement benefit schemes

The Group operates defined contribution pension schemes for its employees.

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.

In 2015, the Group agreed a recovery plan for the Group's pension schemes, which was intended to restore the schemes to a fully funded position on an ongoing basis. Under that agreement, the Group agreed to contribute £9.5 million per annum to the pension schemes for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. Additionally during 2015, the Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund. Employees make no further contributions to the schemes.

Further details of the Group's pension arrangements are set out in pages 113 to 116 of the annual report and financial statements for the 53 weeks ended 3 September 2016.

The major assumptions used by the actuary were:

	<b>4 March 2017</b>	27 February 2016	3 September 2016
	<b>per annum %</b>	per annum %	per annum %
Inflation assumption	<b>3.3</b>	3.0	2.9
General salary and wage increase	<b>3.3</b>	3.0	2.9
Rate of increase in pension payments and deferred payments	<b>3.3</b>	3.0	2.9
Pension increase rate	<b>3.2</b>	2.9	2.8
Discount rate	<b>2.5</b>	3.7	2.1

The amounts recognised in the balance sheet were as follows:

	<b>4 March 2017</b>	27 February 2016	3 September 2016
	<b>£m</b>	£m	£m
Total market value of assets	<b>1,089.3</b>	809.4	1,057.6
Present value of scheme liabilities	<b>(1,042.5)</b>	(757.6)	(1,061.7)
<b>Net surplus/(deficit) in pension schemes</b>	<b>46.8</b>	51.8	(4.1)
Analysed as:			
DEPP scheme surplus	<b>17.6</b>	19.1	6.4
DRS scheme surplus/(deficit)	<b>29.2</b>	32.7	(10.5)

The movement in the net pension (deficit)/surplus during the financial period is as follows:

	4 March 2017 £m	27 February 2016 £m	3 September 2016 £m
Net (deficit)/surplus in the schemes at the start of the financial period	(4.1)	26.2	26.2
Movement in the financial period:			
- Company contributions	5.6	5.5	11.2
- Current service cost (including expenses)	(0.8)	(0.8)	(1.5)
- Net interest on net defined benefit asset/liability	-	0.6	1.1
- Remeasurements of pension schemes	46.1	20.3	(41.1)
<b>Net surplus/(deficit) in the schemes at end of the financial period</b>	<b>46.8</b>	<b>51.8</b>	<b>(4.1)</b>

A retirement benefit surplus is only recognised to the extent that it is expected to be recoverable in the future.

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.

	4 March 2017 £m	27 February 2016 £m	3 September 2016 £m
Increase in schemes' liabilities arising from:			
- a 0.5% increase in inflation	115.7	84.1	117.8
- a 0.5% reduction in the discount rate	126.1	88.0	128.4
- a one year increase in life expectancy	27.9	20.3	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 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.

## 16 Other non-current liabilities

	4 March 2017 £m	27 February 2016 £m	3 September 2016 £m
Property lease incentives received	351.9	349.9	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.

## 17 Share capital

	£	Number
Issued and fully paid - ordinary shares of £0.0001 each		
At 27 February 2016	128,685	1,286,852,540
Allotted under share option schemes	1	9,707
At 3 September 2016	128,686	1,286,862,247
Allotted under share option schemes	-	1,134
<b>At 4 March 2017</b>	<b>128,686</b>	<b>1,286,863,381</b>

## 18 Cash generated from operations

	26 weeks to 4 March 2017 £m	26 weeks to 27 February 2016 £m	53 weeks to 3 September 2016 £m
<b>Profit before taxation</b>	<b>87.8</b>	93.8	105.8
Depreciation and amortisation (note 12)	<b>55.0</b>	53.3	108.6
Impairment of intangible assets (note 12)	-	-	2.2
Loss on disposal of property, plant and equipment	<b>0.2</b>	0.1	0.1
Share-based payment (credit)/charge	<b>(0.2)</b>	0.8	(0.8)
Fair value (gains)/losses on derivative instruments	<b>(7.6)</b>	2.2	(7.0)
Net movements in provisions	<b>(6.5)</b>	(0.1)	7.6
Finance income (note 7)	<b>(0.1)</b>	(2.0)	(1.4)
Finance costs (note 8)	<b>6.2</b>	7.8	14.2
Cash received on close out of forward foreign currency contracts (note 14)	-	11.2	11.2
Pension current service cost (note 15)	<b>0.8</b>	0.8	1.5
Cash contributions to pension schemes (note 15)	<b>(5.6)</b>	(5.5)	(11.2)
Net movement in other long-term receivables	<b>(0.5)</b>	0.3	(0.1)
Net movement in other non-current liabilities	<b>(2.6)</b>	9.2	13.7
<b>Changes in working capital</b>			
Decrease in inventories	<b>8.4</b>	2.5	5.0
Decrease/(increase) in trade and other receivables	<b>2.8</b>	2.5	(1.9)
Increase/(decrease) in trade and other payables	<b>18.1</b>	10.1	(7.3)
<b>Cash generated from operations</b>	<b>156.2</b>	187.0	240.2

Cash payments in relation to exceptional costs were £6.7 million during the 26 weeks ended 4 March 2017 (26 weeks ended 27 February 2016: £nil; 53 weeks ended 3 September 2016: £3.3 million).

## 19 Analysis of changes in net debt

	At 3 September 2016 £m	Cash flow £m	Non-cash movements £m	At 4 March 2017 £m
<b>Analysis of net debt</b>				
Cash and cash equivalents	56.3	(16.3)	-	<b>40.0</b>
Bank overdrafts	(15.5)	3.8	-	<b>(11.7)</b>
<b>Net cash and cash equivalents</b>	40.8	(12.5)	-	<b>28.3</b>
Debt due within one year	(118.9)	75.0	(0.3)	<b>(44.2)</b>
Debt due after one year	(197.3)	-	(0.3)	<b>(197.6)</b>
Finance lease obligations due within one year	(1.2)	0.7	(0.8)	<b>(1.3)</b>
Finance lease obligations due after one year	(2.4)	(0.1)	0.4	<b>(2.1)</b>
	(279.0)	63.1	(1.0)	<b>(216.9)</b>

## 20 Related parties

There have been no significant related party transactions during the period.

## 21 Financial information

Copies of the statutory accounts are available from the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (Tel: 0371 384 2766), and at the Company's registered office, 10 Brock Street, Regent's Place, London, NW1 3FG.